

RD AN No. 3979 (1942-A)
April 23, 2004

TO: State Directors
Rural Development

ATTN: Community Programs

FROM: Arthur A. Garcia (Signed by James E. Selmon, III) for
Administrator
Rural Housing Service

SUBJECT: Audit and Management Reporting Requirements
Community Facilities Direct and Guaranteed Loan Borrowers
and Grant Recipients

PURPOSE/INTENDED OUTCOME:

This administrative notice provides updated guidance on the audit report requirements for Community Facilities (CF) borrowers and recipients of direct and guaranteed loans and/or grants. This AN conveys the latest revision to Office of Management and Budget (OMB) Circular No. A-133, "Audits of States, Local Governments, and Nonprofit Organizations" which increases the audit threshold from \$300,000 to \$500,000 effective for fiscal years ending after December 31, 2003. USDA implemented the provisions OMB Circular A-133 in 7 CFR part 3052. OMB Circular A-133 was created after the enactment of the Single Audit Act Amendments of 1996 (Act) (31 USC 7501 et seq.). Subparagraph 7502 (a) (2) (A) of the Act overruled the provisions of 7 CFR 1942.17 (q) (4) by exempting entities from applicable audit requirements contained in Federal program regulations. Additional information is available in the General Accounting Office (GAO) publication, "Government Auditing Standards" revised June, 2003.

COMPARISON WITH PREVIOUS AN:

This AN updates RD AN No. 3765 (1942-A) that was issued on June 19, 2002.

IMPLEMENTATION RESPONSIBILITIES:

Borrowers affected by this revision should be informed. In determining the amount of Federal financial assistance expended during the borrower's fiscal year, the following definitions should be used:

EXPIRATION DATE:
April 30, 2005

FILING INSTRUCTIONS:
Preceding RD Instruction 1942-A

Federal award. Federal financial assistance and Federal cost-reimbursement contracts that the non-Federal entity received directly from Federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, under-grants, or contracts used to buy goods and services from vendors.

Federal financial assistance. Federal assistance that a non-Federal entity received or administered during the entity's fiscal year in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, direct appropriations, and other assistance, except Medicare and Medicaid.

Federal awards expended. The total of all Federal monies expended by the entity during the entities' fiscal year plus the current principal balance(s) of all outstanding CF loan(s). The determination of when an award is expended should be based on when the activity related to the award occurs. A borrower is considered to have expended Federal financial assistance when Federal funds have been disbursed either directly or indirectly from a pass-through entity. (In some instances, a CF borrower may expend monies that were received as "pass-through" funds from state or local levels. If those funds originated at the Federal level, the borrower is considered to have expended Federal funds.)

In accordance with the above mentioned regulation and RD Instruction 1942-A, §1942.17 (q) (5), the reporting requirements for Community Facilities borrowers and recipients are described below and outlined on the attachment:

1. A borrower that expended \$500,000 or more in Federal financial assistance during the borrower's fiscal year must submit an audit report conducted in accordance with OMB Circular A-133. Expenditures include not only new Federal financial assistance provided to the CF borrower, but also the outstanding loan balance of any existing CF loan or guarantee. Unless eligible for a program-specific audit, all audits will be single audits. Borrowers are eligible for a program-specific audit when they expend Federal awards under only one Federal program. (If the borrower is receiving Federal assistance from other Federal programs or is receiving assistance from more than one CF program, they do not qualify for a program-specific audit.) All audits must be in accordance with Generally Accepted Government Auditing Standards (GAGAS). The audit must be submitted to the Agency within the earlier of 30 days after the borrower's receipt of the auditor's report(s) or nine months after the end of the audit period.
2. Those exempt from providing audits under paragraph 1 must comply with 7 CFR 1942.17 (q) (5) by submitting a management report to the Agency within 60 days from the end of the borrower's fiscal year. The management report consists of Form RD 442-2, "Statement of Budget, Income, and Equity" and Form RD 442-3, "Balance Sheet." A borrower may submit financial data in other formats as long as comparable information is provided.

Audits made under this statute shall be in lieu of any financial audit required under individual Federal awards. 7 CFR 3052.220 permits some CF borrowers to undergo audits biennially, rather than annually. These borrowers are:

1. A State or local government that is required by constitution or statute, in effect on January 1, 1987, to undergo its audits less frequently than annually, is permitted to undergo its audits biennially.
2. Any non-profit organization that had biennial audits for all biennial periods ending between July 1, 1992 and January 1, 1995, is permitted to undergo its audits biennially.

Attachment

**Community Programs Audit Requirements
for Fiscal Years ending on or after December 31, 2003**

1. Borrowers/recipients that received \$500,000 or more in Federal funds expended during the borrower's fiscal year (including outstanding principal balances of all Community Facility loans as of the beginning of the borrower's fiscal year) must submit a A-133 audit to the Agency. The report must be submitted to the Agency by the earlier of: 1) 30 days after the borrower receives the auditor's report or 2) nine months after the end of the audit period.
2. Other borrower/recipients must submit management report information per RD Instruction 1942-A, §1942.17 (q) (5) within 60 days from the end of the borrower's fiscal year.