



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



APR 3 2009

TO: William F. Hagy III  
Acting Deputy Under Secretary  
Rural Development

FROM: Robert W. Young  
Assistant Inspector General  
for Audit

SUBJECT: Existing Risk to Rural Development's Economic Recovery Program

The American Recovery and Reinvestment Act of 2009 (Recovery Act) includes measures to modernize our nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need. As you aware, the Recovery Act authorizes approximately \$20 billion of loans, loan guarantees, and grants to the Rural Development mission area to assist in achieving the purposes of the Act. This includes programs such as business and industry, broadband services, community facilities, and single family housing. All are intended to provide economic stimulus to America's rural areas.

Along with the provisions for Rural Development, the Recovery Act mandates that the Office of Inspector General provide oversight and audits of programs, grants, and activities funded by the Recovery Act. To assist Rural Development in achieving its Recovery Act objectives and minimize the risks of inefficient or improper actions that could put taxpayers' money at risk, we have embarked on a program of oversight related to Recovery Act funding.

The initial project in our oversight was to review audit recommendations that could impact internal controls over Recovery Act activities for each agency. We identified recommendations where Rural Development has not implemented the agreed-upon corrective actions within the mandatory one year timeframe. We then determined which of these recommendations, if left unresolved or not mitigated, would introduce a significant risk of inefficient or improper use of Recovery Act funding. For Rural Development, we identified 17 audit recommendations that met these criteria (attached) involving approximately \$10 billion of Recovery Act funds. The risks associated with each of these recommendations are aligned with the accountability objectives of the Recovery Act.

For example, Recommendation Number 8 from our *Audit of the Rural Business-Cooperative Service's (RBS) Business and Industry Guaranteed Loan Program* (Audit No. 34099-2-At,

issued on March 25, 1999) requires that RBS establish procedures and review criteria for State Office staff to follow to satisfactorily conclude that all terms and conditions of the conditional commitment and loan agreement have been met prior to issuance of the loan note guarantee to the lender. However, this recommendation has not been fully implemented. With an expected funding level of \$2.9 billion to be expended for RBS' business and industry guaranteed loan program under the Recovery Act, it is essential that Rural Development mitigate potential losses due to ineligibility prior to guaranteeing any future loans using Recovery Act funds.

On April 2, 2009, we advised Rural Development officials of the agency's need to address the issues identified by audit recommendations to ensure accountability for Recovery Act funds. For the risks detailed above and those associated with the other 16 recommendations, we recommend that Rural Development institute interim corrective actions to address identified deficiencies in its internal controls prior to expending the Recovery Act funds. Rural Development agreed to provide a written response to this letter report within 5 days outlining future, interim corrective actions.

If you have any questions, please contact me at (202) 720-6945, or have a member of your staff contact Steve Rickrode, Director, Rural Development and Natural Resources Division, at (202) 690-4483.

Attachment

At-Risk Open Recommendations for Recovery Act Activities  
Agency: Rural Development  
(as of April 1, 2009)

We have listed a number of audits and recommendations that Rural Development (RD) has agreed to implement. RD should address these recommendations prior to spending Recovery Act money on projects in these areas. Without implementing interim corrective actions, RD risks that (a) projects funded under the Recovery Act may incur unnecessary delays, cost overruns, and program goals may not be achieved; (b) funds may not be used for authorized purposes and safeguarded from instances of fraud, waste, error, and abuse; (c) funds may not be awarded and distributed in a prompt, fair, and reasonable manner; and (d) goals may not be achieved, including specific program outcomes and improved results on broader economic indicators. Moreover, the uses of all funds may not be transparent to the public, and the public benefits of these funds may not be reported clearly, accurately, and in a timely manner.

***Business and Industry (B&I) Loan Program*** (Audit No. 34099-0002-At, issued September 14, 2001) The audit objective was to determine if the lender complied with program regulations for loanmaking and servicing. Specific objectives were to determine whether (1) the borrower's financial condition was properly analyzed prior to requesting the loan guarantee, (2) the lender and borrower provided all relevant financial information to RD, (3) loan funds were used for authorized purposes, and (4) collateral was sufficient to protect the interest of the agency.

Recommendation 8                      Establish procedures and review criteria for State Office staff to follow to satisfactorily conclude that all terms and conditions of the conditional commitment and loan agreement have been met prior to issuance of loan note guarantees. Rural Development agreed to implement the recommendation by June 30, 2003.

By not implementing this recommendation, RD risks not being able to assess the validity of the lender's certification that the borrower meets the required financial conditions and terms and is not at a high risk of defaulting.

***Rural Development Lender Servicing of B&I Guaranteed Loans in Georgia*** (Audit No. 34601-0004-At, issued January 10, 2003) The audit objective was to determine if RD and the lenders complied with program regulations for loanmaking and servicing. Specific objectives were to determine whether lenders ensured that (1) terms of conditional commitments were met, (2) loan funds were used for authorized purposes, (3) collateral was sufficient to protect the interest of the Government, (4) loans were properly serviced, and (5) servicing reports were submitted to RD timely.

By not implementing the following two recommendations, RD risks not having sufficient information to prevent borrower defaults that may cause the loss of Recovery Act funds.

At-Risk Open Recommendations for Recovery Act Activities  
Agency: Rural Development  
(as of April 1, 2009)

Recommendation 9                      Require all lenders whose annual reports are overdue to submit them within 60 days or provide sufficient evidence to support that they have exhausted full faith efforts in attempting to obtain them from the borrowers. Those lenders that do not comply should be put on notice that failure to timely provide copies of borrower's annual reports is considered negligent servicing and could cause the loan guarantee to be unenforceable. Rural Development agreed to implement the recommendation by December 31, 2003.

Recommendation 10                    Establish a control mechanism to ensure annual lender visits are made and documented. Rural Development agreed to implement the recommendation by December 31, 2003.

***National Report on the B&I Loan Program*** (Audit No. 34601-0015-Te, issued September 30, 2003) Our objectives for reviewing the B&I guaranteed loans were to determine if (1) lenders were properly servicing loans by monitoring collateral and submitting required documents to the agency timely, (2) loan proceeds were used as specified in the loan agreement, and (3) the agency established adequate controls over lender-servicing activities. We also evaluated agency oversight of B&I direct loans. Specifically, we determined if (1) direct loans were properly made and serviced, and (2) loan proceeds were used as specified in the application. In addition, we assessed agency compliance with Government Performance Reporting Act requirements.

Recommendation 1                    Establish guidelines that identify the most appropriate appraisal method to value different types of assets that are used as collateral for guaranteed loans. Rural Development agreed to implement the recommendation by March 31, 2005.

Recommendation 2                    Implement procedures to verify that lenders use the most appropriate appraisal method to value assets. Rural Development agreed to implement the recommendation by March 31, 2005.

By not implementing these two recommendations, RD is at risk of obtaining insufficient collateral to secure guaranteed loans.

Recommendation 3                    Require that lenders use audited financial statements, prepared in accordance with Generally Accepted Accounting Principles, to perform financial analyses of existing borrowers and financial

At-Risk Open Recommendations for Recovery Act Activities  
Agency: Rural Development  
(as of April 1, 2009)

statements examined in accordance with an attestation engagement for new businesses. Rural Development agreed to implement the recommendation by March 31, 2005.

Without this information, both RD and the lenders risk not being able to properly monitor the financial condition of borrowers.

Recommendation 5            Develop procedures to enforce lender compliance, such as reducing the loan guarantee. Rural Development agreed to implement the recommendation by September 30, 2004.

Recommendation 6            Require annual lender visits for all new and delinquent borrowers, and biennial lender visits for all borrowers that are current on payments. Rural Development agreed to implement the recommendation by March 31, 2005.

Without implementing these two recommendations, RD may not be able to ensure that lenders properly service borrowers (i.e. lender negligence) and the potential increases for borrowers to misuse or divert and subsequently default on guaranteed loans.

Recommendation 7            Revise the presentation in the Annual Performance Reports from projected to actual jobs created and saved by the program. Rural Development agreed to implement the recommendation by March 31, 2005.

Recommendation 9            Develop management controls that ensure data entered into the agency's system is accurate. Rural Development agreed to implement the recommendation by March 31, 2005.

By not implementing these two recommendations, RD risks not having the appropriate data to measure accomplishments.

Recommendation 10            Define deficiencies that classify direct B&I loans in significant nonmonetary default (i.e., borrowers that did not submit required financial reports, appraisal insurance, and other documents to RD). The definitions must address all types of nonmonetary defaults and provide acceptable justification for their classification as significant or nonsignificant, including their correlation to the

At-Risk Open Recommendations for Recovery Act Activities  
Agency: Rural Development  
(as of April 1, 2009)

soundness and safety of the repayment ability and security of the loan. Rural Development agreed to implement the recommendation by March 31, 2005.

By not implementing this recommendation, RD risks that it will not have the information needed to determine if a borrower's financial condition is deteriorating or if a borrower has adequately insured collateral for a loan.

***Rural Housing Service (RHS) Single Family Housing (SFH) Program, Borrower Income Verification Procedures*** (Audit No. 04099-0341-At, issued August 14, 2006) Our objectives were to assess RHS controls over (a) the accuracy of payment subsidies for SFH direct loan borrowers and (b) the effectiveness of RHS' claims management system to establish, record, and pursue collections of unauthorized payment subsidies.

Recommendation 4                      Develop and implement a sound quality control (QC) review sampling plan that randomly selects the 1-percent QC sample from the entire universe of payment subsidy renewals. Rural Development agreed to implement the recommendation by July 31, 2007.

By not implementing this recommendation, RD risks not being aware of the true error rate of improper and excessive subsidies paid to homeowners.

***Rural Utilities Service Broadband Grant and Loan Programs*** (Audit No. 09601-0004-Te, issued September 30, 2005) The objective was to assess RUS' management controls over the Broadband Grant and Loan Programs in order to determine the regulatory compliance and appropriateness of grant and loan usage.

Recommendation 3                      Establish and implement cutoff dates to ensure that applications are evaluated for priority at least every quarter. Rural Development agreed to implement the recommendation by October 31, 2006.

By not implementing this recommendation, RD risks that the needier and higher priority applicants will not get funded if Broadband demand exceeds funding.

At-Risk Open Recommendations for Recovery Act Activities  
Agency: Rural Development  
(as of April 1, 2009)

Recommendation 7            Develop and implement written guidance for the Broadband Loan Program including the following:

Applications to be reviewed and approved;

RUS General Field Representatives (GFR) to perform periodic reviews to ensure the proper use of funds and the viability of projects;

Independent annual audit reports to be obtained and reviewed;

Quarterly financial reports to be obtained and reviewed;

Recommendations from GFR reports and compliance reviews to be analyzed and acted upon; and

Applications and supporting documents to be complete before the applicant is approved. Rural Development agreed to implement the recommendation by March 30, 2006.

By not implementing this recommendation, RD risks not having the appropriate oversight of the Broadband Loan Program.

Recommendation 11            Review all loans and grants that have not drawn down funds and determine whether proposed projects are still viable. If the projects are not viable, deobligate the funds. Rural Development agreed to implement the recommendation by June 30, 2006.

By not implementing this recommendation, RD risks that Broadband loan funds may not be timely used, or used at all.

Recommendation 12            Establish and implement procedures to ensure cancellation and reobligation of unused grant and loan funds within the time periods specified by Congress. Rural Development agreed to implement the recommendation by March 30, 2006.

At-Risk Open Recommendations for Recovery Act Activities  
Agency: Rural Development  
(as of April 1, 2009)

By not implementing this recommendation, RD risks that Broadband loan and grant funds will go unused by recipients and may not be canceled on time in order for RUS to re-obligate them to other applicants.

Recommendation 14            Develop and implement an integrated management information system that will track all loan and grant information from the date the application is submitted through servicing and project completion. The system also should include (a) all pilot loan and grant information, (b) identification of specific communities or locations for each loan or grant, and (c) dates and results of servicing activities. Rural Development agreed to implement the recommendation by September 30, 2006.

By not implementing this recommendation, RD risks not having the appropriate oversight of the Broadband Loan and Grant Programs.



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

APR 9 2009

TO: Robert W. Young  
Assistant Inspector General  
for Audit

FROM: William F. Hagy III  
Acting Deputy Under Secretary

A handwritten signature in black ink, appearing to read "William F. Hagy III". The signature is written in a cursive style and is positioned to the right of the typed name.

SUBJECT: Existing Risk to Rural Development's Economic Recovery Plan

Rural Development appreciates the opportunity to respond to your memorandum of April 3, 2009, regarding open audit recommendations associated with the American Recovery and Reinvestment Act (ARRA) activities. Rural Development shares the Office of Inspector General's (OIG) commitment to mitigating inefficient or improper actions that may put taxpayer's funds at risk. Therefore, the following corrective actions have been taken to address the open audit recommendations identified in your April 3 memorandum:

**Business and Industry (B&I) Loan Program** (Audit No. 34099-0002-At, issued September 14, 2001).

**Recommendation 8:** Establish procedures and review criteria for State Office staff to follow to satisfactorily conclude that all terms and conditions of the conditional commitment and loan agreement have been met prior to issuance of loan note guarantees. Rural Development agreed to implement the recommendation by June 30, 2003.

**Recommendation 8 Response:**

The Agency has previously reported to OIG that the Agency actions to comply with the recommendations cited are impacted by the publication of the new Guaranteed Loan regulation developed by the Delivery Enhancement Team (DET). The interim rule for publication has been extended to June 1, 2009. Until the new regulation is published, the Agency has taken the steps necessary to ensure that all terms and conditions of the conditional commitment and loan agreement are met prior to issuance of loan note guarantees by conducting annual training for State Offices and lenders. Program assessment reviews are conducted to ensure program administration is in accordance with regulations. The Guaranteed Loan System (GLS) reviews provide consistent monitoring for regulatory compliance through National Office post review of loans made in State and Field Offices. Monthly teleconferences conducted by the National

Committed to the future of rural communities.

Office provide opportunities to discuss areas identified for improvement. Periodic administrative notices are published to State Offices to provide instruction and clarification. Ongoing discussions with State Offices are held on complex origination and servicing.

**Rural Development Lender Servicing of B&I Guaranteed Loans in Georgia** (Audit No. 34601-0004-At, issued January 10, 2003).

**Recommendation 9:** Require all lenders whose annual reports are overdue to submit them within 60 days or provide sufficient evidence to support that they have exhausted full faith efforts in attempting to obtain them from the borrowers. Those lenders that do not comply should be put on notice that failure to timely provide copies of borrower's annual reports is considered negligent servicing and could cause the loan guarantee to be unenforceable. Rural Development agreed to implement the recommendation by December 31, 2003.

**Recommendation 9 Response:**

The Agency has previously reported to OIG that the Agency actions to comply with the recommendations cited are impacted by the publication of the new Guaranteed Loan regulation developed by the DET. The interim rule for publication has been extended to June 1, 2009. Until the new regulation is published, the Agency has taken the steps to ensure that annual reports from lenders are received timely. Annual training is provided to State Offices and lenders. Program assessment reviews are conducted to ensure program administration is in accordance with regulations. The GLS reviews provide consistent monitoring for regulatory compliance through National Office post review of loans made in State and Field Offices. Monthly teleconferences conducted by the National Office provide opportunities to discuss areas identified for improvement. Periodic administrative notices are published to State Offices to provide instruction and clarification. Ongoing discussions with State Offices are held on complex origination and servicing.

**Recommendation 10:** Establish a control mechanism to ensure annual lender visits are made and documented. Rural Development agreed to implement the recommendation by December 31, 2003.

**Recommendation 10 Response:**

The Agency has previously reported to OIG that the Agency actions to comply with the recommendations cited are impacted by the publication of the new Guaranteed Loan regulation developed by the DET. The interim rule for publication has been extended to June 1, 2009. Until the new regulation is published, the Agency has taken the steps necessary to minimize risk of loss in programs administered by the Agency. Annual training is provided to State Offices and lenders to ensure that annual lender visits are made and documented. Program assessment reviews are conducted to ensure program administration is in accordance with regulations. The GLS reviews provide consistent monitoring for regulatory compliance through National Office post review of loans made in State and Field Offices. Monthly teleconferences conducted by the National Office provide opportunities to discuss areas identified for improvement. Periodic Administrative Notices are published to State Offices to provide instruction and clarification. Ongoing discussions with State Offices are held on servicing requirements.

**National Report on the B&I Loan Program** (Audit No. 34601-0015-Te, issued September 30, 2003).

**Recommendation 1:** Establish guidelines that identify the most appropriate appraisal method to value different types of assets that are used as collateral for guaranteed loans. Rural Development agreed to implement the recommendation by March 31, 2005.

**Recommendation 1 Response:**

The Agency has previously reported to OIG that the Agency actions to comply with the recommendations cited are impacted by the publication of the new Guaranteed Loan regulation developed by the DET. The interim rule for publication has been extended to June 1, 2009. Until the new regulation is published, the Agency has taken the steps necessary to ensure that the most appropriate appraisal method is used to value different types of assets that are used as collateral for guaranteed loans. Annual training is provided to State Offices and lenders. Program assessment reviews are conducted to ensure program administration is in accordance with regulations. The GLS reviews provide consistent monitoring for regulatory compliance through National Office post review of loans made in State and Field Offices. Monthly teleconferences conducted by the National Office provide opportunities to discuss areas identified for improvement. Periodic Administrative Notices are published to State Offices to provide instruction and clarification. Ongoing discussions with State Offices are held on matters pertaining to collateral valuation.

**Recommendation 2:** Implement procedures to verify that lenders use the most appropriate appraisal method to value assets. Rural Development agreed to implement the recommendation by March 31, 2005.

**Recommendation 2 Response:**

The Agency has previously reported to OIG that the Agency actions to comply with the recommendations cited are impacted by the publication of the new Guaranteed Loan regulation developed by the DET. The interim rule for publication has been extended to June 1, 2009. Until the new regulation is published, the Agency has taken the steps necessary to ensure that the most appropriate appraisal method is used to value different types of assets that are used as collateral for guaranteed loans. Annual training is provided to State Offices and lenders. Program assessment reviews are conducted to ensure program administration is in accordance with regulations. The GLS reviews provide consistent monitoring for regulatory compliance through National Office post review of loans made in State and Field Offices. Monthly teleconferences conducted by the National Office provide opportunities to discuss areas identified for improvement. Periodic Administrative Notices are published to State Offices to provide instruction and clarification. Ongoing discussions with State Offices are held on matters pertaining to collateral valuation.

**Recommendation 3:** Require that lenders use audited financial statements, prepared in accordance with Generally Accepted Accounting Principles (GAAP), to perform financial analyses of existing borrowers and financial statements examined in accordance with an attestation engagement for new businesses. Rural Development agreed to implement the recommendation by March 31, 2005.

**Recommendation 3 Response:**

The Agency has previously reported to OIG that the Agency actions to comply with the recommendations cited are impacted by the publication of the new Guaranteed Loan regulation developed by the DET. The interim rule for publication has been extended to June 1, 2009. Until the new regulation is published, the Agency has taken the steps necessary to ensure that lenders use audited financial statements prepared in accordance with GAAP to perform financial analysis of borrower financial statements. Annual training is provided to State Offices and lenders. Program assessment reviews are conducted to ensure program administration is in accordance with regulations. The GLS reviews provide consistent monitoring for regulatory compliance through National Office post review of loans made in State and Field Offices. Monthly teleconferences conducted by the National Office provide opportunities to discuss areas identified for improvement. Periodic Administrative Notices are published to State Offices to provide instruction and clarification. Ongoing discussions with State Offices are held on complex origination and servicing.

**Recommendation 5:** Develop procedures to enforce lender compliance, such as reducing the loan guarantee. Rural Development agreed to implement the recommendation by September 30, 2004.

**Recommendation 5 Response:**

The Agency has previously reported to OIG that the Agency actions to comply with the recommendations cited are impacted by the publication of the new Guaranteed Loan regulation developed by the DET. The interim rule for publication has been extended to June 1, 2009. Until the new regulation is published, the Agency has taken the steps necessary to minimize risk of loss in programs administered by the Agency. Annual training is provided to State Offices and lenders. Program assessment reviews are conducted to ensure program administration is in accordance with regulations. The GLS reviews provide consistent monitoring for regulatory compliance through National Office post review of loans made in State and Field Offices. Monthly teleconferences conducted by the National Office provide opportunities to discuss areas identified for improvement. Periodic Administrative Notices are published to State Offices to provide instruction and clarification. Ongoing discussions with State Offices are held on complex origination and servicing.

**Recommendation 6:** Require annual lender visits for all new and delinquent borrowers, and biennial lender visits for all borrowers that are current on payments. Rural Development agreed to implement the recommendation by March 31, 2005.

**Recommendation 6 Response:**

The Agency has previously reported to OIG that the Agency actions to comply with the recommendations cited are impacted by the publication of the new Guaranteed Loan regulation developed by the DET. The interim rule for publication has been extended to June 1, 2009. Until the new regulation is published, the Agency has taken the steps necessary to minimize risk of loss in programs administered by the Agency. Annual training is provided to State Offices and lenders. Program assessment reviews are conducted to ensure program administration is in accordance with regulations. The GLS reviews provide consistent monitoring for regulatory compliance through National Office post review of loans made in State and Field Offices. Monthly teleconferences conducted by the National Office provide opportunities to discuss areas identified for improvement. Periodic Administrative Notices are published to State Offices to provide instruction and clarification. Ongoing discussions with State Offices are held on complex origination and servicing.

**Recommendation 7:** Revise the presentation in the Annual Performance Reports from actual to projected jobs created and saved by the program. Rural Development agreed to implement the recommendation by March 31, 2005.

**Recommendation 7 Response:**

The Agency has conferred with the USDA Office of Budget and Policy Analysis regarding the OIG recommendation and agree to footnote the Annual Performance Report to indicate that jobs reported are projected based on loans obligated for the current fiscal year. Jobs created saved are verified 1 year following loan closing.

**Recommendation 9:** Develop management controls that ensure data entered into the Agency's system is accurate. Rural Development agreed to implement the recommendation by March 31, 2005.

**Recommendation 9 Response:**

The Agency has requested final action on this recommendation based on the circulation of Unnumbered Letters and the evaluation of State's use of the GLS as part of the Business and Cooperative Programs Assessment Review process. The Department's Office of the Chief Financial Officer has indicated closure will occur upon publication of the Federal Register proposed rule to reach final action.

**Recommendation 10:** Define deficiencies that classify direct B&I loans in significant nonmonetary default (i.e., borrowers that did not submit required financial reports, appraisal insurance, and other documents to Rural Development). The definitions must address all types of nonmonetary defaults and provide acceptable justification for their classification as significant or nonsignificant, including their correlation to the soundness and safety of the repayment ability and security of the loan. Rural Development agreed to implement the recommendation by March 31, 2005.

**Recommendation 10 Response:**

Monthly reports from Rural Development's Office of the Deputy Chief Financial Officer are reviewed for improvements that are communicated to State Offices on the remaining B&I Direct Loan portfolio. The B&I Direct Loan Program is no longer funded and has not been for several years.

**Rural Housing Service (RHS) Single Family Housing (SFH) Program, Borrower Income Verification Procedures** (Audit No. 04099-0341-At, issued August 14, 2006).

**Recommendation 4:** Develop and implement a sound quality control (QC) review sampling plan that randomly selects the 1-percent QC sample from the entire universe of payment subsidy renewals. Rural Development agreed to implement the recommendation by July 31, 2007.

**Recommendation 4 Response:**

Rural Housing Service has developed and implemented a statistical sampling plan using the Excel Random Number generator to select the one percent quality control sample from the entire universe of payment subsidy renewals. Rural Housing Service will be seeking final action from OIG within the next two weeks.

**Rural Utilities Service (RUS) Broadband Grant and Loan Programs** (Audit No. 09601-0004-Te, issued September 30, 2005).

Although the following recommendations remain open, as noted in our response to OIG's latest audit of the Broadband Program (09601-8-Te) significant progress has been made in closing those recommendations. Specifically, with regard to Rural Development's internal Agency operating procedures, they were issued between March 2005 and January 2007. In January 2007, these procedures were incorporated into a 170-page guide, entitled "Broadband Loan Applications – Review Process" and have been used within Rural Development's Broadband Division. In addition, in May 2007, Rural Development published proposed regulations that addressed many of the concerns raised by the audit, such as funding in competitive environments and targeting funding in un-served areas. However, Rural Development prudently chose to wait to issue these documents in final form until enactment of the 2008 Farm Bill, which modified the underlying statutory authority. The regulations and operating procedures are in final USDA clearance and should be published within the next 90 days.

Telecom offers the following information with regard to the specific recommendations listed below:

**Recommendation 3:** Establish and implement cutoff dates to ensure that applications are evaluated for priority at least every quarter. Rural Development agreed to implement the recommendation by October 31, 2006.

**Recommendation 3 Response:**

This prioritization will be handled through the Notice of Funding Availability (NOFA) process. All priorities designated under the ARRA will be addressed in the NOFAs.

**Recommendation 7:** Develop and implement written guidance for the Broadband Loan Program including the following:

- (1) Applications to be reviewed and approved;
- (2) RUS General Field Representatives (GFR) to perform periodic reviews to ensure the proper use of funds and the viability of projects;
- (3) Independent annual audit reports to be obtained and reviewed;
- (4) Quarterly financial reports to be obtained and reviewed; recommendations from GFR reports and compliance reviews to be analyzed and acted upon; and
- (5) Applications and supporting documents to be complete before the applicant is approved. Rural Development agreed to implement the recommendation by March 30, 2006.

**Recommendation 7 Response:**

Rural Development is implementing the evaluation, oversight and monitoring systems and procedures required for the ARRA programs under Office of Management and Budget (OMB) guidance. These systems and procedures will be in place before any ARRA funds are obligated. Reporting, auditing and other requirements for recipients will be included as part of the NOFA. All required reports will be filed on Recovery.gov and available to the public.

**Recommendation 11:** Review all loans and grants that have not drawn down funds and determine whether proposed projects are still viable. If the projects are not viable, deobligate the funds. Rural Development agreed to implement the recommendation by June 30, 2006.

**Recommendation 11 Response:**

For its existing programs, Rural Development has implemented the aforementioned recommendation. Under ARRA, Rural Development is implementing the evaluation, oversight and monitoring systems and procedures required for the ARRA programs following published OMB guidance. These systems and procedures will be in place before any ARRA funds are obligated. This includes the criteria and procedures for obligating funds, performance under the awards, and de-obligation of funds.

**Recommendation 12:** Establish and implement procedures to ensure cancellation and reobligation of unused grant and loan funds within the time periods specified by Congress. Rural Development agreed to implement the recommendation by March 30, 2006.

**Recommendation 12 Response:**

For its existing programs, Rural Development has implemented the aforementioned recommendation. Under ARRA, Rural Development is implementing the evaluation, oversight and monitoring systems and procedures required for the ARRA programs following published OMB guidance. These systems and procedures will be in place before any ARRA funds are obligated. This includes the criteria and procedures for obligating funds, performance under the awards, and de-obligation of funds.

**Recommendation 14:** Develop and implement an integrated management information system that will track all loan and grant information from the date the application is submitted through servicing and project completion. The system also should include (a) all pilot loan and grant information, (b) identification of specific communities or locations for each loan or grant, and (c) dates and results of servicing activities. Rural Development agreed to implement the recommendation by September 30, 2006.

**Recommendation 14 Response:**

Rural Development is implementing the evaluation, oversight and monitoring systems and procedures required for the ARRA programs under OMB guidance. This system will further OIG's recommendation for an integrated management information system.

If you have any questions concerning this response, please contact John Purcell, Director, Financial Management Division at (202) 692-0328.