

**U. S. Department of Agriculture**

**Rural Development**

**Audit Program**

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UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL DEVELOPMENT  
WASHINGTON, D.C.

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RURAL DEVELOPMENT  
Rural Housing Service  
Rural Business Service

**AUDIT PROGRAM**

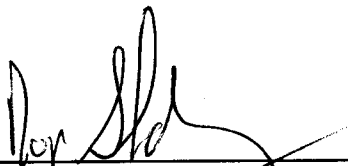
Audits of Recipients of  
Rural Development Grants,  
Loans and Loan Guarantees

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The attached Audit Program provides important guidance for independent public accountants in conducting financial statement audits of recipients of Rural Development grants, loans, and loan guarantees, **except for those audits required to be performed in accordance with Office of Management and Budget Circular A-133.**

*This Audit Program may not be changed, altered, revised, or modified without the concurrence of Rural Development.*

APPROVED BY



ROGER GLENDENNING  
Acting Chief Financial Officer  
Rural Development

11/20/12  
Date

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## Rural Development Audit Program

### A. PURPOSE

The following Audit Program provides information for independent, public, Federal, state or local government audit organizations in conducting financial statement audits of recipients of Rural Development loans, grants, and loan guarantees. This Audit Program includes audit-related compliance requirements for Rural Development's Rural Rental Housing Program, Community Facilities Program; Business and Industry Guaranteed Loan Program, Intermediary Relending Program, and Rural Economic Development Loan and Grant performed in accordance with generally accepted auditing standards (GAAS) and generally accepted government auditing standards (GAGAS). **Auditors conducting financial statement audits in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, should refer to the OMB Circular A-133 Compliance Supplement, Appendix B; as it pertains to audits of state and local governments, non-profit organizations, and Indian tribes that expend \$500,000 or more in Federal funds in a fiscal year. This Audit Program is not intended to address audit requirements that are required under the Single Audit Act Amendments of 1996 and OMB Circular A-133.**

The suggested audit procedures provided in this Audit Program are the minimum necessary for uniform and consistent coverage.

### B. ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CF	Community Facilities
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
IRP	Intermediary Relending Program

OIG	Office of Inspector General
OMB	Office of Management and Budget
RD	Rural Development
RUS	Rural Utilities Service
SAS	AICPA's Statements on Auditing Standards

### C. BACKGROUND

Rural Development requires its borrowers to provide annual audited financial statements performed in accordance with GAGAS using the publication, "Government Auditing Standards." This publication was developed by the Comptroller General of the United States, GAO. Audits must also be performed in accordance with GAAS.

These financial statement audits are the responsibility of the auditee's management. The financial statements should be prepared in conformance with GAAP unless state statutes or other funding sources require otherwise.

To the extent practicable, the financial statements should be presented on a comparative basis for the current and preceding year. An entity submitting its initial audit report to Rural Development may submit single year financial statements.

### D. PERTINENT PUBLICATIONS AND REGULATIONS

#### 1. Pertinent Publications

AICPA Statements on Auditing Standards

GAO Government Auditing Standards (2007 or subsequent revisions)

#### 2. Pertinent Regulations

**7 CFR Part 1942, Subpart A** - Community Facilities Loans

**7 CFR Part 1942, Subpart C** - Fire and Rescue Loans

**7 CFR Part 3570, Subpart B** - Community Facilities Grants Program

**7 CFR Part 3575, Subpart A** - Community Programs Guaranteed Loans

**7 CFR Part 4274, Subpart D** - Intermediary Relending Program (IRP)

**7 CFR Part 1951, Subpart R** - Rural Development Loan Servicing (for the IRP program)

**7 CFR Part 1980, Subpart E** - Business and Industrial (B&I) Loan Program

**7 CFR Part 4279, Subpart A** - General (for B&I Loans)

**7 CFR Part 4279, Subpart B** - Business and Industry Loans

**7 CFR Part 4280, Subpart D** – Rural Microentrepreneur Assistance Program

**7 CFR Part 1942, Subpart G** - Rural Business Enterprise Grants and Television Demonstration Grants

**7 CFR Part 3560.308**, - “Annual Financial Reports” (Reinvention of the Sections 514, 515, 516, and 521 Multi-Family Housing Programs)

## **E. STANDARDS FOR CONDUCTING AUDITS**

The Comptroller General of the United States has published GAGAS, 2007 Revision, which contains standards for audits of government organizations, programs, activities, and functions. These standards are to be followed by Federal, state, and independent certified public accountants when auditing entities receiving financial assistance provided by Rural Development.

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

## **F. ENGAGEMENT LETTER**

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

1. A statement that the auditor will perform and document the audit work in accordance with GAGAS and the professional standards of the AICPA;
2. A statement that the auditor will submit the completed audit and accompanying audit letters to the entity’s governing body 30 days prior to the date the audit is due to Rural Development;

3. A statement that the auditor will make all audit-related documents, including workpapers, available to Rural Development, OIG, or their duly authorized representatives, upon request; and
4. The auditor will report, in writing, all irregularities, as well as indications of fraud, abuse, or illegal acts, whether material or not, to the entity's governing body, Rural Development, and OIG.

## **G. AUDIT OBJECTIVES**

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

## **H. SUMMARY OF GENERAL STANDARDS**

### **Independence**

In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be free from personal, external, and organizational impairments to independence, and must avoid the appearance of such impairments of independence.

### **Professional Judgment**

Auditors must use professional judgment in planning and performing audits and attestation engagements and in reporting the results. Professional judgment includes exercising reasonable care and professional skepticism. Reasonable care concerns acting diligently in accordance with applicable professional standards and ethical principles. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of evidence. Professional skepticism includes a mindset in which auditors assume neither that management is dishonest nor of unquestioned honesty. Believing that management is honest is not a reason to accept less than sufficient, appropriate evidence.

Using professional judgment in all aspects of carrying out their professional responsibilities, including following the independence standards, maintaining objectivity and credibility, assigning competent audit staff to the assignment, defining the scope of work, evaluating and reporting the results of the work, and maintaining appropriate quality control over the assignment process is essential to performing and reporting on an audit. Auditors should document significant decisions affecting the audit objectives, scope, and methodology; findings; conclusions; and recommendations resulting from professional judgment.

## **Competence**

The staff assigned to perform the audit or attestation engagement must collectively possess adequate professional competence for the tasks required.

The staff assigned to conduct an audit or attestation engagement under GAGAS must collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that assignment. The staff assigned to a GAGAS audit or attestation engagement should collectively possess

- a. knowledge of GAGAS applicable to the type of work they are assigned and the education, skills, and experience to apply this knowledge to the work being performed;
- b. general knowledge of the environment in which the audited entity operates and the subject matter under review;
- c. skills to communicate clearly and effectively, both orally and in writing; and
- d. skills appropriate for the work being performed.

Auditors performing work under GAGAS, including planning, directing, performing field work, or reporting on an audit or attestation engagement under GAGAS, should maintain their professional competence through continuing professional education (CPE). Therefore, each auditor performing work under GAGAS should complete, every 2 years, at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. For auditors who are involved in any amount of planning, directing, or reporting on GAGAS assignments and those auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS assignments should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2- year period) that enhances the auditor's professional proficiency to perform audits or attestation engagements. Auditors required to take the total 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year period.

## **Quality Control and Assurance**

Each audit organization performing audits or attestation engagements in accordance with GAGAS must:

- a. establish a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements, and
- b. have an external peer review at least once every 3 years.

An audit organization's system of quality control encompasses the audit organization's leadership, emphasis on performing high quality work, and the organization's policies and procedures designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements. The nature, extent, and



formality of an audit organization's quality control system will vary based on the audit organization's circumstances, such as the audit organization's size, number of offices and geographic dispersion, the knowledge and experience of its personnel, the nature and complexity of its audit work, and cost-benefit considerations.

Audit organizations performing audits and attestation engagements in accordance with GAGAS must have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years. The audit organization should obtain an external peer review sufficient in scope to provide a reasonable basis for determining whether, for the period under review, the reviewed audit organization's system of quality control was suitably designed and whether the audit organization is complying with its quality control system in order to provide the audit organization with reasonable assurance of conforming with applicable professional standards.

Information in external peer review reports and letters of comment may be relevant to decisions on procuring audit or attestation engagements. Therefore, audit organizations seeking to enter into a contract to perform an audit or attestation engagement in accordance with GAGAS should provide the following to the party contracting for such services:

- a. the audit organization's most recent peer review report and any letter of comment, and
- b. any subsequent peer review reports and letters of comment received during the period of the contract.

## **I. SUMMARY OF FIELD WORK STANDARDS FOR FINANCIAL AUDITS**

### **AICPA Field Work Standards**

The three AICPA generally accepted standards of field work are as follows:

- a. The auditor must adequately plan the work and must properly supervise any assistants.
- b. The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures.
- c. The auditor must obtain sufficient appropriate audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit.

### **Additional Government Auditing Standards**

#### **Auditor Communication During Planning**

Under AICPA standards and GAGAS, auditors should communicate with the audited entity their understanding of the services to be performed for each engagement and document

that understanding through a written communication. GAGAS broaden the parties included in the communication and the items for the auditors to communicate.

Auditors should communicate the following additional information under GAGAS:

- a. The nature of planned work and level of assurance to be provided related to internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements.
- b. Any potential restriction on the auditors' reports, in order to reduce the risk that the needs or expectations of the parties involved may be misinterpreted.

### **Previous Audits and Attestation Engagements**

Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements. When planning the audit, auditors should ask management of the audited entity to identify previous audits, attestation engagements, and other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.

### **Detecting Material Misstatements Resulting from Violations of Provisions of Contracts or Grant Agreements or from Abuse**

Auditors should design the audit to provide reasonable assurance of detecting misstatements that result from violations of provisions of contracts or grant agreements and could have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

If specific information comes to the auditors' attention that provides evidence concerning the existence of possible violations of provisions of contracts or grant agreements that could have a material indirect effect on the financial statements, the auditors should apply audit procedures specifically directed to ascertaining whether such violations have occurred. When the auditors conclude that a violation of provisions of contracts or grant agreements has or is likely to have occurred, they should determine the effect on the financial statements as well as the implications for other aspects of the audit.

If during the course of the audit, auditors become aware of abuse that could be quantitatively or qualitatively material to the financial statements, auditors should apply audit procedures specifically directed to ascertain the potential effect on the financial statements or other financial data significant to the audit objectives. After performing additional work, auditors may discover that the abuse represents potential fraud or illegal acts. Because the determination of abuse is subjective, auditors are not required to provide reasonable assurance of detecting abuse.

## **Developing Elements of a Finding**

Audit findings may involve deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse. The elements needed for a finding depend entirely on the objectives of the audit. Thus, a finding or set of findings is complete to the extent that the audit objectives are satisfied. When auditors identify deficiencies, auditors should plan and perform procedures to develop the elements of the findings that are relevant and necessary to achieve the audit objectives.

## **Audit Documentation**

Under AICPA standards and GAGAS, auditors must prepare audit documentation in connection with each audit in sufficient detail to provide a clear understanding of the work performed (including the nature, timing, extent, and results of audit procedures performed), the audit evidence obtained and its source, and the conclusions reached. Under AICPA standards and GAGAS, auditors should prepare audit documentation that enables an experienced auditor, having no previous connection to the audit, to understand:

- a. the nature, timing, and extent of auditing procedures performed to comply with GAGAS and other applicable standards and requirements;
- b. the results of the audit procedures performed and the audit evidence obtained;
- c. the conclusions reached on significant matters; and
- d. that the accounting records agree or reconcile with the audited financial statements or other audited information.

## **Materiality in GAGAS Financial Audits**

Under both AICPA standards and GAGAS, the auditors' responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles, while other matters are not important. In performing the audit, matters that, either individually or in the aggregate, could be material to the financial statements are a primary consideration. Additional considerations may apply to GAGAS financial audits of government entities or entities that receive government awards. For example, in audits performed in accordance with GAGAS, auditors may find it appropriate to use lower materiality levels as compared with the materiality levels used in non-GAGAS audits because of the public accountability of government entities and entities receiving government funding, various legal and regulatory requirements, and the visibility and sensitivity of government programs.

## **Consideration of Fraud and Illegal Acts**

Under both the AICPA standards and GAGAS, auditors should plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Recognizing the possibility that a material misstatement due to fraud could be present is important for achieving this

objective. However, absolute assurance is not attainable and thus even a properly planned and performed audit may not detect a material misstatement resulting from fraud.

Under both the AICPA standards and GAGAS, auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from illegal acts that could have a direct and material effect on the financial statements. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditors should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred. When an illegal act has or is likely to have occurred, auditors should determine the effect on the financial statements as well as the implications for other aspects of the audit.

## **J. SUMMARY OF REPORTING STANDARDS FOR FINANCIAL AUDITS**

### **AICPA Reporting Standards**

The four AICPA generally accepted standards of reporting are as follows:

- a. The auditor must state in the auditor's report whether the financial statements are presented in accordance with generally accepted accounting principles (GAAP).
- b. The auditor must identify in the auditor's report those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.
- c. When the auditor determines that informative disclosures are not reasonably adequate, the auditor must so state in the auditor's report.
- d. The auditor must either express an opinion regarding the financial statements, taken as a whole, or state that an opinion cannot be expressed, in the auditor's report. When the auditor cannot express an overall opinion, the auditor should state the reasons therefor in the auditor's report. In all cases where an auditor's name is associated with financial statements, the auditor should clearly indicate the character of the auditor's work, if any, and the degree of responsibility the auditor is taking in the auditor's report.

### **Additional Government Auditing Standards**

#### **Reporting Auditors' Compliance with GAGAS**

When auditors comply with all applicable GAGAS requirements, they should include a statement in the auditors' report that they performed the audit in accordance with GAGAS.

#### **Reporting on Internal Control and Compliance with Laws, Regulations, and Provisions of Grant Agreements**

When providing an opinion or a disclaimer on financial statements, auditors must also report on internal control over financial reporting and on compliance with laws, regulations, and provisions of contracts or grant agreements.

Auditors should include either in the same or in separate report(s) a description of the scope of the auditors' testing of internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements. If the auditors issue separate reports, they should include a reference to the separate reports in the report on financial statements. Auditors should state in the reports whether the tests they performed provided sufficient, appropriate evidence to support an opinion on the effectiveness of internal control over financial reporting and on compliance with laws, regulations, and provisions of contracts or grant agreements.

### **Reporting Deficiencies in Internal Control, Fraud, Illegal Acts, Violations of Provisions of Contracts or Grant Agreements, and Abuse**

For financial audits, including audits of financial statements in which auditors provide an opinion or disclaimer, auditors should report, as applicable to the objectives of the audit, and based upon the audit work performed, (1) significant deficiencies in internal control, identifying those considered to be material weaknesses; (2) all instances of fraud and illegal acts unless inconsequential; and (3) violations of provisions of contracts or grant agreements and abuse that could have a material effect on the financial statements.

For all financial audits, auditors should report the following deficiencies in internal control:

- a. Significant deficiency: a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.
- b. Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

### **Presenting Findings in the Auditors' Report**

In presenting findings such as deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse, auditors should develop the elements of the findings to the extent necessary to achieve the audit objectives. Clearly developed audit findings assist management or oversight officials of the audited entity in understanding the need for taking corrective action. If auditors sufficiently develop the elements of a finding, they may provide recommendations for corrective action.

### **Communicating Significant Matters in the Auditors' Report**

Under AICPA standards, auditors may emphasize in the auditors' report significant matters regarding the financial statements. Due to the public interest in the operations of government entities and entities that receive or administer government awards, there may be situations in GAGAS audits in which certain types of information would help facilitate the readers' understanding of the financial statements and the auditors' report. Examples of matters that auditors may communicate in a GAGAS audit include the following:

- a. Significant concerns or uncertainties about the fiscal sustainability of a government or program or other matters that could have a significant impact on the financial condition or operations of the government entity beyond 1 year of the financial statement date.
- b. Unusual or catastrophic events that will likely have a significant ongoing or future impact on the entity's financial condition or operations.
- c. Significant uncertainties surrounding projections or estimations in the financial statements.
- d. Any other matter that the auditors consider significant for communication to users and oversight bodies in the auditors' report.

### **Reporting on Restatement of Previously-Issued Financial Statements**

AICPA Professional Standards establish standards and provide guidance for situations when auditors become aware of new information that could have affected their report on previously-issued financial statements. If auditors become aware of new information that might have affected their opinion on previously-issued financial statement(s), then the auditors should advise entity management to determine the potential effect(s) of the new information on the previously-issued financial statement(s) as soon as reasonably possible. Such new information may lead management to conclude that previously-issued financial statements were materially misstated and to restate and reissue the misstated financial statements. In such circumstances, auditors should advise management to make appropriate disclosure of the newly discovered facts and their impact on the financial statements to those who are likely to rely on the financial statements.

Under GAGAS, auditors should advise management to make appropriate disclosures when the auditors believe that the following conditions exist: (1) it is likely that previously-issued financial statements are misstated and (2) the misstatement is or reasonably could be material.

### **Report Directly to Appropriate Officials When the Audited Entity Does Not Take the Necessary Steps**

Auditors should notify those charged with governance if entity management (1) does not act in an appropriate time frame after new information was available to determine the financial statement effects of the new information and take the necessary steps to timely inform those who are likely to rely on the financial statements and the related auditors' reports of the situation or (2) does not restate with reasonable timeliness the financial statements under circumstances in which auditors believe they need to be restated. Auditors should inform those charged with governance that the auditors will take steps to prevent further reliance on the auditors' report and advise them to notify oversight bodies and funding agencies that rely on the financial statements. If those charged with governance do not notify appropriate oversight bodies and funding agencies, then the auditors should do so.

### **Reporting Views of Responsible Officials**

If the auditors' report discloses deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.

### **Reporting Confidential or Sensitive Information**

If certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that make the omission necessary.

Certain information may be classified or may otherwise be prohibited from general disclosure by federal, state, or local laws or regulations. In such circumstances, auditors may issue a separate, classified, or limited use report containing the information and distribute the report only to persons authorized by law or regulation to receive it.

### **Distributing Reports**

Distribution of reports completed under GAGAS depends on the relationship of the auditors to the audited organization and the nature of the information contained in the report. If the subject of the audit involves material that is classified for security purposes or contains confidential or sensitive information, auditors may limit the report distribution. Auditors should document any limitation on report distribution.

Audit organizations in government entities should distribute audit reports to those charged with governance, to the appropriate officials of the audited entity, and to the appropriate oversight bodies or organizations requiring or arranging for the audits. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations, and to others authorized to receive such reports.

Public accounting firms contracted to perform an audit under GAGAS should clarify report distribution responsibilities with the engaging organization. If the contracted firm is to make the distribution, it should reach agreement with the party contracting for the audit about which officials or organizations will receive the report and the steps being taken to make the report available to the public.

ATTACHMENT I  
Rural Rental Housing Loans  
Farm Labor Housing Loans (Off-Farm)  
10.415

**I. PROGRAM OBJECTIVES**

The objective of the Rural Rental Housing (RRH) Loan Program and the Farm Labor Housing Program (Off-Farm) is to provide loans to construct, rehabilitate, and repair housing suited for very low, low and moderate income individuals and farm laborers living in rural areas. Additionally loans are provided to provide housing for senior citizens living independently or living in congregate care facilities, and handicapped individuals living in rural areas.

**II. PROGRAM PROCEDURES**

Loans are provided to state and local public agencies, individuals, trusts, associations, partnerships, consumer cooperatives, limited liability corporations, and profit and nonprofit corporations upon approval of an application to construct or rehabilitate rural rental housing. Loan funds can only be used for authorized purposes within the prescribed loan limits and use limitations. Most borrowers are required to contribute a certain percentage of the development costs and initial operating capital.

After the rental facilities become operational, borrowers have ongoing management and reporting responsibilities. In this regard, borrowers are responsible for complying with applicable Agency regulations and conditions of their Loan Agreement which include, but are not limited to, the following:

- (a) Providing for proper and efficient management of the RRH project;
- (b) Renting only to eligible tenants;
- (c) Verifying and certifying tenant income and/or employment;
- (d) Entering into lease agreements with tenants;
- (e) Properly computing rental charges and obtaining Agency approval for any changes in basic or market rental rates;
- (f) Providing for proper maintenance of the property to protect the Agency's security interests;
- (g) Limiting returns on investments and any advances/paybacks of operating funds;
- (h) Properly accounting for project operations and maintaining required accounts;
- (i) Providing accurate monthly and/or annual reports to the Agency; and
- (j) Promptly computing and remitting loan repayments to reflect interest credits, averages and rental assistance.



### III. COMPLIANCE REQUIREMENTS AND AUDIT PROCEDURES

Entities receiving RRH loans and Labor Housing loans (Off-Farm) are subject to the audit requirements contained in 7 CFR Part 3560.308(a) and (b), Reinvention of the Sections 514, 515, 516, and 521 Multi-Family Housing Programs.

The Multifamily Housing financial reporting requirements changed for project fiscal year ending December 31, 2007. The financial reporting procedures are located in the Multi-Family Housing Asset Management Handbook, HB-2-3560, Chapter 4, Section 5, "Reporting and Financial Examinations", including applicable Attachments. The Rural Development website to obtain HB-2-3560, Chapter 4, Section 5 is:

<http://www.rurdev.usda.gov/SupportDocuments/3560-2chapter04.pdf>

The following is a summary of the financial reporting requirements:

Year End Financial Reporting Requirements				
Type of Property	Forms RD 3560-7 and 3560-10?	Borrower Certification Of Performance Standards?	Agreed-Upon Procedures and Determinations *	Audited Financial Statements? (In accordance with Yellow Book Standards)
Rural Development project (1-15 units)	Yes	Yes	No	No
Rural Development project (16-23 units)	Yes	Yes	Yes	No
Rural Development project (24 + units)	Yes	Yes	Yes	Yes*
State and local governments, Indian tribes and Nonprofit Organizations (subject to OMB Circular A-133)	Yes	Yes	No	No**
*Must be completed by a CPA				
**This Audit is in Accordance with OMB Circular A-133 and submitted to the Agency as part of the Financial Reporting Requirements.				

All financial reports must include a Borrower Certification of Performance Standards. Borrowers will be required to use the certification included in the Handbook.

The Borrower must self-certify that:

- Required accounts are properly maintained and tracked separately;
- Payments from operating accounts are disclosed and accurately represented;

- Reserve amount is current (i.e., contributions are on schedule and the balance accounts for contributions less authorized withdrawals), and there are no encumbrances;
- Tenant security deposit accounts are fully funded and are maintained in separate accounts;
- Payment of owner return was consistent with the terms of the applicable loan agreement or loan resolution;
- Borrower/grantee has maintained proper insurance in accordance with the requirements of 7 CFR 3560.105; and
- All financial records are adequate and suitable for examination.
- There have been no changes in project ownership other than those approved by the Agency and identified in certification. Non-Profit organizations must certify that the Board is active and maintains oversight of the property.
- The real estate taxes are paid in accordance with state and/or local requirements. There are currently no delinquent taxes.

#### Agreed-Upon Procedures and Determinations

Borrowers with 16 or more units in their housing project must submit an agreed-upon procedures report completed by a CPA according to the agreed-upon procedures and determinations established by the Agency in the Handbook. The Handbook includes an example Engagement Letter which will be used by a CPA with the borrower. The Handbook also includes an example Agreed-Upon Procedures Report to be used by all CPAs performing these procedures.

The financial reporting requirements include three agreed upon procedures. Guidance on testing criteria and procedures, sampling methodology, and the standard reporting requirements and format are included in the Handbook.

#### Project Financial Audit

Borrowers with 24 or more units in their housing project must base their annual financial reports on a financial audit in accordance with generally accepted government auditing standards or GAGAS, as set forth in "Government Auditing Standards", established by the Comptroller General of the United States, and any subsequent revisions (this publication is commonly referred to as the "Yellow Book" or "Government Accounting Office Standards"). The Handbook provides an example of the Combined Financial Audit and Agreed Upon Procedures Engagement Letter. The Handbook also includes an example of a Combined Audit & Agreed Upon Procedures Report.

An audit should consist of the following items at a minimum:

- Independent Auditor's Report
- Financial Statements
  - Balance Sheets
  - Statements of Operations

- Statements of Changes in Partner's Equity (Deficit)
- Statements of Cash Flows
- Notes to the Financial Statements
- Supplemental Information
  - Multiple Family Housing Borrower Balance Sheet – Form RD 3560-10
  - Multiple Family Housing Project Budget/Utility Allowance – Form RD 3560-7
  - Supplemental Information
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- Audit Findings on Compliance
- Independent Accountants Report on Applying Agreed-Upon Procedures
- Schedule of Agreed-Upon Procedures

### Other Financial Reports

The requirements below are in addition to the requirements outlined above.

Standards for state and local governments, Indian tribes and Nonprofit Organizations. Some of these organizations must submit audits in accordance with 7 CFR Part 3052 (OMB Circular A-133 requirement). For guidance meeting these requirements, the auditor may refer to the AICPA Audit and Accounting Guide for Audits of State and Local Governmental Units. The term "Federal financial assistance" is defined in 7 CFR 3052.105, but such federal assistance does not include rental subsidies (i.e., Rental Assistance). Circular A-133 requires reporting by non-Federal entities with loan balances in excess of \$500,000 where the Federal Government imposes continuing compliance requirements (7 CFR 3052.205(b)(2)). RRH and Farm Labor Housing (Off-Farm) loan programs have continuing compliance requirements.

Organizations subject to A-133 must submit the A-133 single audit and the borrower's certified performance standards, Budget Actuals and the Balance Sheet. Agreed-Upon Procedures are not required with this audit.

These financial reporting requirements are effective for audits ending December 31, 2007, and thereafter.

Questions concerning RRH audit requirements should be directed to the Rural Development office in the state where the property is located and serviced.

ATTACHMENT II  
Community Facilities Loans and Grants  
10.766

**I. PROGRAM OBJECTIVES**

As authorized by Section 306 of the Consolidated Farm and Rural Development Act of 1972, as amended (7 U.S.C. 1926), Rural Development's Community Facilities (CF) Program provides direct and guaranteed loan and grant assistance to assist eligible public bodies, not-for-profit applicants, and Federally recognized Indian tribes in providing essential community facilities and services to eligible rural areas. These funds are made available when financing is not available from other sources at reasonable rates and terms. CF loans and grants are administered at the state and local levels through the USDA Rural Development mission area.

**II. PROGRAM PROCEDURES**

CF is authorized to provide direct and guaranteed loan and grant assistance to eligible applicants for essential community facilities in rural areas with populations up to 20,000. Eligible applicants include:

- (a) Public bodies, such as municipalities, districts, county authorities, or other Political subdivisions of a state, territory, or commonwealth;
- (b) Non-profit organizations; and
- (c) Federally-recognized Indian Tribes.

The Agency allocates grant funds on a graduated basis. Eligible applicants located in the smallest communities with lowest populations and lowest median household incomes generally receive a higher percentage of grant funds. The total amount of grant funds, including CF funds or any other Federal grant funds provided for a facility, generally shall not exceed 75 percent of the cost of developing the facility, unless authorized and funded by another Federal statute. However, the Food, Conservation, and Energy Act of 2008 limits the non-Federal financial support for Tribal College Grants to only 5 percent of the total cost of the facility financed.

The purpose of CF guaranteed loan assistance is to improve, develop, or finance essential community facilities in rural areas. The purpose is achieved through bolstering the existing private credit structure through the guarantee of quality loans which will provide lasting community benefits. Guaranteed loans are loans made by a commercial lender and guaranteed by Rural Development. The processing of the loan and requirements placed on the organization receiving the loan are the lender's responsibility.

In 7 CFR Part 3052, USDA implemented the provisions of the latest revision to Office of Management and Budget (OMB) Circular No. A-133, "Audits of States, Local

Governments, and Nonprofit Organizations”. Subparagraph 7502 (a) (2) (A) of the Single Audit Act Amendments of 1996 (31 USC 7501, et seq.) overruled the provisions of 7 CFR 1942.17 (q) (4) by exempting some entities from applicable audit requirements contained in Federal program regulations.

### **III. COMPLIANCE REQUIREMENTS AND AUDIT PROCEDURES**

Entities receiving CF direct and guaranteed loan and grant assistance are subject to the audit requirements contained in 7 CFR Part 3052.200. In addition CF audit-related guidance is also provided in RD Administrative Notice number 4680 (1942-A) “OMB Circular A-133, Audit Reporting Requirements, Community Facilities Direct and Guaranteed Loan Borrowers and Grant Recipients”. RD AN No. 4680 (1942-A) may be accessed via the Rural Development website at: [http://www.rurdev.usda.gov/rd-an\\_list.html](http://www.rurdev.usda.gov/rd-an_list.html)

#### **A. Activities Allowed or Unallowed**

##### **Compliance Requirement**

Loan funds may be used to: (1) construct, enlarge, extend or otherwise improve essential community facilities; (2) to construct or relocate public buildings, roads, bridges, fences, and utilities necessary for the successful operation of authorized facilities; (3) to relocate private buildings, roads, bridges, fences, and utilities necessary for the successful operations of authorized facilities and (4) to pay certain other expenses when such costs are a necessary part of the financed facilities (7 CFR Part 1942-A, 1942.17(d)(1)).

Loan funds may not be used to finance: (1) on-site utility systems or business and industrial buildings in connection with industrial parks; (2) facilities used for recreational purposes (this restriction does not apply to guaranteed loans); (3) community antenna services; (4) electric generation or transmission facilities and telephone systems; (5) facilities which are not modest in size, design, or cost; (6) loan or grant finders’ fees; (7) packagers’ fees; (8) new combined sanitary and storm water sewer facilities (7 CFR Part 1942-A, 1942.17(d)(2)); (9) projects located in coastal barrier resources systems that do not qualify for an exception (7 CFR Part 3575-A, 3575.25); and (10) projects located in a mudslide hazard area.

During the disbursement of Federal assistance, the Agency must concur in all expenditures before they are made. The borrower must also monitor the use of funds in accordance with program regulations (7 CFR Part 1942-A, 1942.17(p)).

##### **Suggested Audit Procedures**

- Test the borrower’s financial records to ascertain that loan funds were only used for eligible purposes.
- The auditor must ascertain the purpose of the loan/grant funds.

- The auditor must refer to the Project Summary in the case file to determine the project type (7 CFR 1942-A, Part 1942.17(d), 7 CFR 3575-A, Part 3575.24 and 3570-B, 3570.61(b)). The Project Summary is prepared by the USDA Rural Development representative.
- The auditor should refer to the section in the regulation pertaining to activities allowed and unallowed. Unallowed activities are contained in 7 CFR 1942-A, Part 1942.17(d)(2), 7 CFR 3575-A, Part 3575.25, and 7 CFR 3570-B, Part 3570.63.
- Review the current “Balance Sheet” (Form RD 442-3) to determine if Form RD 442-3 is in material agreement with the entity’s accounting records.
- Ascertain whether the borrower obtained prior Agency concurrence for expenditures.
- Review the “Letter of Conditions” (7 CFR 1942-A, Part 1942.5(a) (1)), “Letter of Intent to Meet Conditions” (Form RD 1942-46), and additional documentation in the case file that supports the Agency’s approval of expenditures.
- Review the Project Summary for appropriate signatures by the Rural Development staff and approval officials. Regulation reference (7 CFR 1942-A, Part 1942.5(a)).
- Test the grantee’s financial management system to ensure its adequacy to meet financial reporting requirements.
- Review the borrower’s accounting and auditing procedures for grants. Reference (7 CFR Part 3570-B, “Community Facilities Grant Program.”)
- Based on the audit, ascertain whether the borrower’s financial management system is designed to ensure the proper use of loan funds.
- Review the borrower’s accounting and auditing procedures for loans. Reference (7 CFR Part 1942-A, 1942.17(q).)

**B. Eligibility**

The auditor is not expected to test for eligibility.

**C. Matching, Level of Effort, Earmarking**

**Compliance Requirement**

Borrowers may be required to provide funds from other sources as specified in the Letter of Conditions, Grant Agreement, or Loan Note Guarantee issued by Rural Development. (7 CFR 1942-A, Part 1942.5(a)(1)(i), RD Instruction 3570-B, §3570.71(f) and 7 CFR 3575-A, Part 3575.64).

### **Suggested Audit Procedures**

- Examine the Grant Agreement, Loan Note Guarantee, and Letter of Conditions to ascertain the amount of funds to be provided by the recipient.
- Test the financial records to determine if matching fund requirements were met.
- The auditor must ascertain the amount and source of funds. Determine whether the funds were from state or other nonfederal sources.

*Up to 75 percent of eligible project costs may be financed by CF grant funds, with the exception of Tribal College Grants, which may receive up to 95 percent grant funds. In either case, the remaining amount may come from CF direct or guaranteed loan funds, or from another source.*

- Test to determine if there was a Conditional Commitment of Guarantee.

### **D. Reporting Requirements**

#### **Compliance Requirement**

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

- (1) Annual audited financial statements within 150 days of the entity's fiscal year end date (7 CFR 1942-A, Part 1942.17(q)(4)(i)(B)(1));
- (2) Form RD 442-2, "Statement of Budget, Income and Equity" (7 CFR 1942-A, Part 1942.17(q)(5), and OMB No. 0575-0015). This report covers financial operations relating to the borrower's CF project; or
- (3) Form RD 442-3, "Balance Sheet" (7 CFR 1942-A, Part 1942.17(q)(5) and OMB No 0575-0015). This report presents the financial status of the borrower's CF project.

#### **Suggested Audit Procedure**

- Review Forms RD 442-2 and 442-3, and determine whether the information presented is in agreement with the borrower's financial records.
- Review prior period audited financial statements and findings to ascertain whether material deficiencies or significant changes in financial condition exist.

## **E. Special Tests and Provisions**

### **Compliance Requirement**

A Loan Resolution, Form RD 1942-47 "Loan Resolution, Public Bodies," will be adopted by public bodies. The following sections of the Loan Resolution restrict the financial operations of the borrower: Section 6 (sale, transfer, and lease of facility); Section 7 (contracts, agreements, and liabilities); Section 8 (depositories); Section 10 (revenues); and Section 12 (books and records) (7 CFR 1942-A, Part 1942.5).

### **Suggested Audit Procedures**

- Review the Loan Resolution and applicable regulations.
- Review and test the financial and related records to determine compliance with the restrictions placed on CF borrowers by the Loan Resolution.

Note: The financial requirements are contained in the Letter of Conditions, applicable Loan Resolution, Grant Agreement, and Loan Note Guarantee.

### **Compliance Requirement**

A Loan Resolution will be adopted by not-for-profit organizations "Loan Resolution Security Agreement" Form RD 1942-9. The following sections of the Loan Resolution restrict the financial operations of the borrower: Section 4 (protection and disposition of funds); Section 5c (revenues); Section 5e (books and records); Section 5h (contracts, agreements, and liabilities); and Section 5i (sale, transfer, or lease of facility) (7 CFR 1942-A, Part 1942.5).

### **Suggested Audit Procedures**

- Review the Loan Resolution and applicable regulations.
- Review and test the financial and related records to determine compliance with the restrictions placed on CF borrowers by the Loan Resolution.

### **Compliance Requirement**

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

RD Instruction 1940-Q, "Restrictions on Lobbying", requires that recipients of assistance



exceeding certain financial thresholds provide certifications concerning lobbying activities, and submit disclosure statements if nonappropriated funds have been used for certain purposes.

**Suggested Audit Procedures**

- The auditor will test for compliance with the provisions of Section 319 of P.L. 101-121, by verifying that the required certifications and disclosure statements have been prepared.
- The auditor must check to ensure certifications and disclosure statements are signed and dated by the appropriate officials.

ATTACHMENT III  
Business and Industry Guaranteed Loans  
10.768

**I. PROGRAM OBJECTIVES**

The objective of the Business and Industry (B&I) Guaranteed Loan Program is to improve, develop, or finance business, industry, and employment to improve the economic and environmental climate in rural communities.

**II. PROGRAM PROCEDURES**

Loans by private sector lenders to businesses guaranteed by Rural Development guaranteed loans can be sold in the secondary market. The lender is responsible for loan origination, including underwriting and subsequent loan servicing. The program is administered through the Rural Development State Director who is the point of contact for all processing and servicing activities. Loans must improve the economic and/or environmental climate of rural communities by bolstering the existing private credit structure through loan guarantees that will provide lasting community benefits.

**III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES**

**A. Types of Services Allowed or Unallowed**

**Compliance Requirements**

Loans may be used for:

- (1) business and industrial acquisitions, construction, repair, and modernization;
- (2) purchasing and developing land, easements, buildings, rights-of-way, and facilities;
- (3) purchasing equipment, leasehold improvements, machinery and supplies;
- (4) pollution control and abatement;
- (5) transportation services incidental to industrial development;
- (6) startup costs and working capital;
- (7) interest subject to certain provisions;
- (8) feasibility studies;
- (9) debt refinancing;

(10) reasonable professional fees and Agency guarantee fees and charges (7 CFR Part 4279.113); and

(11) renewable energy projects.

### **Compliance Requirements**

Loans may not be used for items detailed in 7 CFR Part 4279.114.

### **Suggested Audit Procedure**

- Test the borrower's financial records to ascertain that loan funds were only used for eligible loan purposes.

#### **B. Eligibility**

The auditor is not expected to test for borrower eligibility.

#### **C. Matching, Level of Effort, and/or Earmarking Requirements**

- Test to verify if the lender has maintained the appropriate level of ownership of guaranteed loan (i.e., 5 percent).

#### **D. Reporting Requirements**

### **Compliance Requirements**

The following financial reports must be submitted periodically for this program:

Annual financial statements prepared by an accountant in accordance with GAAP will be required (7 CFR Part 4279.137(a)).

The Agency will generally require audited financial statements if loan security concerns warrant, and the proposed guaranteed loan will exceed \$3 million (7 CFR Part 4279.137(b)).

### **Suggested Audit Procedures**

- Ascertain whether the borrower complied with any special financial reporting requirements, as contained in the loan closing documents or subsequent loan covenant modifications.
- Test the accuracy of the financial reports to the borrower's financial records.
- Ascertain whether the borrower submitted audited financial statements.

- Ascertain whether the lender has adhered to all conditions in the Loan Agreement and Conditional Commitment, and verify that the lender has submitted a certification to Rural Development that these have been met prior to issuance of the Loan Note Guarantee.

## **E. Special Tests and Provisions**

### **Compliance Requirements**

All fees and charges by the lender and others should be similar to those reasonably and customarily charged borrowers in similar circumstances in the ordinary course of business (7 CFR Part 4279.120).

A minimum of 10 percent tangible balance sheet equity will be required for existing businesses at loan closing. A minimum of 20 percent tangible balance sheet equity will be required for new businesses at loan closing (7 CFR Part 4279.131(d)). For energy projects, the equity requirement is 25-40 percent.

Interest rates negotiated between the borrower and lender must not be more than those rates customarily charged borrowers in similar circumstances in the ordinary course of business (7 CFR Part 4279.125).

The lender is responsible for seeing that the borrower has proper and adequate collateral to protect the interest of the lender and Rural Development (7 CFR Part 4279.131(b)).

The loan agreement between the lender and borrower may impose other financial and program requirements (7 CFR Part 4279.161 (b)(11)(xii)).

### **Suggested Audit Procedures**

- Test lender records to determine whether the lender's fees and other professional fees charged to guaranteed borrowers were reasonable and customary. If packaging services were provided by the lender, ascertain from the lender records whether the fees charged guaranteed borrowers were comparable to fees charged on lender nonguaranteed loans.
- Ascertain whether the interest rate negotiated between the lender and borrower on guaranteed loans was comparable to the rate customarily charged borrowers in similar circumstances on lender nonguaranteed loans, adjustments are proper, and appropriate approvals were obtained.
- Through visual inspection or record of collateral, test whether collateral pledged as security for the loan is being maintained by the borrower.
- Ascertain whether the required appraisal reports were prepared by an independent appraiser and were obtained in a timely manner.

- Test loans (loan and lender’s agreements) relating to the following requirements for compliance:
  1. Prohibition against assuming liabilities or obligations of others.
  2. Restriction on dividend payments.
  3. Limitation on purchase or sale of equipment and fixed assets.
  4. Limitation on compensation of officers and owners.
  5. Minimum working capital requirements.
  6. Maximum debt to net worth ratio.
  7. Restrictions concerning consolidations, mergers or other circumstances.
  8. Limitations on selling the business without concurrence of the lender and Rural Development.

### **Compliance Requirement**

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

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

### **Suggested Audit Procedures**

- The auditor will test for compliance with the provisions of section 319 of P.L. 101-121, by verifying that the required certifications and disclosure statements have been prepared.
- The auditor must check to ensure certifications and disclosure statements are signed and dated by the appropriate officials.

ATTACHMENT IV  
Intermediary Relending Program  
10.767

**I. PROGRAM OBJECTIVES**

The objective of Rural Development's Intermediary Relending Program (IRP) is to alleviate poverty and increase economic activity and employment in rural communities. In particular, IRP targets disadvantaged and remote communities through financing, primarily towards smaller and emerging businesses, in partnership with other public and private resources, and in accordance with state and regional strategy based on identified community needs.

**II. PROGRAM PROCEDURES**

Loans are made to intermediaries that establish or recapitalize Revolving Loan Fund programs for the purpose of providing loans to ultimate recipients for business facilities and community development. The intermediary is responsible for determining eligibility, credit quality, and loan documentation for the ultimate recipient's loan. Loans must improve community facilities and employment opportunities and increase economic activity in rural areas by financing business facilities and community development.

**III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES**

**A. Types of Services Allowed or Unallowed**

**Compliance Requirements**

Loans may be used for:

- (1) business and industrial acquisitions;
- (2) business construction, conversion, enlargement, repair, modernization, or development;
- (3) purchasing and developing land, easements, right-of-ways, buildings, facilities, leases, or materials;
- (4) purchasing equipment, leasehold improvements, machinery, and supplies;
- (5) pollution control and abatement;
- (6) transportation services;
- (7) startup operating costs and working capital;

- (8) interest (including interest on interim financing) during the period before the facility becomes income producing, but not to exceed 3 years;
- (9) feasibility studies;
- (10) debt refinancing;
- (11) reasonable fees and charges;
- (12) hotels, motels, tourist homes, bed and breakfast establishments, convention centers, and other tourist and recreational facilities except as prohibited by 7 CFR Part 4274.319;
- (13) educational institutions; and
- (14) revolving lines of credit.

### **Compliance Requirements**

Loans may not be used for:

- (1) payment for administrative costs or expenses for the intermediary;
- (2) assistance in excess of what is needed to accomplish the purpose of the ultimate recipient's project;
- (3) distribution or payment to the owner, partners, shareholders, or beneficiaries of the ultimate recipient or members of their families;
- (4) charitable institutions that would not have revenue from sales or fees to support the operation and repay the loan;
- (5) assistance to government employees, military personnel, or principals or employees of the intermediary or organizations for which such persons are directors or officers or in which they have ownership of 20 percent or more;
- (6) to an ultimate recipient that has an application pending with a loan outstanding from another intermediary involving an IRP revolving fund;
- (7) agricultural production;
- (8) transfer of ownership unless the loan will keep the business from closing or prevent the loss of employment opportunities in the area, or provide expanded job opportunities;

- (9) community antenna television services or facilities;
- (10) any illegal activity;
- (11) any project in violation of either a Federal, state, or local environmental protection law or regulation or an enforceable land use restriction unless the assistance given will result in curing or removing the violation;
- (12) lending and investment institutions and insurance companies; or
- (13) golf courses, race tracks, or gambling facilities.

The auditor is not expected to test for types of services eligible or ineligible. (7 CFR Part 4274.319).

#### **B. Eligibility**

The auditor is not expected to test for borrower eligibility.

#### **C. Matching, Level of Effort, and/or Earmarking Requirements**

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

#### **D. Reporting Requirements**

#### **Compliance Requirements**

The following financial reports must be submitted periodically for this program:

- (1) Annual audited financial statements prepared by an independent certified public accountant in accordance with GAGAS (CFR Part 4274.338(b)(4)(i)(A)).
- (2) Quarterly and semiannual reports (7 CFR Part 4274.338(b)(4)(ii)(A)).
- (3) Annual proposed budget for the following year (7 CFR Part 4274.338(b)(4)(iii)).
- (4) Other reports as the Agency may require from time to time (7 CFR Part 4274.338(b)(4)(iv)).

#### **Suggested Audit Procedures**

- Ascertain whether the borrower complied with any special financial reporting requirements, as contained with the loan closing documents or subsequent loan covenant modifications.
- Test the accuracy of the financial reports to the borrower's financial records.



- Ascertain whether the borrower submitted audited financial statements, as required.

## **E. Special Test and Provisions**

### **Compliance Requirements**

Loans made by the Agency shall bear interest at a fixed rate of 1 percent per annum over the 30-year term of the loan.

Interest rates charged by intermediaries to ultimate recipients on loans from the IRP revolving fund shall be negotiated by the intermediary and ultimate recipient. The rate must be within limits established by the intermediary's workplan approved by the Agency (7 CFR Part 4274.325(b)).

Security for all loans to intermediaries must be such that the repayment of the loan is reasonably assured when considered along with the intermediary's financial condition, workplan, and management ability. It is the responsibility of the intermediary to make loans to ultimate recipients in such a manner that will protect the interests of the intermediary and the Federal Government (7 CFR Part 4274.326(a)).

### **Suggested Audit Procedures**

- Test intermediary records to determine whether the interest rate charged is the lowest rate sufficient to cover the loan's proportional share of the IRP revolving fund's debt service costs, reserve for bad debts, and administrative costs.
- Test other banks or financial institutions to determine if better interest rates and terms are available (7 CFR Part 4274.325(b)).
- Test to determine if all reserves and other cash in the IRP revolving loan fund not immediately needed for loans to ultimate recipients or other authorized uses will be deposited in accounts in banks or other financial institutions. These accounts should be fully covered by the Federal Deposit Insurance Corporation or fully collateralized with U.S. Government obligations, and must be interest-bearing. Any interest earned thereon remains a part of the IRP revolving fund (7 CFR Part 4274.332(b)(5)).
- Ascertain whether the intermediary maintains a separate ledger and segregated bookkeeping and bank accounts for IRP funds as required in 7 CFR Part 4274.332(b).
- Ascertain whether the Agency's IRP loan funds are placed in the intermediary's IRP revolving fund and used by the intermediary to provide direct loans to eligible ultimate recipients (7 CFR Part 4274.314(a)).

### **Compliance Requirement**

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

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

### **Suggested Audit Procedures**

- The auditor will test for compliance with the provisions of section 319 of P.L. 101-121, by verifying that the required certifications and disclosure statements have been prepared. The auditor must check to ensure certifications and disclosure statements are signed and dated by the appropriate officials.

ATTACHMENT V  
Rural Economic Development Loans and Grants  
10.854

**I. PROGRAM OBJECTIVES**

The purpose of the Rural Economic Development Loan and Grant (REDLG) Program is to promote rural economic development and job creation projects through electric and telecommunication utilities financed by the Rural Development's Utilities Programs.

**II. PROGRAM PROCEDURES**

Loans and grants are made to electric and telecommunications borrowers to assist in financing a wide range of business and community development projects in rural areas. The program is authorized under the Rural Electrification Act of 1936, as amended, Title III, U.S.C. 930-940c. The program is administered by the Rural Business-Cooperative Service.

**III. COMPLIANCE REQUIREMENTS AND AUDIT PROCEDURES**

Utilities Programs borrowers receiving REDLG loans and grants are subject to the audit procedures and requirements contained in 7 CFR Part 1773, *Policy on Audits of RUS Borrowers*.

ATTACHMENT VI  
Rural Microentrepreneur Assistance Program  
10.870

**I. PROGRAM OBJECTIVES**

The objective of Rural Development's Rural Microentrepreneur Assistance Program (RMAP) is to alleviate poverty and increase economic activity and employment in rural communities. In particular, RMAP targets disadvantaged and remote communities through financing, primarily towards rural microentrepreneurs and micro enterprises, in partnership with other public and private resources, and in accordance with state and regional strategy based on identified community needs.

**II. PROGRAM PROCEDURES**

Loans are made to Microenterprise Development Organizations (MDO) that establish or recapitalize a Revolving Loan Fund (RLF) program for the purpose of providing loans to ultimate recipients for start up and growing microenterprises. Grants are made in conjunction with the loans to provide training and technical assistance to the rural micro-borrower. The MDO is responsible for determining eligibility, credit quality, and loan documentation for the ultimate recipient's loan.

**III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES**

**A. Types of Services Allowed or Unallowed**

**Compliance Requirements**

Loans may be used for:

- (1) Working Capital;
- (2) The purchase of furniture, fixtures, supplies, inventory or equipment
- (3) The purchase or lease of real estate that is already improved and will be used for the subject business
- (4) Business acquisitions
- (5) Debt refinancing

## **Compliance Requirements**

Loans may not be used for:

1. Construction costs
2. Any amount in excess of that needed by a microborrower to accomplish the immediate business goal.
3. Assistance that will cause a conflict of interest or the appearance of a conflict of interest including but not limited to:
  - a. Financial assistance to principals, directors, officers, or employees of the microlender, or their close relatives as defined
  - b. Financial assistance to any entity the result of which would appear to benefit the microlender or its principals, directors, or employees, or their close relatives, as defined, in any way other than the normal repayment of debt.
4. Distribution or payment to a microborrower when such will use any portion of the microloan for other than the purpose for which it was intended.
5. Distribution or payment to a charitable institution not gaining revenue from sales or fees to support the operation and repay the microloan. However, if a charitable institution has a subsidiary or affiliate such as a day care center, coffee house, or other income earning business, a microloan could be made to the business, as if it were any other small business. Such subsidiaries or affiliates must be governed under a separate tax ID.
6. Microloans to a fraternal organization.
7. Any microloan to an applicant that has an RMAP funded microloan application pending with another microlender or that has an RMAP-funded microloan outstanding with another microlender that would cause the applicant to owe a combined amount of more than \$50,000 to one or more microlenders under this program. Microlenders should check for credit report references to other inquiries to ensure that the prospective microborrower has not applied for, or entered into a loan agreement for, other program funding from one or more other RMAP microlenders.
8. Assistance to USDA Rural Development (Agency) employees, or their close relatives, as defined.
9. Any illegal activity.
10. Any project that is in violation of either a Federal, State, or local environmental protection law, regulation, or enforceable land use restriction unless the microloan will result in curing or removing the violation.

11. Microloans to lending and investment institutions and insurance companies.
12. Golf courses, race tracks, or gambling facilities.
13. Any lobbying activities as described in 7 CFR part 3018.
14. Lines of credit.
15. Subordinated liens.
16. Use of an Agency funded loan to pay debt service on a previous Agency loan.

The auditor is not expected to test for types of services eligible or ineligible. (7 CFR Part 4274.319).

#### **B. Eligibility**

The auditor is not expected to test for borrower eligibility.

#### **C. Matching, Level of Effort, and/or Earmarking Requirements**

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

#### **D. Reporting Requirements**

#### **Compliance Requirements**

The following financial reports must be submitted periodically for this program:

- (1) Annual audited financial statements prepared by an independent certified public accountant in accordance with GAGAS (CFR Part 4274.338(b)(4)(i)(A)).
- (2) Quarterly and semiannual reports (7 CFR Part 4274.338(b)(4)(ii)(A)).
- (3) Annual proposed budget for the following year (7 CFR Part 4274.338(b)(4)(iii)).
- (4) Other reports as the Agency may require from time to time (7 CFR Part 4274.338(b)(4)(iv)).

#### **Suggested Audit Procedures**

- Ascertain whether the borrower complied with any special financial reporting requirements, as contained with the loan closing documents or subsequent loan covenant modifications.

- Test the accuracy of the financial reports to the borrower's financial records.
- Ascertain whether the borrower submitted audited financial statements, as required.

## **E. Special Test and Provisions**

### **Compliance Requirements**

Initial Loans made by the Agency shall bear interest at a fixed rate of 2 percent per annum over the 20-year term of the loan. After the fifth year of an MDO's continuous and satisfactory participation in this program, each new loan made to the MDO will bear an interest rate of 1percent.

Interest rates charged by MDO's to ultimate recipients on loans from the IRLF shall be negotiated by the MDO and ultimate recipient. The rate must be within limits established by the Agency (7 CFR Part 4280.322(b)).

Security for all loans to intermediaries must be such that the repayment of the loan is reasonably assured when considered along with the MDO's financial condition, workplan, and management ability. It is the responsibility of the intermediary to make loans to ultimate recipients in such a manner that will protect the interests of the MDO and the Federal Government (7 CFR Part 4280.322).

### **Suggested Audit Procedures**

- Test intermediary records to determine whether the interest rate charged is the lowest rate sufficient to cover the loan's proportional share of the MDO revolving fund's debt service costs, reserve for bad debts, and administrative costs.
- Test to determine if all reserves and other cash in the IRP revolving loan fund not immediately needed for loans to ultimate recipients or other authorized uses will be deposited in accounts in banks or other financial institutions. These accounts should be fully covered by the Federal Deposit Insurance Corporation or fully collateralized with U.S. Government obligations, and must be interest-bearing. Any interest earned thereon remains a part of the Revolving Loan Fund (7 CFR Part 4280.311(e)).
- Ascertain whether the MDO maintains a separate ledger and segregated bookkeeping and bank accounts for IRP funds as required in 7 CFR Part 4280.311(e).
- Ascertain whether the Agency's RMAP loan funds are placed in the intermediary's revolving fund and used by the intermediary to provide direct loans to eligible ultimate recipients (7 CFR Part 4280.322).

### **Compliance Requirement**

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

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

### **Suggested Audit Procedures**

- The auditor will test for compliance with the provisions of section 319 of P.L. 101-121, by verifying that the required certifications and disclosure statements have been prepared. The auditor must check to ensure certifications and disclosure statements are signed and dated by the appropriate officials.



## ATTACHMENT VII

### Office of Inspector General (OIG) Addresses

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

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

2. OIG - Audit - Southeast Region  
401 W. Peachtree Street, NW. Room 2328  
Atlanta, Georgia 30308  
(404) 730-3210

States Served: Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, Puerto Rico, South Carolina, and Tennessee, and Virgin Islands.

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

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

4. OIG - Audit - Southwest Region  
101 South Main Street, Room 324  
Temple, Texas 76501  
(254) 743-6566

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

5.    OIG - Audit - Great Plains Region  
      8930 Ward Parkway, Suite 3016  
      Kansas City, Missouri 64114  
      (816) 926-7667

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

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

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