



Accounting and Auditing Compliance Requirements for ARRA Broadband Loan and Grant Recipients

Broadband Initiatives Program

Chart of Key Applicable Regulations That Govern Grants

Applicable Regulations Specific to Organization Type

Type	Administrative	Cost Principles	Audits
For Profit	Circular A-110 (7 CFR Part 3015)	48 CFR Part 31.2	7 CFR Part 1773
Higher-Education	Circular A-110 (7 CFR Part 3015) (7 CFR Part 3019)	OMB Circular A-21	OMB Circular A-133
Non-Profit	Circular A-110 (7 CFR Part 3015) (7 CFR Part 3019)	OMB Circular A-122	OMB Circular A-133
State and Local Governments	Circular A-102 (7 CFR Part 3015) (7 CFR Part 3016)	OMB Circular A-87	OMB Circular A-133

Government-wide Administrative Regulations for Grant Recipients

- Uniform Administrative Requirements

OMB Circular A-110 applies to higher educational institutions, hospitals, other non-profits, and commercial organizations.

OMB Circular A-102 applies to state and local governments and Indian tribal governments.

- Financial and program management, including matching, cost share and program income requirements
- Property and procurement standards, reports and record keeping
- Flow down requirements to subgrantees
 - Grantee must receive prior approval from grants officer to use subgrantees.

Uniform Administrative Regulations: Procurement Standards

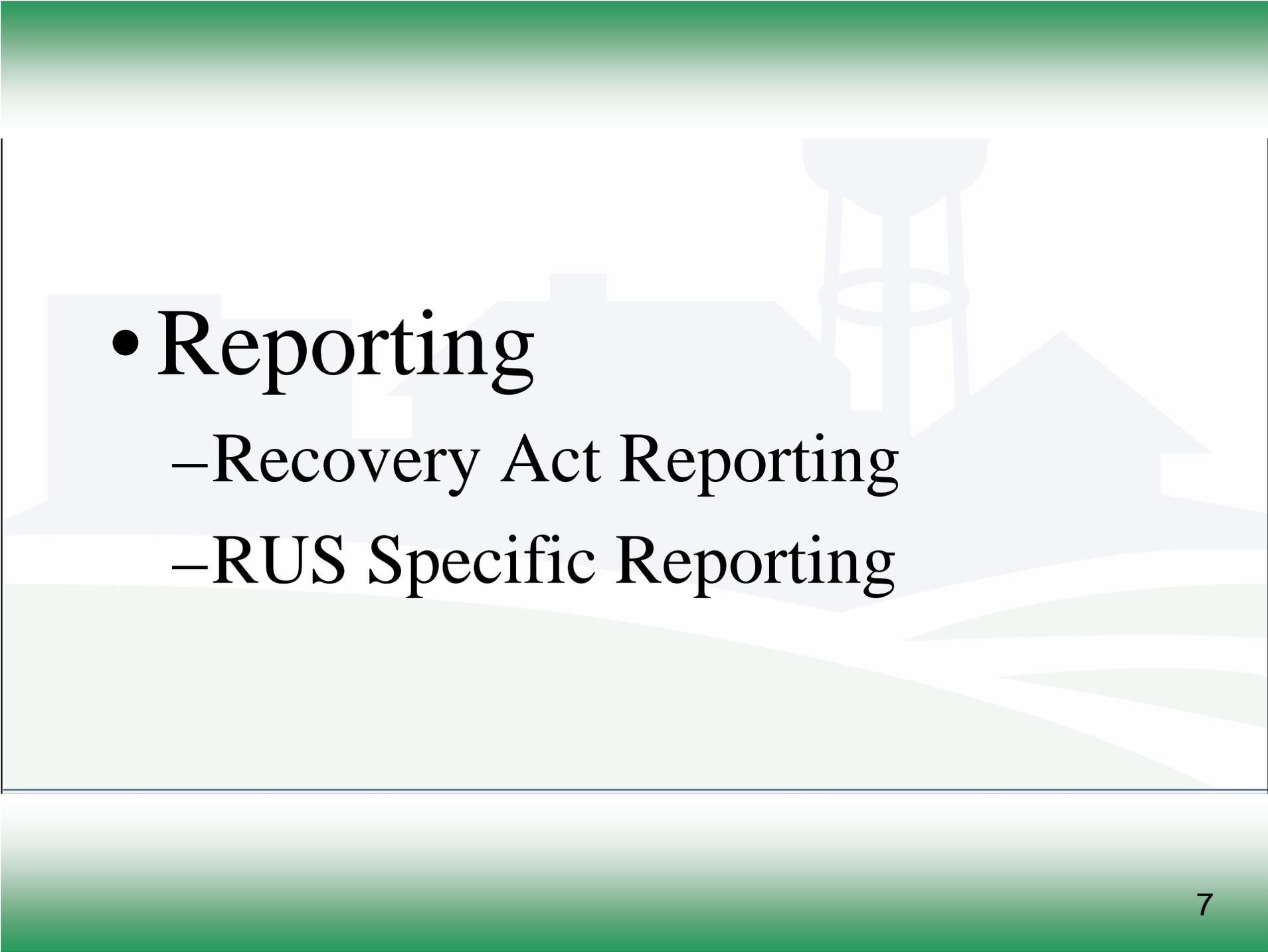
- Subcontractor disputes--no recourse to federal agency
- Recipient must have codes of conduct for employees participating in contracting
- Recipient must have written procurement procedures
- Competition is required unless justified
- Recipient must document (a) basis for contractor selection; (b) justification if not competed (c) cost and price analysis

Uniform Administrative Regulations: Procurement Standards--Codes of Conduct

- Grantees and subgrantees must have a written code of conduct governing performance of employees engaged in the awarding and administration of contracts.
- No employee, officer, or agent of the grantee or subgrantee may participate in the selection, award, or administration of a contract, subcontract, or subgrant supported by Federal funds if a real or apparent conflict exists.
- Conflict exists when a recipient employee, officer, or agent, any immediate family member, a partner, or organization which employs or is about to employ one of the above, has a financial or other interest in the firm selected for the award.
- Grantees or subgrantees may not solicit or accept gratuities or favors from contractors, potential contractors, or subcontractors.

Uniform Administrative Regulations: Financial Reporting and Records Retention Requirements

- Financial Reporting
 - Applicants are required to submit financial reports in accordance with the schedule set forth in the terms of the award.
 - Recipients must manage and monitor subrecipient's performance and assure they comply with audit requirements.
- Record Retention Requirement
 - All records pertinent to the grant award must be kept for 3 years after the submission of the final expenditure report (final closeout report).
 - Exception: All records must be retained longer for any audit, litigation, or claim commenced within the three year period. All records must be retained until the matters are resolved.
 - OIG has unrestricted access and may interview recipient's personnel for as long as records are retained.



- Reporting

- Recovery Act Reporting

- RUS Specific Reporting

Key ARRA Requirements:

Section 1512 - Recipient Reporting

- Recipient Award Types
 - Grants
 - Loans
- Report Submission Methods
 - Excel Spreadsheet (recommended)
 - Web-based Form
 - XML Format
- Report Submission Options
 - Prime Recipient
 - Prime Recipient Reporting for Sub Recipients
 - Sub Recipient
 - Prime Recipient Reporting for Vendor
- Reporting based at the award level.
- Combination Loan and Grant projects must report for the Grant and for the Loan (2 reports)

Key ARRA Requirements:

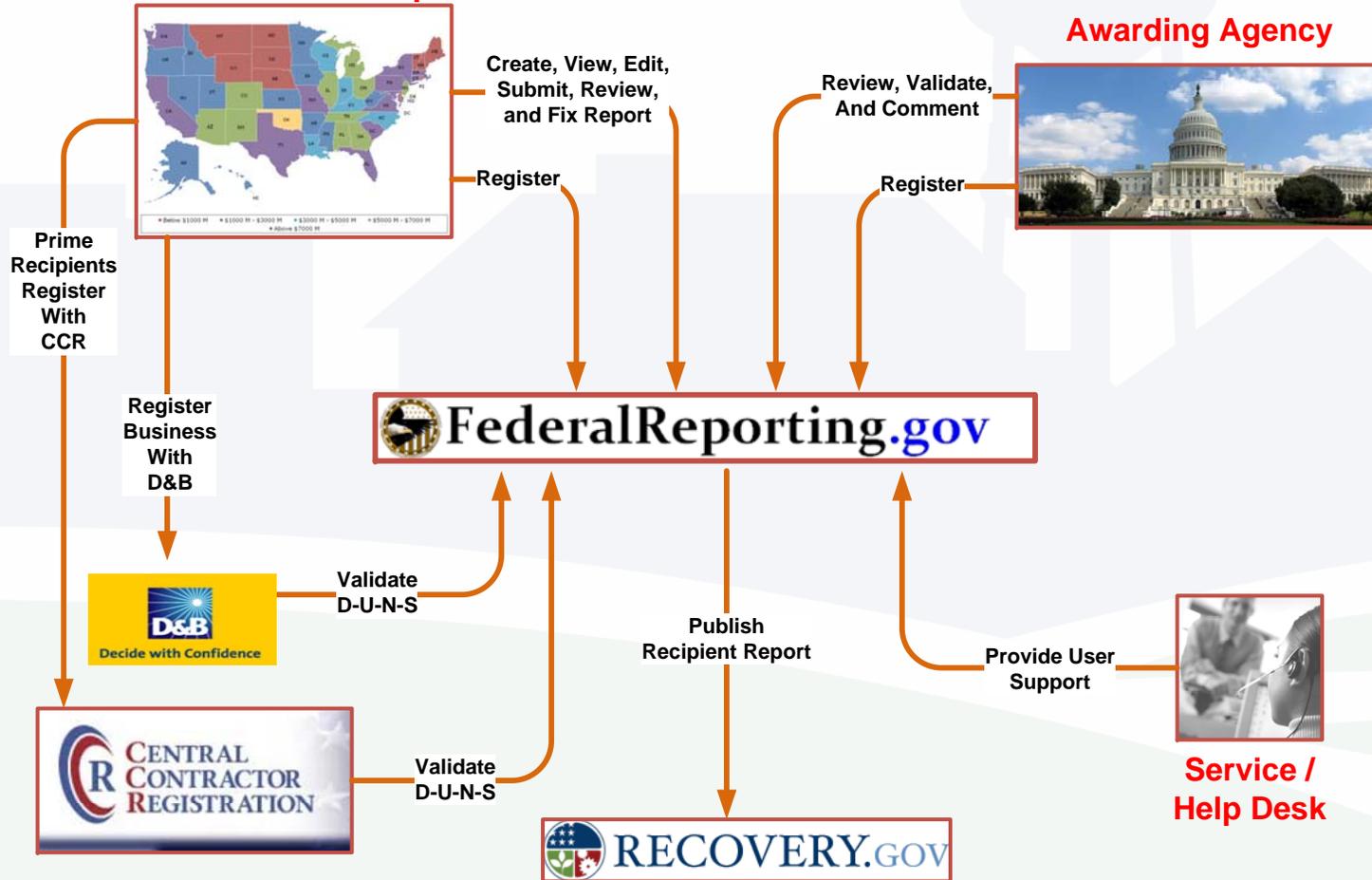
Section 1512 - Recipient Reporting

- Who is required to report under the Recovery Act?
 - **Prime Recipient:** Non-Federal entities that receive over \$25,000 in Recovery Act funding as Federal awards in the form of grants, loans, or contracts
 - **Sub Recipients:** Non-Federal entities awarded Recovery funding through a legal instrument from the Prime Recipient to support the performance of any portion of the substantive project or program for which the Prime received the Recovery funding
 - **Vendor:** is defined as a dealer, distributor, merchant, or other seller providing goods or services. Prime recipients or sub-recipients may purchase goods or services needed to carry out the project or program from vendors. Vendors are not awarded funds by the same means as sub-recipients and are not subject to the terms and conditions of the Federal financial assistance award.

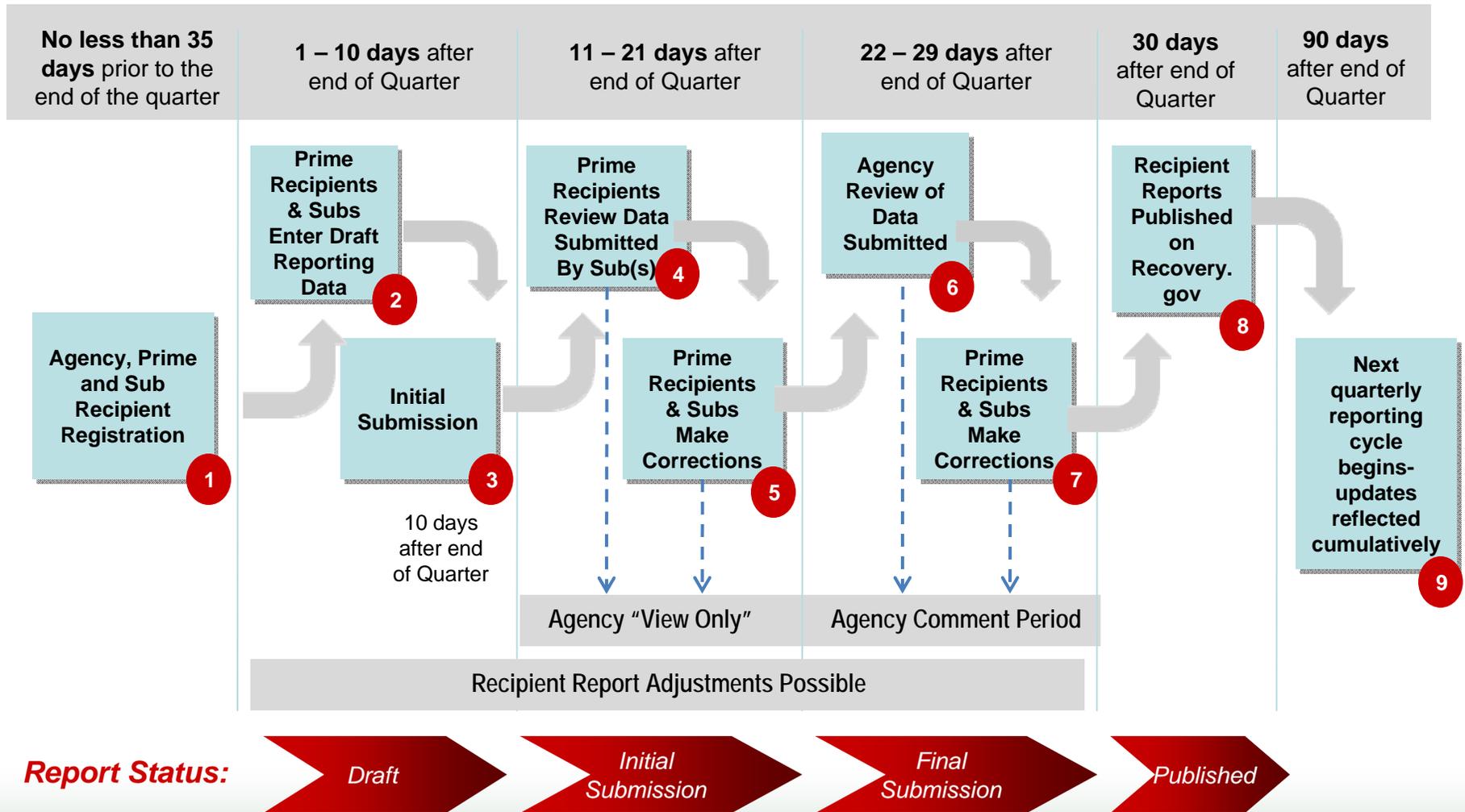
Recipient Reporting

Prime and Sub Recipient

Awarding Agency



Recipient Reporting Timeline and Activities



Errors and Omissions

- The data fields that are of major concern for significant errors are:
 - Federal amount of the award
 - Number of jobs retained or created
 - Federal award number
 - Recipient name
- Material omissions include the following:
 - Failure to report
 - Data not responsive to requested information

Lessons Learned about Reporting on FederalReporting.Gov

- Ensure use of consistent CCR and DUNS numbers between FR.gov and RUS Systems (BCAS)
- Use the Excel spreadsheet input option for FR.gov
 - The on-line input tool times out
 - The on-line and xML files do not provide a convenient way to save data off line for later use
 - The Excel spreadsheet has a “Validate” button that enables the submitter to validate data offline, before uploading
 - If possible, we would like to develop a script that auto-populates the spreadsheet with data from our agency system
- Use the “On-line Chat” help rather than calling or e-mailing the FR.gov help desk

Broadband Collection and Analysis System (BCAS)

- Online system to submit required quarterly financial reporting.
- BIP awardees will be required to submit a balance sheet, income statement, statement of cash flows, numbers of subscribers and service offerings each quarter within 30 days of quarter end

Broadband Collection and Analysis System (BCAS)

- Must have Level II e-Auth
- Process can be completed at a USDA Service Center or by a General Field Representative or Field Accountant
- Instructions for completing this process will be sent with loan documents
- Submit Form 675 authorizing an Administrator and Certifier for your company

Broadband Collection and Analysis System (BCAS)

- Balance sheets as of current quarter, income statement and cash flow are year-to-date. Instructions for submitting data will be transmitted with final loan documents.

Sources of Assistance

- www.FederalReporting.gov
- www.Recovery.gov/FAQ/Pages/FAQ.aspx
- www.Whitehouse.gov/omb/recovery_default/
- <http://www.usda.gov/rus/water/ARRA.htm>
- BroadbandUSA@usda.gov
- 1-877-508-8364

The background features a stylized, light-colored illustration of a landscape. In the foreground, there are rolling green hills. In the middle ground, there are several buildings of varying heights and a prominent water tower with a circular base. The entire scene is rendered in a soft, muted color palette. The title 'Other Requirements' is centered over this illustration.

Other Requirements

Key ARRA Requirements:

Section 1605--Buy American

- Requires that projects funded by ARRA for the construction, alteration, maintenance, or repair of a public building or public work (*not owned by a private entity*) use American iron, steel and manufactured goods in projects, unless one of several specified exemptions applies. This requirement is to be applied in a manner consistent with U.S. obligations under international agreements.
- Limited waiver (74 FR 31410, July 1, 2009) of the Buy American requirements for certain broadband equipment in BIP projects, which include:
 - Broadband Switching Equipment
 - Broadband Routing Equipment
 - Broadband Transport Equipment
 - Broadband Access Equipment
 - Broadband Customer Premises Equipment and End-User Devices
 - Billing/Operations Systems
- For equipment not covered by waiver, applicants may seek waiver on a case-by-case basis.

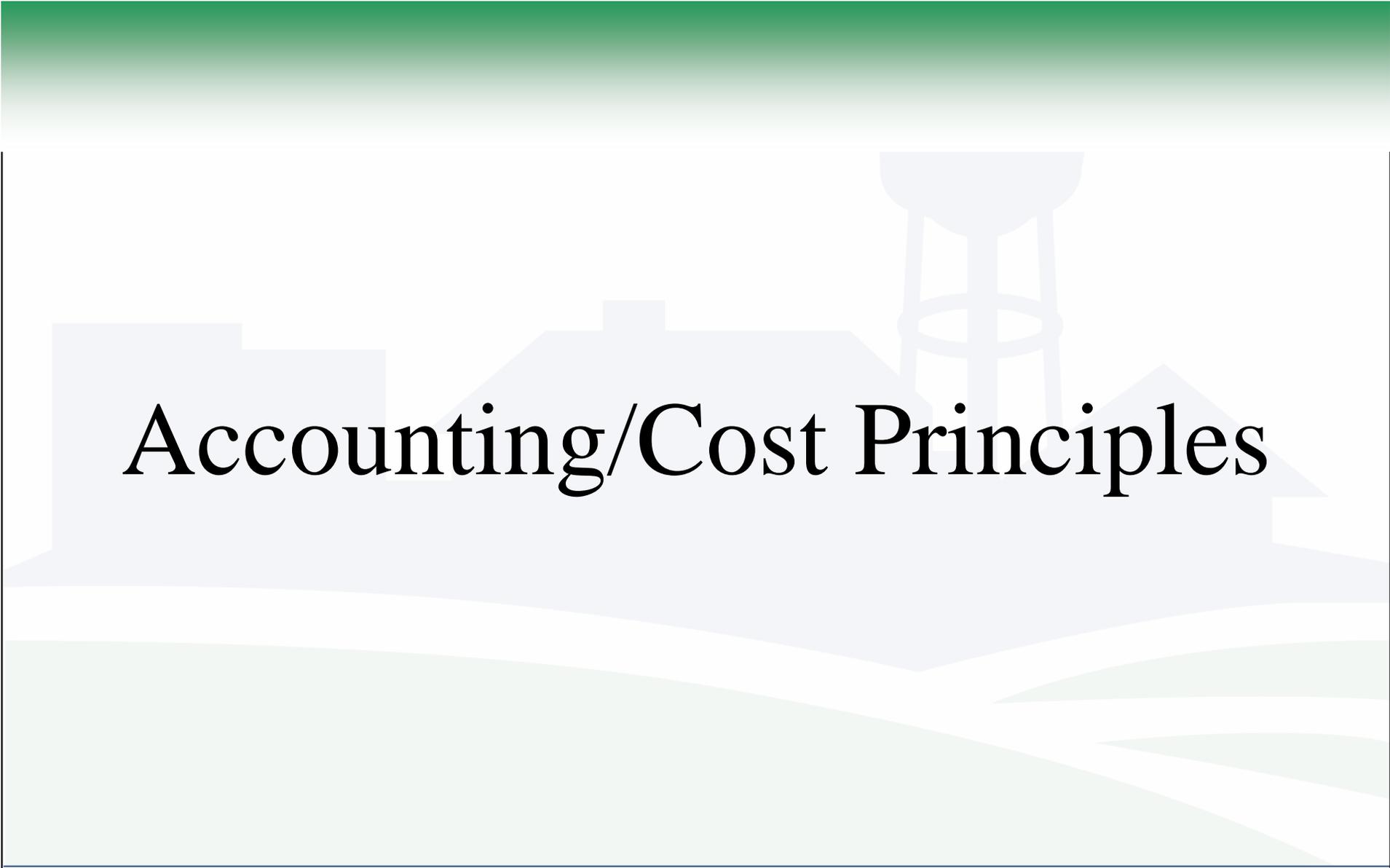
Key ARRA Requirements:

Section 1606--Wage Rate Requirements

- Section 1606 of the Recovery Act requires that all laborers and mechanics employed by contractors and subcontractors on projects funded directly by or assisted in whole or in part by and through the Federal Government pursuant to the Recovery Act shall be paid wages at rates not less than those prevailing on projects of a character similar in the locality as determined by the Secretary of Labor.
- Standard Davis-Bacon contract clauses should be incorporated into any covered contracts that are in excess of \$2,000 for construction, alteration or repair (including painting and decorating).

Potential Enforcement Actions

- High Risk Special Award Conditions
- Suspension of payments
- Suspension of award
- Termination for cause
- Termination for convenience
- Debarment and Suspension
- Deobligation

The background features a stylized, light-colored illustration of a city skyline with various buildings and a prominent bar stool in the foreground. The scene is set against a gradient background that transitions from a dark green at the top to a lighter green at the bottom.

Accounting/Cost Principles

The Basics – Accounting for the Grant Proceeds

Note: This guidance applies only to non-regulated entities and the non-regulated activities of regulated entities.

Grants Related to Expenses in Future Periods

In the year the grant is received:

Dr. Cash	\$XXX,XXX
Cr. Deferred Credits	\$XXX,XXX

To record the receipt of a government grant related to expenses in future periods.

In the future period when expenses are incurred:

Dr. Deferred Credits	\$XXX,XXX
Cr. Expense Accounts	\$XXX,XXX

To properly offset the grant received against expenses incurred.

Grants Related to Fixed Assets

In the year the grant is received:

Dr. Cash	\$XXX,XXX
Cr. Deferred Revenue	\$XXX,XXX

To record receipt of a government grant related to the purchase or construction of fixed assets.

In the year the fixed asset is put into service and each year after during the useful life of the fixed asset:

Dr. Deferred Revenue	\$XXX
Cr. Grant Revenue	\$XXX

To record the grant revenue earned by the passage of time (the amount of revenue earned is calculated as $1/n$ th of the original grant where n equals the useful life of the asset purchased or constructed).

Accounting Requirements

- Awardees must use GAAP supplemented by:
 - Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments
 - Circular A-122, Cost Principles for Non-Profit Organizations
 - Circular A-21, Cost Principles for Educational Institutions
 - 48 CFR Subpart 31.2. Contracts with Commercial Organizations

What is GAAP?

GAAP is the overall body of authoritative accounting guidance issued to provide instruction to measure and record assets, liabilities, equities, revenues and expenses consistently and comparably to other business entities as found in the Financial Accounting Standards Board (FASB) Accounting Standards Codification, effective July 1, 2009.

Contract Construction

Using an outside construction company
to construct plant assets

- Contract Cost
 - Negotiated 3rd Party Contract
 - No profit allowed if using an affiliated company
- Project Manager
- Work Order Clerk

Force Construction

Plant construction using entity's
construction work force

- Direct Costs
 - Labor
 - Material
 - Direct Overheads
 - Benefits
 - 1st Line Supervisor
 - Material Loading
 - Depreciation on Construction Equipment

Cost Principles: Three Basic Guidelines

- For costs to be allowable they must be:
 - Allowable Costs: necessary, consistent treatment, not used as match for any other Federal award.
 - Reasonable Costs: ordinary and necessary, market prices, prudent person, established practices.
 - Allocable Costs: relative benefits received, all activities share cost, cost allocation plan

Cost Principles: Direct Costs

- Costs that can be identified specifically with a particular cost objective, including:
 - Salary, Wages & Benefits
 - Travel
 - Equipment
 - Materials/supplies
 - Contracts

Cost Principles: Indirect Costs

- Costs that cannot be readily identified with a single cost objective, but identified with common or joint objectives, including:
 - General administration
 - Salaries/expenses of executive officers
 - Personnel administration
 - Accounting
 - Fringe benefits
 - Office rent
 - Maintenance
 - Library expenses
 - Office supplies
 - General purpose office equipment, computers, printers, copiers, etc.

These costs are not financeable under BIP

Circular A-87

Cost Principles for State, Local, and Indian Tribal Governments

- Establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally-recognized Indian tribal governments (governmental units).
- All subawards are subject to those Federal cost principles applicable to the particular organization concerned.

Circular A-122

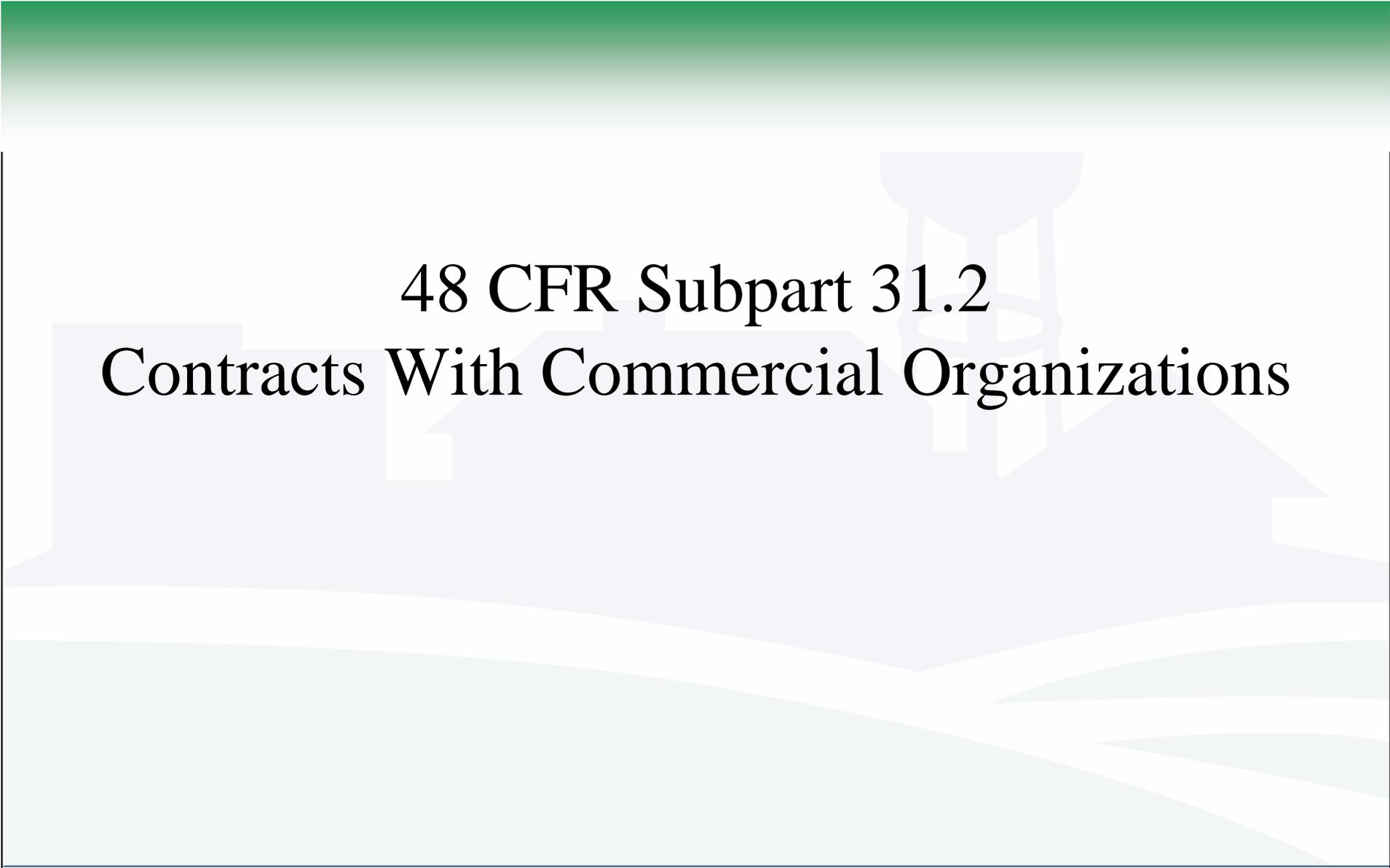
Cost Principles for Non-Profit Organizations

- Establishes principles for determining costs of grants, contracts and other agreements with non-profit organizations.
- All cost reimbursement subawards (subgrants, subcontracts, etc.) are subject to those Federal cost principles applicable to the particular organization concerned.

Circular A-21

Cost Principles for Educational Institutions

- Establishes principles for determining costs applicable to grants, contracts, and other agreements with educational institutions.

The background features a faint, light-colored silhouette of a building with a central tower and a scale of justice. The scene is set against a backdrop of rolling hills and a sky with a green-to-white gradient. The text is centered in a black serif font.

48 CFR Subpart 31.2
Contracts With Commercial Organizations

48 CFR Subpart 31.2

- Determining Allowability
- Determining Reasonableness
- Determining Allocability
- Credits
- Accounting for Unallowable Costs
- Construction and architect-engineer contracts

48 CFR Subpart 31.2

- Direct costs.
- Indirect costs.
- Application of principles and procedures.
- Selected costs.

Composition of Total Cost

- The total cost, including standard costs properly adjusted for applicable variances (actual cost),
 - **Sum of direct and indirect costs allocable to the contract**
 - **Incurred or to be incurred, plus any allocable cost of money pursuant to 31.205.10, less any allocable credits.**
- In ascertaining what constitutes a cost:
 - **Any generally accepted method of determining or estimating costs that is equitable and is consistently applied maybe used**

Determining Allowability

- When contractor accounting practices are inconsistent with this subpart 31.2, costs resulting from such inconsistent practices in excess of the amount that would have resulted from using practices consistent with this subpart are unallowable
 - A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred are allocable to the contract
 - Contracting office may disallow all or part of a claimed cost that is inadequately supported.

Determining Reasonableness

- No presumption of reasonableness shall be attached to the incurrence of costs by a contractor.
- Burden of proof shall be upon the contractor to establish that such cost is reasonable.

Determining Allocability

- Cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. A cost is allocable to a Government contract if it:
 - Is incurred specifically for the contract
 - Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received.

Direct Costs

- Direct costs of the contract shall be charged directly to the contract
- All costs specifically identified with other final cost objectives of the contractor are direct costs of those cost objectives and are not to be charged to the contract directly or indirectly.

Indirect Costs

- Once an appropriate base for allocating indirect costs has been accepted, the contractor shall not fragment the base by removing individual elements.
- All items properly includable in indirect cost base shall bear a pro rate share of indirect costs irrespective of their acceptance as Government contract costs.

Compensation for Personal Services

- Reasonableness

- Compensation pursuant to labor-management agreements. If costs of compensation established under “arm’s length” labor management agreements negotiated under the terms of the Federal Labor Relations Act, the costs are reasonable unless, as applied to work in performing Government contracts, the costs are unwarranted by

- It is discriminatory against the Government if it results in employee compensation in excess of that being paid for similar non-Government work under comparable circumstances

Compensation for Personal Services

- Compensation is reasonable if the aggregate of each measurable and allowable element sums to a reasonable total
 - Compensation for personal services includes compensation paid or to be paid in the future to employees in the form of
 - Cash
 - Corporate securities, such as stocks, bonds, and other financial instruments
 - Bonuses and incentive compensation allowable provided
 - Awards are paid or accrued under an agreement entered into in good faith between the contractor and the employees before the services are rendered or pursuant to an established plan or policy followed by the contractor so consistently as to imply, in effect, an agreement to make such payment

Depreciation

- Depreciation, rental, or use charges are unallowable on property acquired from the Government at no cost by the contractor or by any division, subsidiary, or affiliate for the contractor under common control

Material Costs

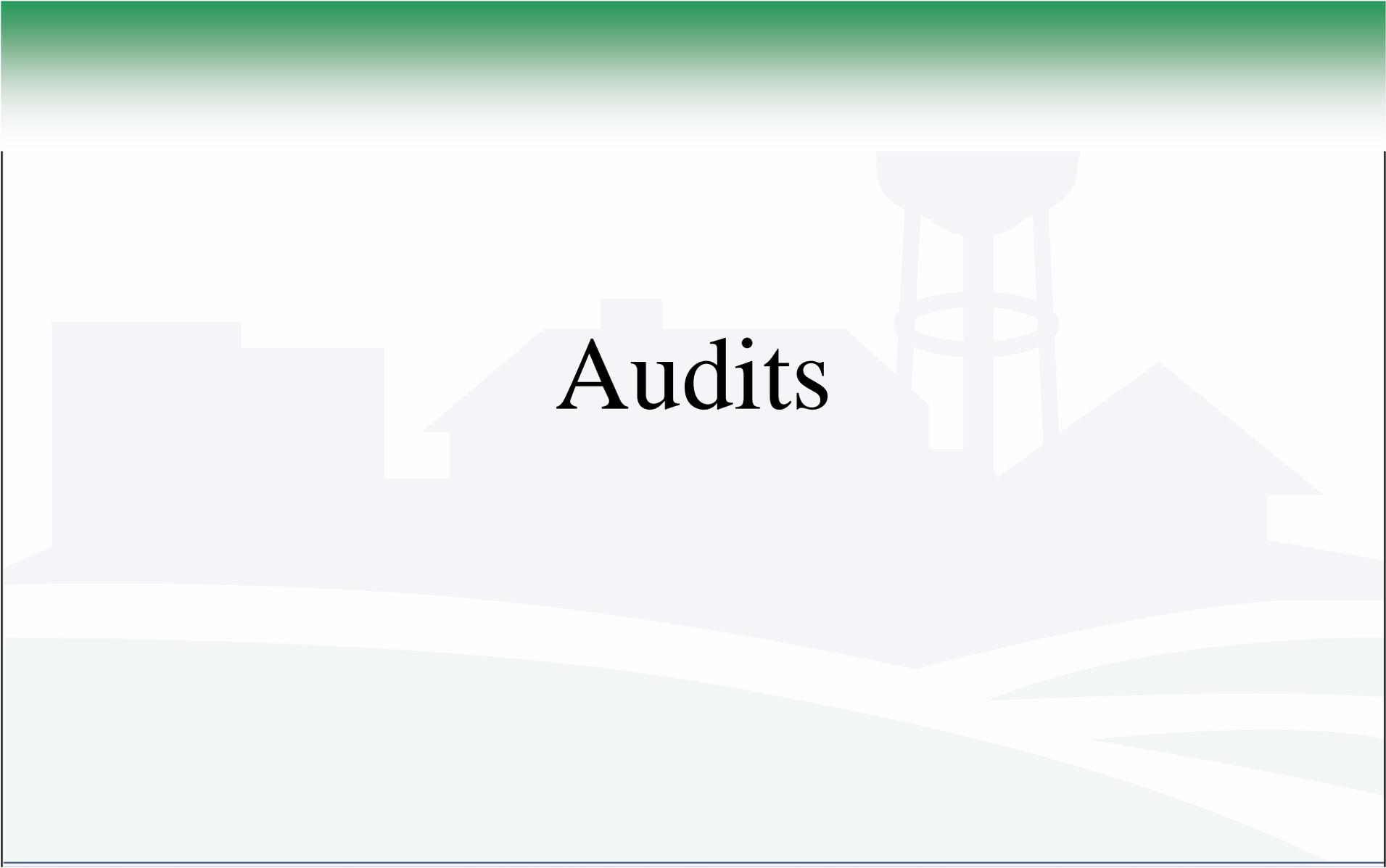
- Material costs include the costs of such items as raw materials, parts, subassemblies, components, and manufacturing supplies, whether purchased or manufactured by the contractor, and may include such collateral items as inbound transportation and in-transit insurance.
- When materials are purchased specifically for and are identifiable solely with performance under a contract, the actual purchase cost of those materials should be charged to the contract.

Professional and Consultant Service Costs

- Fees for services rendered are allowable only when supported by evidence of the nature and scope of the service furnished.
 - Details of all agreements (e.g., work requirements, rate of compensation, and nature and amount of other expenses, if any) with the individuals or organizations providing the services and details of actual services performed.

Disposition of Assets

The sale or lease of any portion of the award-funded broadband facilities shall be governed by the applicable Award Document and the Department's grant regulations at 7 CFR 3015, 3016, and 3019. Unless otherwise permitted in the Award Document, project assets cannot be sold while the loan is outstanding. Terms under which grant assets can be sold are outlined in the Department's grant regulations cited above.

A stylized, light-colored illustration of a town skyline. It features several buildings of varying heights and a prominent water tower with a circular base. The scene is set against a background of rolling green hills and a white sky. The entire illustration is rendered in a soft, semi-transparent style.

Audits

Audit Requirements Loans and Grants

	<\$500,000	>\$500,000
For profit	Part 1773	Part 1773
Not for profit	No Audit Required	Circular A-133
State or Local Government	No Audit Required	Circular A-133
Tribal Authority	No Audit Required	Circular A-133

Administrative and Other Compliance Areas Covered in an Audit

- Financial Management System
- Matching Funds/In-kind Contributions
- Scope/Budget Revisions
- Procurement Practices
- Property Management
- Subrecipient Monitoring
- Financial/Performance Reporting
- Program Income

Single Audit Requirements

- Required when the entity has \$500,000 in annual expenditures of federal funds.
- Major programs receive the greatest audit coverage.
- Must be submitted to the Clearinghouse within nine months of the end of the recipient's fiscal year.
- For fiscal year ending after January 1, 2008, all single audit reports will be submitted to the Federal Audit Clearinghouse electronically.

Single Audit Requirements and the Recovery Act



- For fiscal years ending September 30, 2009, and later, all Single Audit reports filed with the Federal Audit Clearinghouse will be made publicly available on the Internet. A link will be provided from Recovery.gov.
- Federal agencies will review Single Audits that include Recovery Act funding and provide a synopsis of audit findings relating to obligations and expenditures of Recovery Act funding.

Audit Requirements for Loan & Grant Recipients

- What kind of business are you?
 - For profit
 - Not for profit
 - State or local government
 - Tribal Authority

7 CFR Part 1773

Policy on Audits of RUS Borrowers

- Annual audit prepared by an independent auditor/audit firm
- Establish audit as of date within 12 months of the first advance/reimbursement
- Submit audits within 120 days of audit as of date

7 CFR Part 1773

Recipient's responsibilities:

- Auditor must be qualified, experienced and able to meet the deadlines
- Notification of selection of auditor
- Enter into audit engagement letter
- Ensure that auditor has not been debarred or suspended
- Submit audit within 120 days
- Submit plan of corrective action in response to any findings and recommendations of auditor

7 CFR Part 1773

Qualifications of CPA

- CPA in good standing with the state governing authority
- Independent
- Meet the Peer Review requirement

7 CFR Part 1773

Peer Review Requirements

- CPA must belong to and participate in a peer review program
- Must have undergone a successful peer review within the last 3 years unless a waiver is granted by Rural Development
- Subsequent peer reviews must be completed at least every 36 months

7 CFR Part 1773

Peer Review Requirements

- CPA that receives a Pass with deficiencies or Fail must have another peer review performed within 18 months
- A CPA that receives consecutive Pass with deficiencies or Fail reports is not qualified to perform audits of ARRA Loan and Grant Recipients until undergoing a Peer Review that receives a Pass

7 CFR Part 1773

- Audit is performed in accordance with Generally Accepted Government Auditing Standards (GAGAS)
- CPA must make all audit-related documents, including auditors' reports, workpapers, and management letters available to RUS, or its designated representative, upon request and must permit RUS to copy all audit-related documents

7 CFR Part 1773

Annual audit prepared by an independent auditor/audit firm must include:

- Auditor's report
- Report on compliance and on internal control over financial reporting
- Management letter

(Examples are found in Appendices A & B of 7 CFR Part 1773)

Electronic Filing

- Permit electronic filing of audits
 - Letter issued 2/19/09
- Portable Document Format (PDF)
- Email to rd-audits@wdc.usda.gov
- Will continue to accept paper audits
(3 copies)

How to Avoid Audit Findings

- ✓ Prepare a thorough, fact-based proposal.
- ✓ Review financial, administrative, and project management systems.
- ✓ READ and UNDERSTAND the award before signing and revisit award requirements frequently during the project.
- ✓ Ensure all staff understand the project and award requirements and that they communicate fully and frequently throughout the project.



How to Avoid Audit Findings

- ✓ If in doubt, **ASK QUESTIONS** and get answers and approvals **BEFORE** acting.
- ✓ Know your Agency or Department contacts.
- ✓ **DOCUMENT, DOCUMENT, DOCUMENT!**
- ✓ Attend training like this.
- ✓ Respond fully and timely at every opportunity during the audit and resolution process.



Functions of Field Accountants

- Compliance Audits
 - Verify receipt and disbursement of all loan and grant funds
 - Verify all loan and grant costs

Records Access

RUS shall have reasonable opportunity, at all times during business hours and upon prior notice, to have access to and the right to inspect the broadband system, and any other property encumbered by the mortgage or security agreement, and any or all books, records, accounts, invoices, contracts, leases, payrolls, timesheets, cancelled checks, statements, and other documents, electronic or paper of every kind belonging to or in the possession of the awardee or in any way pertaining to its property or business, including its subsidiaries, if any, and to make copies or extracts therefrom.

USDA



Rural Development

Committed to the future of rural communities.

<http://www.usda.gov/rus/>

