



United States Department of Agriculture  
Office of Inspector General





## American Recovery and Reinvestment Act of 2009— Broadband Initiatives Program—Post-Award Controls

Audit Report 09703-0002-32

### What Were OIG's Objectives

We assessed RUS' controls over BIP awardees' fulfillment of their grant and loan/grant agreements (post-award controls) and evaluated the effectiveness of BIP in meeting and attaining Recovery Act goals. We did not evaluate controls over jobs created or preserved in this audit, since they were covered by other OIG audit work.

### What OIG Reviewed

To test RUS' oversight process, we statistically sampled and reviewed 86 approved BIP applications that totaled \$783.9 million of the \$3.5 billion in program-level Recovery Act funding allocated to BIP.

### What OIG Recommends

Generally, we recommended that RUS capture and report actual performance data to measure the impact of each award, formally notify BIP awardees of the possibility to substitute equity for the loan component, and ensure grant/loan combination funds are advanced proportionally. We also recommended that RUS develop and update guidance on how to accomplish each of these tasks.

**OIG reviewed how RUS administered and measured the outcome of about \$3.5 billion in Recovery Act program-level funding to provide sufficient access to high-speed broadband service to facilitate rural economic development.**

### What OIG Found

With the passage of the American Recovery and Reinvestment Act of 2009 (Recovery Act), Congress authorized the Rural Utilities Service's (RUS) Broadband Initiatives Program (BIP) to help bring broadband to rural areas of the United States where residents might otherwise not have access to this important technology.

The Office of Inspector General (OIG) reviewed 247 advances, totaling \$146,446,113, for 86 sampled awards and concluded that RUS' advances of BIP funds were generally supported. However, we did find that, while BIP primarily financed last mile projects that provide service to end-users such as households and businesses, RUS does not have adequate controls to measure and transparently report how effectively BIP is meeting its subscribership goals. Additionally, RUS administered the program differently than as outlined in the Notice of Funds Availability (NOFA), such as allowing awards composed of greater than 75-percent grant components without required waivers, or substituting equity for the loan portion—without adequately informing all prospective applicants. We found that RUS approved 24 sampled round two infrastructure awards (\$149,499,810) that had a greater than 75-percent grant component without waivers. Finally, we found RUS did not advance funds proportionally for 2 of the 86 BIP awards reviewed. These issues generally occurred because RUS did not develop procedures and guidance outlining how various processes were to be carried out.

RUS agreed to strengthen BIP by establishing additional written guidance to address specific processes. We reached management decision on five of seven recommendations.





United States Department of Agriculture  
Office of Inspector General  
Washington, D.C. 20250



DATE: August 22, 2013

AUDIT  
NUMBER: 09703-0002-32

TO: Doug O'Brien  
Acting Under Secretary  
Rural Development

John C. Padalino  
Administrator  
Rural Utilities Service

ATTN: John Dunsmuir  
Acting Director  
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FROM: Gil H. Harden  
Assistant Inspector General for Audit

SUBJECT: American Recovery and Reinvestment Act of 2009—Broadband Initiatives  
Program—Post-Award Controls

This report presents the results of the subject audit. Your written response to the official draft report, dated August 1, 2013, is included in its entirety at the end of this report. Excerpts from your response and the Office of Inspector General's (OIG) position are incorporated into the relevant sections of the report.

Based on your agency's written response, we are able to accept management decision on Recommendations 1, 4, 5, 6, and 7. We can accept the Rural Utilities Service's management decision on Recommendations 2 and 3 once we have been provided with the information, as outlined in the report sections' OIG Position.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publically available information and will be posted in its entirety to our website (<http://www.usda.gov/oig>) in the near future.



## **Table of Contents**

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<b>Background and Objectives</b> .....	<b>1</b>
<b>Section 1: Broadband Initiatives Program (BIP)</b> .....	<b>6</b>
<b>Finding 1: Performance Measures Do Not Effectively Show BIP Outcomes ...</b>	<b>6</b>
<b>Recommendation 1</b> .....	<b>11</b>
<b>Recommendation 2</b> .....	<b>12</b>
<b>Recommendation 3</b> .....	<b>12</b>
<b>Finding 2: Grant Award Components Were in Excess of 75 Percent Cap ....</b>	<b>14</b>
<b>Recommendation 4</b> .....	<b>16</b>
<b>Recommendation 5</b> .....	<b>16</b>
<b>Finding 3: BIP Funds Were Not Always Proportionally Advanced</b> .....	<b>18</b>
<b>Recommendation 6</b> .....	<b>19</b>
<b>Recommendation 7</b> .....	<b>20</b>
<b>Scope and Methodology</b> .....	<b>21</b>
<b>Abbreviations</b> .....	<b>24</b>
<b>Exhibit A: Summary of Monetary Results</b> .....	<b>25</b>
<b>Exhibit B: Statistically Sampled Round Two Infrastructure Awards With Grant Components Greater Than 75 Percent of Award Without Waivers....</b>	<b>26</b>
<b>Exhibit C: Statistically Sampled BIP Awards</b> .....	<b>27</b>
<b>Exhibit D: Statistical Plan – Sampling Methodology and Analysis Results...</b>	<b>29</b>
<b>Exhibit E: Scope Information for Advances</b> .....	<b>34</b>
<b>Agency's Response</b> .....	<b>39</b>



# Background and Objectives

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## Background

The Rural Utilities Service (RUS), an agency in the Rural Development mission area, has been responsible for administering several distinct broadband programs for the past 12 years. Congress and the Administration acted in 2001 and 2002 to initiate pilot broadband loan and grant programs within RUS. Subsequently, section 6103 of the Farm Security and Rural Investment Act of 2002 authorized a loan and loan guarantee program to provide funds for the costs of the construction, improvement, and acquisition of facilities and equipment for broadband service in eligible rural communities.<sup>1</sup> RUS operates two assistance programs exclusively dedicated to financing broadband deployment: the Rural Broadband Access Loan and Loan Guarantee Program and the Community Connect Grant Program.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (Recovery Act) was signed into law and allocated a total of \$7.2 billion for broadband programs—\$2.5 billion to RUS for the Broadband Initiatives Program (BIP) and \$4.7 billion to the National Telecommunications and Information Administration’s (NTIA) Broadband Technology Opportunities Program. The stated purposes of the Recovery Act were to (1) preserve and create jobs and promote economic recovery; (2) assist those most impacted by the recession; (3) provide investments needed to increase economic efficiency by spurring technological advances in science and health; (4) invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and (5) stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive State and local tax increases.<sup>2</sup>

In a March 20, 2009, Presidential Memorandum addressed to the heads of Executive departments and agencies, the President stated that his Administration was committed to ensuring that public funds were expended responsibly and in a transparent manner:

In implementing the Recovery Act, we have undertaken unprecedented efforts to ensure the responsible distribution of funds for the Act’s purposes and to provide public transparency and accountability of expenditures. We must not allow Recovery Act funds to be distributed on the basis of factors other than the merits of proposed projects or in response to improper influence or pressure. We must also empower executive department and agency officials to exercise their available discretion and judgment to help ensure that Recovery Act funds are expended for projects that further the job creation, economic recovery, and other purposes of the Recovery Act and are not used for imprudent projects.<sup>3</sup>

RUS worked in collaboration with the Department of Commerce’s NTIA to implement these new Recovery Act broadband programs. RUS was to provide \$2.5 billion in BIP grants, loans, and loan guarantees for broadband infrastructure in any area of the United States, provided that

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<sup>1</sup> Public Law 107-171.

<sup>2</sup> Public Law 111-5, American Recovery and Reinvestment Act, February 17, 2009.

<sup>3</sup> President’s Memorandum of March 20, 2009, *Ensuring Responsible Spending of Recovery Act Funds*.

at least 75 percent of the area to be served was a rural area<sup>4</sup> without sufficient access to high-speed broadband service to facilitate rural economic development. The \$2.5 billion budget authority allowed RUS to provide about \$3.5 billion in program-level funding.<sup>5</sup>

For the Recovery Act broadband programs, RUS, NTIA, and the Federal Communications Commission cosponsored public meetings to initiate public outreach on the current availability of broadband service in the United States, and on ways in which the availability of broadband services could be expanded. To accomplish the outreach, they included nearly 120 panelists—including representatives from consumer and public interest groups, State and local governments, tribal governments, minority and vulnerable populations, industry, academia, and other stakeholders. Each provided comments on how to make the broadband initiatives effective, equitable, and efficient. In addition to the information received about the new programs during the public meetings, prior to issuing general policy and application procedures for each round of BIP funding, RUS requested written comments from the public through a “request for information” issued jointly with NTIA.<sup>6</sup> These requests generally sought public comment to assist RUS in implementing BIP.

On July 9, 2009, via a joint Notice of Funds Availability (NOFA) and solicitation of applications, RUS and NTIA announced general policy and application procedures for broadband initiatives established pursuant to the Recovery Act—the first of two funding rounds. For round one, RUS and NTIA solicited applications for approximately \$4 billion in program-level funding for both agencies. The BIP projects funded under round one were broadband infrastructure projects, totaling \$960,190,939.

For round two, RUS separately announced a NOFA on January 22, 2010, for approximately \$2.2 billion in program-level funding for BIP. There were significant differences in the project requirements for round two projects compared to the round one requirements. For example, RUS increased the percentage of grant-to-loan funding available for infrastructure projects. Whereas the round one grant-to-loan ratio was 50/50 (i.e., each successful application could receive an award<sup>7</sup> comprised of 50 percent grant and 50 percent loan), in round two the grant-to-loan ratio was 75/25. Moreover, the NOFA announced that applications would also be accepted for satellite projects, technical assistance, and rural library broadband grants.

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<sup>4</sup> For purposes of BIP, “rural area” means any area, as confirmed by the 2000 census of the Bureau of the Census, which is not located within: (1) a city, town, or incorporated area that has a population of greater than 20,000 inhabitants; or (2) an urbanized area contiguous and adjacent to a city or town that has a population of greater than 50,000 inhabitants. For purposes of the definition of rural area, an urbanized area means a densely populated territory as defined in the 2000 census.

<sup>5</sup> “Program level” is the sum of the activities supported or undertaken by an agency. Since RUS used BIP funds to make grants and loans, the program level is larger than the budget authority because the loans are expected to be repaid.

<sup>6</sup> *Federal Register*, volume 74, page 10716 (74 FR 10716), March 12, 2009, and 74 FR 58940, November 16, 2009.

<sup>7</sup> An award is a grant, loan, or loan/grant combination made under the NOFAs.

The following table describes how BIP funding was allotted across the two rounds:

Project Type	Number of Awards	Grant Amount Awarded	Loan Amount Awarded	Total Amount Awarded
Round One – Infrastructure (Round One Total)	61	\$542,135,078	\$418,055,861	\$960,190,939
Round Two – Infrastructure	236	\$1,691,727,031	\$773,788,717	\$2,465,515,748
<b>Infrastructure Total</b>	<b>297</b>	<b>\$2,233,862,109</b>	<b>\$1,191,844,578</b>	<b>\$3,425,706,687</b>
Round Two – Satellite	4	\$100,000,000	\$0	\$100,000,000
Round Two – Technical Assistance	19	\$3,384,202	\$0	\$3,384,202
Round Two – Rural Library	0	\$0	\$0	\$0
<b>Round Two Total</b>	<b>259</b>	<b>\$1,795,111,233</b>	<b>\$773,788,717</b>	<b>\$2,568,899,950</b>
<b>Grand Total</b>	<b>320</b>	<b>\$2,337,246,311</b>	<b>\$1,191,844,578</b>	<b>\$3,529,090,889</b>

### *Reviews of BIP*

Congress, in enacting the Recovery Act, emphasized the need for accountability and transparency in the expenditure of funds and provided \$22.5 million to the Department of Agriculture (USDA) Office of Inspector General (OIG) for oversight of USDA programs, grants, and activities funded by the Act. The Recovery Act also requires that the Government Accountability Office (GAO) conduct reviews of how Recovery Act funds are being used and whether they are achieving their stated purposes to preserve and create jobs, as well as assist those most affected by the recession.

GAO has issued three audit reports on the Recovery Act broadband programs. In the first report, GAO found that RUS and NTIA were facing challenges and risks associated with the Recovery Act funding, such as evaluating applications and overseeing funded projects. GAO recommended that the agencies ensure sufficient time to review applications in round two, develop contingency plans for oversight beyond fiscal year (FY) 2010, and develop program performance measures. Both RUS and NTIA agreed with GAO’s findings and recommendations.<sup>8</sup>

GAO’s second report found that “the agencies consistently reviewed the applications and substantiated the information as specified in the first-round funding notice,” although post-award oversight was identified as a weakness, due to the lack of funding beyond September 30, 2010, for both agencies. GAO therefore recommended that the agencies develop a contingency plan targeting the agencies’ oversight resources to ensure that recipients of the Recovery Act funding completed their projects in the manner consistent with their applications and awards. Neither agency took a position on GAO’s recommendation, but noted steps were being taken to complete their respective programs.<sup>9</sup>

<sup>8</sup> *Recovery Act: Agencies Are Addressing Broadband Program Challenges, but Actions Are Needed to Improve Implementation* (GAO-10-80, November 16, 2009).

<sup>9</sup> *Recovery Act: Further Opportunities Exist to Strengthen Oversight of Broadband Stimulus Programs* (GAO-10-823, August 4, 2010).

GAO's third report, which was issued during the course of this OIG audit, covered (1) the progress of Recovery Act broadband projects, (2) their effect on expanding access to and adoption of broadband, and (3) any challenges awardees face in completing projects and agency actions to address these challenges. GAO found that NTIA and RUS helped awardees address multiple challenges in completing their broadband projects and that data limitations made it difficult for NTIA and RUS to measure fully both the progress of Recovery Act broadband projects and the effect that the Broadband Technology Opportunities Program and BIP have had on expanding access to and the adoption of broadband. GAO specifically identified that NTIA and RUS faced difficulties in ensuring the accuracy of projects' subscribership data. Because both agencies had taken steps to improve the quality of the subscribership data reported by awardees, GAO made no recommendation to address this issue. GAO did recommend, however, that RUS take steps to improve the quality of its data on the number of fiber miles and wireless access points created by BIP projects. RUS disagreed with GAO's characterization that RUS does not collect adequate data, and stated that it has already taken steps to improve data quality. GAO stated it believes that more reliable data will permit RUS to better assess the progress and effectiveness of the BIP program.<sup>10</sup>

We initiated a multiphase program of oversight related to Recovery Act funding to assist RUS in achieving its Recovery Act objectives and to minimize the risks of inefficient or improper actions that could put Government funds at risk. We coordinated our work with GAO to avoid duplicating one another's efforts. When GAO concluded that it would perform a multi-Department review of broadband that included USDA and would follow up on our 2005<sup>11</sup> and 2009<sup>12</sup> audit report findings and recommendations, we deferred to GAO and postponed our initial reviews of BIP until GAO had finished its work. This report presents the results of our second phase review of BIP.

We previously completed our first phase of audit work for BIP, issuing an audit report on March 29, 2013, on RUS' internal controls over the approval of BIP applications.<sup>13</sup> Our first-phase audit found that RUS complied with the provisions of the Recovery Act in how it implemented the program. However, we did identify several issues with how RUS implemented BIP, including that RUS funded BIP projects that sometimes overlapped with preexisting RUS-subsidized providers and approved projects that would not be completed within the 3-year timeframe RUS established and published. We also found the agency could have implemented BIP to focus more on promoting economic development in those areas where rural residents lacked broadband access. We recommended that, for future programs, RUS avoid funding broadband projects in areas that are already served by RUS-subsidized providers, publish and follow clearly defined project completion expectations, and focus broadband funding on rural areas that do not have access to this technology.

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<sup>10</sup> *Recovery Act: Broadband Programs Are Ongoing, and Agencies' Efforts Would Benefit from Improved Data Quality* (GAO-12-937, September 14, 2012).

<sup>11</sup> *Rural Utilities Service Broadband Grant and Loan Programs* (09601-0004-Te, September 30, 2005).

<sup>12</sup> *Rural Utilities Service Broadband Loan and Loan Guarantee Program* (09601-0008-Te, March 31, 2009).

<sup>13</sup> *American Recovery and Reinvestment Act of 2009—Broadband Initiatives Program—Pre-Approval Controls* (09703-0001-32, March 29, 2013).

## Objectives

Our objectives were to assess RUS' controls over BIP awardees' fulfillment of their grant and loan/grant agreements (post-award controls). As part of the audit, we also evaluated the effectiveness of BIP in meeting/attaining the goals of the Recovery Act. We did not evaluate controls over jobs created or preserved in this audit, since OIG covered the subject in audit report 50703-0002-13, *Data Quality Review of American Recovery and Reinvestment Act Jobs Reported for USDA Programs*, issued November 30, 2012.

## Section 1: Broadband Initiatives Program (BIP)

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### Finding 1: Performance Measures Do Not Effectively Show BIP Outcomes

While BIP primarily financed last mile projects<sup>14</sup> that provide service to end-users, such as households and businesses, we found that RUS does not have adequate controls to measure and transparently report how effectively BIP is meeting its subscribership goals.<sup>15</sup> Specifically, RUS does not have controls in place to measure how many BIP subscribers are in rural areas and were previously unserved or underserved or to measure performance (subscribership) of BIP projects on an individual basis. Second, RUS does not have adequate controls in place to ensure that awardees submit reliable performance data or to compare actual performance to projected results. This occurred because RUS did not anticipate the need to report on actual rural subscribership. RUS is also hesitant to invest its limited resources in further revising its information management systems, policies, and procedures for BIP—a one-time program. OIG recognizes the consideration of investing additional limited resources for a one-time program. However, without these controls in place, there is less assurance that BIP awards helped accomplish the goals of the Recovery Act by providing broadband to rural residents who would not otherwise have sufficient access to this service.

Office of Management and Budget (OMB) guidance provides that Federal agencies must take steps to meet accountability and transparency requirements for the Recovery Act, including clearly, accurately, and timely reporting how funds are spent, and what impact these funds had.<sup>16</sup> Additionally, internal control standards state that agencies should establish control activities—policies, procedures, techniques, and mechanisms—to ensure actions are taken to address risks and ensure that Government resources achieve intended results.<sup>17</sup> As part of control activities, managers need to compare actual performance to planned or expected results throughout the organization and analyze significant differences.

To help accomplish the purposes and goals of the Recovery Act, BIP supports the expansion of broadband service in rural areas through financing and grants to projects that provide access to high-speed service to facilitate economic development in locations without sufficient access to such service. One goal of BIP is to “ensure that broadband service is provided to rural areas lacking access, targeting under and unserved rural areas.” Rural Development’s Recovery Act implementation plan states RUS will monitor and evaluate BIP benchmarks and performance will be tracked quarterly.<sup>18</sup> To that end, RUS requires awardees to report quarterly, through RUS’ Broadband Collection and Analysis System (BCAS), the number of households,

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<sup>14</sup> A last mile project means any infrastructure project with the predominant purpose of providing broadband service to end users or end-user devices (including households, businesses, community anchor institutions, public safety entities, and critical community facilities).

<sup>15</sup> According to RUS, through the implementation of the Recovery Act, BIP will achieve the goal of ensuring that broadband service is provided to rural areas lacking access, targeting underserved and unserved rural areas.

<sup>16</sup> OMB Memorandum M-09-10, Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009, February 18, 2009.

<sup>17</sup> Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1, page 11 (11/99).

<sup>18</sup> USDA Rural Development *American Recovery and Reinvestment Act Implementation Plan*, updated May 15, 2010.

businesses, educational providers, libraries, health care providers, and public safety providers receiving new or improved broadband service through BIP. BCAS was originally designed for RUS' Rural Broadband Access Loan and Loan Guarantee Program to create borrower reports and track their expenses on loans.<sup>19</sup> To enable BIP awardees to report their performance data, RUS officials added "Part E. BIP Performance Measures" to the operating reports in BCAS.<sup>20</sup>

RUS established a goal for BIP projects to provide new or improved broadband service to 359,450 subscribers. However, we found issues with how RUS collected data regarding this performance measure and how RUS reported on the program outcomes.

### *Collecting BIP Performance Data*

We found that RUS controls did not ensure awardee-reported BIP performance data distinguished between individual awards, rural and nonrural subscribers, or subscribers' previous status (unserved, underserved, or other), or that the data were reliable. The purpose of performance data is to gather information to assess reasonably and accurately the effectiveness of a program's performance. Therefore, in the case of BIP, performance data should inform RUS of the degree to which BIP was able to expand broadband service in rural areas without sufficient access. Although awardees enter performance data in BCAS, it is RUS' responsibility to ensure that the reported data are correct.

First, we found that the data captured in BCAS did not provide key information necessary to determine project performance. Specifically, while awardees quarterly report on the number of "new" and "improved" BIP subscribers, they are not asked to distinguish whether subscribers are rural or nonrural, so the number of rural subscribers benefitting from BIP projects cannot be determined from the data, and there is no explanation as to how the "new" and "improved" categories correlate to subscribers who were previously unserved or underserved. According to a RUS official, RUS did not anticipate the need to report the numbers of subscribers in rural and nonrural areas. The RUS official pointed out that a BIP project's eligibility is based, in part, on the rural nature of the geographic service area, i.e., the service area must be at least 75 percent rural, but not on the rural nature of the households in the service area.<sup>21</sup> Additionally, BCAS does not enable an awardee who received multiple BIP awards to report on the outcome of each award or project individually—each awardee's performance data are reported in the

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<sup>19</sup> BCAS tracks/collects broadband borrowers' historical and 5-year pro-forma financial data and actual quarterly/monthly financial data.

<sup>20</sup> Part E is enabled in BCAS only for BIP awardees. In BCAS, there is no performance measure data entry for (non-BIP) Rural Broadband Access Loan and Loan Guarantee Program awardees equivalent to "Part E. BIP Performance Measures." However, both non-BIP and BIP awardees complete BCAS "Part C. Subscriber Information – Services" and "Part C. Subscriber Information – Communities," which collect data for the totality of the awardee's business—not just that segment that is RUS-funded—on the rates and number of subscribers by service type (e.g., voice, data, video, and other) and on the number of broadband data customers by community.

<sup>21</sup> The Recovery Act states that, overall, at least 75 percent of the area served by a BIP project must be "a rural area without sufficient access to high speed broadband service to facilitate rural economic development, as determined by the Secretary of Agriculture." As reported in our first-phase review of BIP (Report 09703-0001-32), when RUS implemented the program, it identified service areas as eligible if 75 percent of the *geographic area* was rural. The agency did not consider where the premises (households, businesses, and critical community facilities) in the area were located, however.

aggregate for all of the awardee's awards. Therefore, RUS does not track the performance of individual projects in BCAS. For instance, 18 BIP awardees received multiple infrastructure awards, ranging from 2 to 16 awards per awardee.<sup>22</sup> RUS needs to track each project individually, or it will not be able to determine which projects meet—or do not meet—their expected outcomes. Generally, RUS officials indicated that, in the absence of additional funding to reprogram BCAS, they have no plans to change the functionality of the system.

Second, RUS had inadequate controls to ensure that awardee-reported BIP performance data were accurate, complete, and consistent, even though RUS had made efforts to improve the data integrity. In a September 2012 report, GAO noted discrepancies in the number of BIP subscribers receiving new or improved broadband service reported by awardees in quarterly performance data.<sup>23</sup> Consistent with GAO's findings, our review identified that for 19 of the 86 sample awards, BIP performance data submitted by the awardee were unreliable for the quarter ending March 31 or June 30, 2012.<sup>24</sup> In 4 of the 19 cases, the awardees were unable to provide documentation to support fully their reported data; in 1 case, a RUS employee misinformed the awardee about the reporting requirements, and in the remaining 14 cases, awardees were unclear on the reporting requirements. We concluded that RUS provided insufficient written guidance to awardees and RUS staff. Specifically, the BCAS guide for awardees<sup>25</sup> does not provide awardees with any guidance on how to report BIP performance data. Similarly, RUS' BCAS guide for its staff provides only the following explanation of the features and use of the BIP performance measures in BCAS: “[r]eview the number of new subscribers by type or those subscribing to an improved broadband service.”<sup>26</sup>

In its September 2012 report, GAO did not make a recommendation to address the discrepancies in the awardee-reported performance data because RUS reported it had taken steps to improve the quality of the subscribership data reported by awardees. Specifically, RUS developed a spreadsheet tool for RUS staff use to review the subscriber data, note whether the data appear to be correct, and report how any problems with the data were resolved. However, we found that the spreadsheet tool implemented by RUS was not adequate to detect discrepancies in the numbers of subscribers reported by awardees.

We tested the BIP performance measures (numbers of subscribers) reported in the March 2012 quarterly BCAS reports for 40 sample awards and compared the

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<sup>22</sup> All awards for two of the awardees were subsequently rescinded by RUS.

<sup>23</sup> *Recovery Act: Broadband Programs Are Ongoing, and Agencies' Efforts Would Benefit from Improved Data Quality* (GAO-12-937, September 14, 2012).

<sup>24</sup> Based on our sample, we estimate that 65 awardees, or awards totaling \$789 million, did not have adequate documentation to support performance measure data submitted in BCAS for the quarters ending March 31, 2012, and/or June 30, 2012. We are 95 percent confident that between 38 and 91 awardees have this issue, and 95 percent confident that awards totaling between \$342 million and \$1.2 billion were affected. For additional sample design information, see Exhibit D.

<sup>25</sup> “Electronic Collection of Broadband Data User's Guide for the Broadband Collection and Analysis System.”

<sup>26</sup> “Broadband Collection and Analysis System User Guide for USDA Staff and Contractors,” version 1.1, May 29, 2012.

results of our review to the results of RUS' spreadsheet tool for the quarter ending March 31, 2012.<sup>27</sup> We identified eight awards for which awardees did not accurately report the numbers of BIP subscribers that received new or improved broadband service. RUS, using its spreadsheet tool, took exception to only two of the eight cases we identified. The remaining six cases included:

- One award for which the awardee had no documentation to support its reported numbers of BIP subscribers,
- One award for which the awardee rounded-up the number of subscribers to the nearest thousand,
- One award for which the awardee double-counted subscribers as receiving both new and improved broadband service,
- One award for which the awardee incorrectly reported all subscribers as receiving improved service, although some only subscribed to new service,
- One award for which the awardee incorrectly reported BIP subscribers when it had none, and
- One award for which the awardee incorrectly reported only the incremental change in the number of subscribers for the quarter.

For two additional awards, although we verified the performance data in BCAS Part E were reliable and timely submitted, RUS staff incorrectly annotated on the spreadsheet tool that the awardees were not reporting Part E (the BIP performance measures).

Based on our sample, we estimate RUS' spreadsheet tool for the quarter ending March 31, 2012, was ineffective for 27 awards, or for an estimated \$340 million in BIP funds.<sup>28</sup> For its spreadsheet tool to be effective, RUS needs to ensure that staff methodically perform their reviews and document their results on the spreadsheet. We found, however, that RUS had no written procedures for implementation of the spreadsheet tool.

In September 2012, RUS officials shared with us draft instructions to be used to review BIP quarterly BCAS subscribership reports. Although RUS asserts it presented these procedures to its general field representatives during conference calls, RUS has not yet issued the procedures in final. When we spoke to RUS officials, they stated they have no

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<sup>27</sup> The quarter ending March 31, 2012, was the first quarter for which RUS applied its tool for staff reviews of awardee-reported subscribership data; at the time of our fieldwork, it was the most current quarter for which RUS staff had completed reviews using the tool. The remaining 46 sample cases (86 - 40) were technical assistance awards (which did not require awardee-reported performance data), infrastructure awards that were rescinded, or infrastructure or satellite awards for which OIG staff tested BCAS reports other than those for March 2012. For consistent comparison with RUS' review results, we limited our analysis to the 40 sample awards to determine the effectiveness of the control.

<sup>28</sup> We are 95 percent confident that between 9 and 45 awards have this issue, and 95 percent confident that awards totaling between \$77 million and \$603 million were affected. For additional sample design information, see exhibit D.

plans to revise either the BCAS guide for awardees or the BCAS guide for staff relative to Part E, since that part is specific to BIP—a one-time program. However, we recommend RUS clarify guidance in both BCAS guides because awardee reporting may extend into 2020.<sup>29</sup> With clear guidance in the BCAS user guides, RUS can better ensure data reliability, monitor the performance measure data reported by the awardees, and track and report the outcomes of projects.

### *Reporting Performance Results*

Additionally, we found that RUS was not reporting the performance data that it had gathered. RUS established a goal for BIP projects to provide new or improved broadband service to 359,450 subscribers. In 2010, RUS stated it exceeded this goal because it estimated BIP projects would provide new or improved service to 847,239 subscribers. However, in its September 2012 report, GAO reported that RUS data on the effects of BIP projects on broadband adoption may not be accurate. Specifically, GAO noted that RUS' total does not reflect actual program outcomes, because it is based on the projected numbers of BIP subscribers estimated by applicants prior to the execution of their funded projects.

Consistent with GAO's findings, we learned RUS did not disclose the actual numbers of BIP subscribers on Rural Development's Recovery Act broadband webpage or in USDA's FY 2010 Performance and Accountability Report. Instead, RUS' published BIP results of 847,239 subscribers were the total projected subscribers for all BIP awards. In contrast, we found that, as of December 31, 2012, awardees reported only 105,001 actual BIP subscribers to date. A RUS official explained that published performance data are designed to account for obligations for the year in question—FY 2010, in the case of BIP. Since BIP projects were just getting started in FY 2010 (the year in which BIP funds were obligated), and subscribers associated with the BIP awards had not yet received the service, the available performance results metric was the number of subscribers projected in the awarded applications. While we acknowledge these limitations, RUS does gather actual performance data on a quarterly basis for BIP projects and should—when data are available—present these data to the general public. (We also identified that RUS had reported incorrect numbers of BIP subscribers in the BIP performance goals on the Rural Development Recovery Act broadband webpage<sup>30</sup> and in the “telecommunication

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<sup>29</sup> BIP awardees are required to fully complete projects no later than 3 months prior to the September 30, 2015, expiration date (after which time no BIP funds can be expended) and to continue to report performance measures 5 years after project completion.

<sup>30</sup> RUS' published BIP performance goal (target) of 39,325 subscribers (households and businesses) receiving new broadband service was understated. According to RUS, the correct number is 50,050.

services (broadband)” results in the FY 2010 Performance and Accountability Report.<sup>31</sup> RUS officials promptly corrected the error on the Recovery Act broadband webpage during the audit upon notification by OIG.)

In April 2013, RUS published on its website its first quarterly “Status of Broadband Initiatives Program” report, which, according to RUS officials, includes the total number of subscribers that are actually receiving new or improved broadband service through BIP. This “BIP Status Report As of 4/3/13” shows 106,423 total BIP subscribers.<sup>32</sup> We believe the report is an important step by RUS to ensure the level of transparency required by the Recovery Act, “which in turn enhances the [G]overnment’s effectiveness and improves the quality of its decisions.” To improve further transparency, RUS should contrast the current numbers of subscribers (106,423) with the projected results of the program (847,239).

While RUS has taken steps to address internal control deficiencies, it needs to take further steps to provide better reporting of BIP outcomes. Without reliable data identifying individual awards, rural and nonrural areas, and unserved and underserved subscribers, RUS and the general public cannot properly gauge the effectiveness of BIP. According to RUS’ stated purpose for the program, BIP is intended to “[support] the expansion of broadband service in rural areas through financing and grants to projects that provide access to high speed service to facilitate economic development in locations without sufficient access to such service.”

## **Recommendation 1**

Capture and report performance data that directly measure the impact of each award on the expansion of broadband service in underserved and unserved rural areas.

## **Agency Response**

Rural Development officials stated that RUS cannot provide data related directly to new or improved broadband service solely within underserved or unserved rural areas of an awardee’s total service area, as that level of detail is not set out in RUS’ legal agreement with awardees. The Office of the General Counsel (OGC) advises that such a new requirement would raise legal issues. In addition, RUS would have to make substantial changes to its reporting system. Given that BIP is a one-time program for which all projects must be completed by September 30, 2015, the agency does not believe such use of taxpayer funding would be appropriate.

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<sup>31</sup> RUS’ published “telecommunication services (broadband)” “actual” results of 660,000 subscribers receiving new and/or improved “telecommunication services (broadband)” was understated. (Note: these telecommunications program data included subscribers for BIP, RUS’ telecommunications loans, and RUS’ “Farm Bill Broadband program.”) The correct number of “actual” subscribers receiving new and/or improved “telecommunication services (broadband)” is 980,000 (983,933 rounded to the nearest hundredth of a million), according to the Rural Development “Management’s Discussion and Analysis” for FY 2010 (which accompanied the consolidated financial statements, footnotes, and supplemental information, to reflect the activities of the Rural Development mission area of USDA), and confirmed by RUS.

<sup>32</sup> We did not validate the information in the report.

Moreover, Rural Development officials stated that, while they believe that subscriber numbers are more than just financially important, they do not believe that such numbers are the measure of success of BIP. In addition to bringing crucial utility infrastructure to rural areas for future economic growth, RUS also believes the success of the BIP program is tied to the Recovery Act's purpose of job creation, which large-scale infrastructure project such as these undoubtedly create. Rural Development officials stated they feel the present public reporting of new or improved broadband service throughout an awardee's service area is an adequate measure of the impact of each award.

## **OIG Position**

We accept Rural Development's management decision. We note that since BIP awardees are required to continue to report performance measures 5 years after project completion, awardee reporting may continue through September 2020.

## **Recommendation 2**

Quarterly update the performance measurements on the Rural Development Recovery Act broadband webpage to compare the actual numbers of BIP subscribers reported by awardees as of the end of the quarter to the projected numbers of subscribers.

## **Agency Response**

In the agency's response, dated August 1, 2013, Rural Development officials stated RUS has already begun publishing quarterly updates of awardees' performance measurements on its program webpage. Rural Development officials will also take steps in future reports to include the number of subscribers projected to be connected through the program.

## **OIG Position**

In order to reach management decision, RUS needs to provide a proposed completion date by which time it will include in the future reports the projected number of subscribers for comparison to the actual numbers of BIP subscribers reported by awardees.

## **Recommendation 3**

To ensure better reliability of awardee-reported performance data, revise the Broadband Collection and Analysis System (BCAS) guides for awardees and staff to provide detailed and clear instructions relative to the entry and review of BIP performance data in BCAS.

## **Agency Response**

Rural Development officials stated they understand there was some confusion with respect to the new or improved subscribership numbers required in one section of the BCAS report, and that they have developed additional guidance to better explain what should be reported in that

section. They will provide that written guidance to all active awardees by September 30, 2013. In addition, the officials stated that, while OIG found some issues with the first field staff reviews of the subscribership numbers reported each quarter by BIP awardees, Rural Development officials have refined their practices and developed and distributed additional written guidance for staff to improve the results of such reviews.

### **OIG Position**

We cannot determine from the agency's response whether the "additional written guidance" developed by the agency specifically meets the recommendation. In order to reach management decision, RUS needs to incorporate in its BCAS guides or other permanent directives the "additional written guidance" for awardees and for staff and describe such guidance in enough detail for us to determine whether it will ensure the performance data reported by awardees in BCAS Part E are reliable.

## **Finding 2: Grant Award Components Were in Excess of 75 Percent Cap**

The second round Notice of Funds Availability (NOFA) states that the standard BIP award would be a grant/loan combination of 75 percent grant and 25 percent loan; applicants could request a waiver for a larger grant component. However, we found that RUS approved 24 sampled round two infrastructure awards (totaling \$149,499,810) that had greater than a 75-percent grant component without waivers (see Exhibits A and B). These issues occurred because, generally, the NOFA did not include clear policy and procedures on the grant/loan funding mix. As a result, qualified prospective applicants and awardees may not have known of the various funding alternatives. With more complete knowledge of the funding alternatives, some prospective applicants who did not apply to the program might have done so, and others who did apply might have requested different BIP funding mixes than those awarded.

The second round NOFA “Overview” and “Funding Opportunity Description” sections state the standard award is a combination of 75 percent grant and 25 percent loan, and that applicants may request a waiver for more than 75 percent grant.<sup>33</sup> In contrast, the “Waiver for Grants Capped at 75% of Award for Last Mile and Middle Mile Projects” section states, “All Applicants may request a grant that does not exceed 75 percent of *eligible projects*. An Applicant *may* apply for a loan for any eligible project costs not covered by a grant under this NOFA. Applicants requesting more than a 75-percent grant component must request a waiver from the Administrator” (emphasis added).<sup>34</sup> The NOFA goes on to provide that the waiver request must “[demonstrate the applicant’s] need for additional grant funding, as well as [five] factors set forth in [the NOFA].”<sup>35</sup>

We found that RUS approved awards with greater than a 75-percent grant component for 24 (\$149,499,810) of the 64 (\$663,906,904) sample round two infrastructure awards, even though the awardees did not request waivers (see Exhibit B). According to RUS officials, RUS did not require waivers to exceed the grant cap (“grant cap waiver”) unless the requested grant amount was greater than 75 percent of the total project cost. For example, for a project with a \$20 million total cost, where the applicant requested a \$10 million BIP award, comprised of an \$8 million grant and a \$2 million loan, RUS would not have required the applicant to request a grant cap waiver, because, in this case, the grant amount is 80 percent of the total award, but only

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<sup>33</sup> 75 FR 3822, I.B.3, January 22, 2010, states, “This Second Round NOFA... has a standard award of 75/25 grant/loan combination. It is important to note that applicants requesting a larger loan component will be awarded more points in the scoring system and may have a greater likelihood of being funded. Applicants may request more than a 75 percent grant component by submitting a waiver request to the Administrator, which demonstrates their need for additional grant funding in accordance with the requirements of this Second Round NOFA.” It also states on page 3825, III.A.1, “The standard award is a grant/loan combination of 75 percent grant and 25 percent loan. Applicants may request a waiver for more than 75 percent grant in accordance with Section VII of this NOFA, or may request a greater percentage of loan.”

<sup>34</sup> 75 FR 3832, VII.A, January 22, 2010.

<sup>35</sup> 75 FR 3832, VII.A, January 22, 2010. The five factors to be considered by the Administrator in granting a request for waiver for a larger grant component were (1) the distance from the focus of the proposed funded service areas from the closest nonrural area; (2) the percentage of the proposed funded service area that is above the 75 percent (rural) requirement; (3) the population density of the proposed funded service area; (4) the median household income of the proposed funded service area, relative to the median income level of the State; and (5) the State unemployment level compared to the National Unemployment Level in the State of the proposed funded service area (see 75 FR 3832, VII.B, January 22, 2010).

40 percent of the total project cost. We noted, however, the round two application guide<sup>36</sup> to assist applicants in completing BIP applications states, “[the application system<sup>37</sup>] calculates and displays the Grant Request as a percentage of the Total Requested Award. Applicants requesting more than a 75-percent grant component must request a waiver demonstrating their need for additional grant funding.” The round two application guide also provides, “Applicants determine the dollar amount of the grant and loan they are seeking. A standard request is for 75% grant and 25% loan.”

In short, the NOFA was not clear as to whether the 75-percent grant cap was to be applied to the total award amount or to the total project cost. The application guide supports the former interpretation, while RUS applied the latter.<sup>38</sup>

Moreover, for the 24 awards we questioned, RUS officials explained that RUS allowed the awardees to substitute equity, in whole or in part, for the loan components of the awards. According to a RUS official, RUS did not anticipate applicants would propose substituting equity for the loan component. RUS provided that when this situation arose, the circumstances were presented to the Under Secretary, OGC, and the Administrator, and it was determined that, if an applicant substituted equity for the 25-percent loan component, this met the requirements of the program. According to an OGC official, the issue of substituting equity for the loan component was raised principally in response to awardees notifying outstanding creditors of their awards, and the difficulty the awardees had in getting lien releases to share the assets (with RUS) in order to close the awards. The OGC official also stated that the substitution was advantageous (to the Government) for several reasons.<sup>39</sup>

RUS officials acknowledged the NOFA did not clearly define provisions for substituting equity for the loan component, but believed they had sufficiently informed awardees through workshops held across the country, answers posted to frequently asked questions, and responses provided to helpdesk phone calls. While RUS made these resources available to applicants prior to the application deadline, the second round NOFA, which prospective applicants used to determine if they were eligible to apply for the program, did not mention the possibility of substituting equity for loan components. We did not perform audit work to assess whether each awardee was aware of the option of substituting equity for the loan component. We also noticed

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<sup>36</sup> “*Rural Utilities Service Broadband Initiatives Program Round Two Application Guide Last Mile and Middle Mile Projects*,” issued March 9, 2010.

<sup>37</sup> Easygrants online application system provides templates for many of the required attachments. Applicants enter information directly into the templates and upload the completed files into Easygrants.

<sup>38</sup> Note: the application guide states that “[t]he NOFA MUST be used in conjunction with this Application Guide to prepare an application. Should any information in this Application Guide differ from information contained in the NOFA, the NOFA takes precedence.”

<sup>39</sup> According to the OGC official, (1) given that an awardee could prepay its debt on the loan (even immediately upon receiving advances), it was seen as a waste of Recovery Act resources to force an awardee to take the loan if it actually jeopardized closing the award; (2) given that the awardees were not aware of the potential option at the time of application, this mitigated any attempt at “fudging” the budget; (3) the awardees had to put up the funds so that there was no risk to the project; and (4) if the awardee did not take the loan, the agency could leverage those foregone Recovery Act loan amounts into more projects in the second round, and thus more jobs.

that, post-award, RUS rescinded the loan components of four awards not in our sample and allowed the awardees to substitute equity for the loan components.<sup>40</sup>

While we do not necessarily take issue with RUS' decisions to apply the grant cap to the total project costs and to allow the substitution of equity for the loan component of awards, RUS should have consistently and transparently informed all awardees and applicants of these policies. Because RUS did not, qualified prospective applicants may not have known of the various funding alternatives. With more complete knowledge, some who did not apply to the program might have done so, and some who did apply might have requested different BIP funding mixes.

## **Recommendation 4**

To ensure transparency and equitable treatment of BIP awardees, to the extent practicable, formally notify all BIP awardees whose awards include loan components that RUS may allow them to substitute equity for the loan component.

## **Agency Response**

Rural Development officials stated that, “while [they] appreciate OIG’s suggestion that RUS notify all BIP awardees of their ability to substitute equity for the loan, [they] believe that at this late date, [RUS] would be overburdened by such an undertaking, while it is concentrating on providing advances to complete projects before the statutory deadline that funds may be used.” According to the officials, “at this stage, OGC has advised against sending out such correspondence, given that such actions would necessitate enormous amounts of limited RUS and OGC resources to effectuate the changed legal relationships for no benefit to awardees, because the documents already provide an existing legal right to prepay the loan with no penalty.” Additionally, the officials stated that “there was no legal benefit conferred to awardees in which the loan component was substituted with equity, such that no present awardee is disadvantaged.”

## **OIG Position**

We accept Rural Development’s management decision.

## **Recommendation 5**

For future broadband programs, publish and follow clear and consistent policies and procedures relative to grant/loan funding mixes. Specifically, such policies and procedures should clearly describe the proportional relationships of a project’s grant, loan, and equity components to the total award and to the total project costs, to include any limits thereon.

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<sup>40</sup> When we questioned the four awardees about the rescissions, the awardees generally stated that collateral, lien, and reorganization issues necessitated the rescissions.

## **Agency Response**

The agency believes it published and followed clearly defined policies and procedures relative to the grant/loan funding mixes. At this time RUS does not administer any other program which includes both loan and grant funding components. Should that change in the future, RUS will implement clear and concise written guidance defining policies and procedures for advancing funds under new requirements.

## **OIG Position**

We accept Rural Development's management decision.

### **Finding 3: BIP Funds Were Not Always Proportionally Advanced**

RUS did not advance BIP funds in correct grant and loan proportions for 2 of the 86 awards reviewed. This occurred because RUS has no specific written procedures explaining how to advance BIP funds for awards that are combinations of grant amounts and loan amounts (grant/loan combinations), including those for which equity was substituted for the loan component. As a result, RUS prematurely advanced \$1,003,629 in BIP funds for two awards (see Exhibit A); thus, those awardees did not share proportionally with RUS in the risk of completing their projects, which totaled \$8,304,608.

GAO's *Standards for Internal Control in the Federal Government* state that control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of Government resources and achieving effective results. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. They help ensure that actions are taken to address risks. The standards provide that internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form.

The NOFAs for both BIP funding rounds state that RUS makes grant and loan advances at the request of the awardee according to the procedures stipulated in the award documents, and that grant/loan combination funds are advanced in proportion to the amount of the award made in the form of grants and loans. The BIP agreement states: "Grant funds must be advanced concurrently with Loan funds in the same proportion as the Grant is to the total Award." According to a RUS official, "It was decided to prorate the advances based on the loan and grant amounts to ensure that all loan funds would be requested to complete the project while still providing the benefit of grant funds. Experience has shown that if grant funds are advanced first, some awardees [do not draw] their loan components." Additionally, RUS' "Broadband Initiatives Program Frequently Asked Questions Round 2 Applications" states, if the applicant substitutes equity in lieu of the loan component of the award, the applicant will be required to use equity funds on a pro rata basis with grant funds for each advance. For example, if an applicant receives a grant for 75 percent of the project cost and substitutes equity in lieu of the 25-percent loan component, when the applicant requests an advance, 75 percent of the advance funding should come from the grant award, and the applicant will be required to use its equity to fund the remaining 25 percent of the request.

We identified that, for 2 of our 86 sample awards, RUS did not advance BIP funds proportionally.<sup>41</sup> The disproportional advances identified by OIG totaled \$2,501,546, when RUS should have advanced only \$1,497,917—a difference of \$1,003,629 (see Exhibit A). For each of the two awards, RUS allowed the awardee to substitute equity for the loan component, but did not advance funds according to the amount of the award attributed to grants and loans. Instead,

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<sup>41</sup> We limited our review of advances for the sampled awards to those advances processed in Rural Development's Commercial Loan Servicing System within our scope cutoff date of March 31, 2012. If an award had five or less advances within our scope, we reviewed all of the advances. For those awards with more than five advances within our scope, we statistically selected five advances for review.

RUS advanced as grant funds 100 percent of the amounts requested. During the audit, RUS officials acknowledged that they did not process the advances proportionally and stated that the records would be adjusted and all future advances would be prorated.

This occurred because RUS had not taken necessary steps to inform awardees or RUS personnel on how to request and advance funds proportionally. For example, awardees request grant/loan advances from RUS by completing RUS Form 481, “Financial Requirement Statement” (FRS). Despite RUS’ decisions to prorate advances for grant/loan combination awards, including those for which equity was substituted for the loan component, RUS did not update its FRS instructions for staff and for awardees to address FRSs for grant/loan combinations and for grants—the instructions relate only to loans. Additionally, RUS officials acknowledge that RUS has no written instructions detailing its procedures on the advance of BIP funds when a grant/loan combination of funds is awarded, to include when equity is substituted for the loan component of such an award.

In one of the cases, the awardee informed us that neither the RUS general field representative nor the RUS engineer could provide guidance on how to report the awardee’s equity contribution on the FRS. The other awardee told us that it did not enter the amount of equity on the FRS because it believed RUS was to enter these amounts. The awardee also told us RUS did not notice omission of the equity amounts on the first three FRSs, but caught it on the fourth and told the awardee to enter the equity amounts on future FRSs.

Without written procedures to implement RUS’ policies on proportional advances, RUS’ controls are inadequate to ensure that awardees proportionally share in the risk of project completion. If RUS disproportionately advances funding and depletes Federal funds first—as it was doing in the two awards cited above—RUS assumes a proportionally greater risk than the awardee in the project. According to RUS’ “BIP Status Report As of 4/3/13,” 94.2 percent of BIP infrastructure projects still are actively drawing funds. In addition, the current Senate Farm Bill draft (S. 10) authorizes USDA to begin providing combinations of grants and loans for the expansion of broadband service under RUS’ traditional Farm Bill broadband program, currently the “Rural Broadband Access Loan and Loan Guarantee Program.” Therefore, we maintain that RUS needs to implement clearly documented controls to ensure future advances are proportional.

## **Recommendation 6**

Review all grant/loan combination awards that are still actively drawing funds, including those for which equity was substituted for the loan component, to ensure the advances already made were proportional. For all identified as disproportional to the funding ratio, take corrective action.

## **Agency Response**

Rural Development officials stated that, while RUS already ensures funds are being advanced appropriately when advancing funding on a project, they will also go back and review each BIP award to ensure that funds were, and are, being advanced correctly in proportion to the amount

of loan, grant, or equity funding awarded to each project. This review will be completed by September 30, 2013.

### **OIG Position**

We accept Rural Development's management decision.

### **Recommendation 7**

Implement written procedures to ensure future grant/loan combination funds are advanced in proportion to the amount of the award made in the forms of grants and loans, including those for which equity was substituted for the loan component.

### **Agency Response**

RUS has developed written procedures for staff which will ensure all future loan/grant combination awards are advanced in proportion to the amount of loan, grant, and equity funding associated with the project. The agency has incorporated this additional written guidance into FRS Staff Instructions and distributed the updated guidance to staff.

### **OIG Position**

We accept Rural Development's management decision.

## Scope and Methodology

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We conducted our audit of BIP from March 2012 through July 2013. We performed site visits at RUS' national office in Washington, D.C., and at awardee headquarters for the sample awards (see Exhibits C and D). This audit focused on RUS' post-award controls and was the second phase in our multiphase review of BIP. (Our first-phase BIP audit focused on RUS' pre-award controls. See Report 09703-0001-32, issued in March 2013.)

To accomplish our objectives, we:

- Identified and became familiar with the Recovery Act and other laws, OMB guidance, NOFAs, regulations, legal opinions and decisions, RUS program objectives, and RUS policies and procedures applicable to the scope of the audit;
- Examined RUS' instructions to its general field representatives and field accountants to provide oversight of BIP;
- Reviewed prior audit reports (OIG, GAO, non-Federal) and a Congressional Research Service report to become familiar with any identified relevant weaknesses;
- Reviewed RUS-performed risk assessments;
- Identified and became familiar with areas of concern expressed by the Secretary or staff, RUS officials, Congress, the news media, or others, including complaints to the OIG hotline;
- Reviewed USDA's Federal Managers' Financial Integrity Act report for material internal control weaknesses applicable to the scope of the audit and any corrective action taken or planned to address such weaknesses;
- Reviewed RUS's Recovery Act Plan and became familiar with how RUS planned to implement BIP;
- Interviewed RUS national office officials and reviewed documentation RUS provided to become familiar with RUS' operating procedures regarding the administration of its post-award process;
- Interviewed representatives of one of RUS' contract companies to determine the contractor's role and responsibilities as they relate to the BIP post-award process;
- Gained an understanding of the existence, relationship, impact, and pervasiveness of information systems and any related internal controls within the context of the audit objectives;

- Used RUS and awardee records to corroborate data obtained from BCAS<sup>42</sup> and the Commercial Loan Servicing System;<sup>43</sup>
- Statistically sampled, and reviewed advances for, 86 (\$783,895,685) of 284 (\$3,156,641,638) BIP awards to test RUS' post-award controls;<sup>44</sup> and
- Conducted field visits, interviewed awardees, and collected and reviewed documentation related to our audit objectives.

The following table describes how RUS awarded BIP funding across the audit sample awards:

Project Type	Number of Sample Awards	Grant Amount Awarded	Loan Amount Awarded	Total Amount Awarded
Round One – Infrastructure (Round One Total) <sup>45</sup>	17	\$50,066,621	\$28,452,086	\$78,518,707
Round Two – Infrastructure <sup>46</sup>	64	\$510,678,420	\$153,228,484	\$663,906,904
<b>Infrastructure Total</b>	<b>81</b>	<b>\$560,745,041</b>	<b>\$181,680,570</b>	<b>\$742,425,611</b>
Round Two – Satellite	3	\$41,222,694	\$0	\$41,222,694
Round Two – Technical Assistance	2	\$247,380	\$0	\$247,380
<b>Round Two Total</b>	<b>69</b>	<b>\$552,148,494</b>	<b>\$153,228,484</b>	<b>\$705,376,978</b>
<b>Grand Total</b>	<b>86</b>	<b>\$602,215,115</b>	<b>\$181,680,570</b>	<b>\$783,895,685</b>

We limited our review of award advances for the sampled awards to those advances processed in Rural Development's Commercial Loan Servicing System within our scope cutoff date of March 31, 2012. Technical assistance awards each had only one advance, but infrastructure and satellite awards could have multiple advances. When sampled awards had five or fewer advances within our scope, we reviewed all advances. For those awards with more than five advances within our scope, we statistically selected five advances for review.

<sup>42</sup>We did not evaluate the effectiveness of BCAS or its controls, as it primarily is used to track/collect awardees' financial data and is not used extensively to monitor BIP awardees' fulfillment of their grant and loan/grant agreements. We did review the BIP performance measures that are documented in BCAS and supported by awardee records. However, since we obtained performance measure data directly from awardees, we did not rely upon BCAS to obtain sufficient, appropriate evidence to support the findings presented in this report.

<sup>43</sup> We did not evaluate the effectiveness of the Commercial Loan Servicing System or its controls since this was covered in other OIG audit work related to *Rural Development's Financial Statements Audit for Fiscal Years 2012 and 2011* (85401-0002-11, November 13, 2012). We did conduct a review of selected advances processed in the system on or before March 31, 2012. We verified the Commercial Loan Servicing System advance data to manual documentation obtained from RUS and therefore did not rely upon the information system to obtain sufficient, appropriate evidence to support the findings presented in this report.

<sup>44</sup> The audit universe of 284 awards consisted of the 320 applications approved for (\$3,529,090,889) BIP funding, less the 8 awards for which the recipients' headquarters were located in Alaska (6), Hawaii (1), and American Samoa (1), as well as the 28 awards that were rescinded at the time of sampling. We statistically selected 86 awards for review; however, 3 awards were rescinded post selection. For reporting and analysis, we counted those three awards as entries with no exceptions in any of the criteria we tested. This approach potentially leads to a small underestimation. For additional sample design and analysis information, see Exhibit D.

<sup>45</sup> Includes two rescinded awards: Awardee ID NM1106-A40, which was comprised of a \$632,225 grant and a \$632,225 loan, for a total award of \$1,264,450; and Awardee ID WV1102-A40, which was comprised of a \$1,417,597 grant and a \$1,475,459 loan, for a total award of \$2,893,056.

<sup>46</sup> Includes one rescinded award: Awardee ID IL1105-B40, which was comprised of a \$1,737,945 grant and a \$1,808,881 loan, for a total award of \$3,546,826.

The audit sample included three satellite awards. Due to the large number of satellite broadband installations on each advance, we statistically selected a sample of eligible incentive payment requests (IPR) for review from each sample advance.

We evaluated the satellite awardees' compliance with the grant agreements for each sample IPR. We reviewed the awardees' installation work orders and verified equipment installation and service activation was done on the date and at the address that was requested for reimbursement on the IPRs submitted to RUS. We reviewed and verified the subscriber invoice did not include equipment, installation, or service activation fees or charges and the awardee was charging subscribers the agreed-upon monthly service rate.

See Exhibit E for scope information for advances.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Abbreviations

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BCAS .....	Broadband Collection and Analysis System
BIP .....	Broadband Initiatives Program
FR.....	<i>Federal Register</i>
FRS .....	RUS Form 481, "Financial Requirement Statement"
FY .....	Fiscal Year
GAO.....	Government Accountability Office
IPR .....	(Satellite) Incentive Payment Request
NOFA.....	Notice of Funds Availability
NTIA.....	National Telecommunications and Information Administration
OGC .....	Office of the General Counsel
OIG .....	Office of Inspector General
OMB .....	Office of Management and Budget
Recovery Act .....	American Recovery and Reinvestment Act of 2009
RUS.....	Rural Utilities Service
USDA.....	U.S. Department of Agriculture

## Exhibit A: Summary of Monetary Results

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Exhibit A summarizes the monetary results for our audit report by finding and recommendation number.

Finding	Recommendation	Description	Amount	Category
2	5	Unclear Procedures for Grant/Loan Funding Mix	\$149,499,810	Funds To Be Put To Better Use – Management or Operating Improvement/Savings
3	7	Disproportional Advance of Funds	\$1,003,629	Funds To Be Put To Better Use – Management or Operating Improvement/Savings
<b>Total</b>			<b>\$150,503,439</b>	

## Exhibit B: Statistically Sampled Round Two Infrastructure Awards With Grant Components Greater Than 75 Percent of Award Without Waivers

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Exhibit B presents information on our sample round two infrastructure awards that were comprised of greater than a 75-percent grant component. For each such award, the table below shows the awardee ID, total BIP award, BIP grant amount, BIP loan amount, and grant proportion of total BIP award.

Awardee ID	Total BIP Award	BIP Grant Amount	BIP Loan Amount	Grant Proportion of Total BIP Award
AR1102-AD39	\$20,497,604	\$20,497,604	\$0	100%
AR1102-AE39	\$3,050,160	\$3,050,160	\$0	100%
AR1102-B39	\$7,285,202	\$7,285,202	\$0	100%
AR1102-C39	\$38,288,349	\$38,288,349	\$0	100%
AR1102-F39	\$5,129,575	\$5,129,575	\$0	100%
AR1102-G39	\$4,665,116	\$4,665,116	\$0	100%
AR1102-K39	\$27,644,292	\$27,644,292	\$0	100%
AR1102-N39	\$10,328,319	\$10,328,319	\$0	100%
AR1102-P39	\$1,005,566	\$1,005,566	\$0	100%
AR1102-W39	\$855,901	\$855,901	\$0	100%
CO1109-A40	\$1,641,785	\$1,407,244	\$234,541	85.71%
MI1107-B39	\$2,001,528	\$2,001,528	\$0	100%
TX1115-C39	\$2,112,950	\$2,112,950	\$0	100%
WI1107-A39	\$5,239,168	\$5,239,168	\$0	100%
WI1116-A39	\$639,218	\$639,218	\$0	100%
WI1120-A39	\$1,669,255	\$1,669,255	\$0	100%
WI1121-A39	\$1,655,504	\$1,655,504	\$0	100%
WI1126-A39	\$5,150,691	\$5,150,691	\$0	100%
WI1129-A39	\$1,143,784	\$1,143,784	\$0	100%
WI1130-A39	\$702,933	\$702,933	\$0	100%
WI1135-A39	\$2,021,197	\$2,021,197	\$0	100%
WI1138-A39	\$1,837,421	\$1,837,421	\$0	100%
WI1142-A39	\$3,570,745	\$3,570,745	\$0	100%
WI1143-A39	\$1,363,547	\$1,363,547	\$0	100%
<b>Totals</b>	<b>\$149,499,810</b>	<b>\$149,265,269</b>	<b>\$234,541</b>	

## Exhibit C: Statistically Sampled BIP Awards

Exhibit C presents information on our sample of 86<sup>47</sup> BIP awards—55 cities in 19 States. For each statistically selected sample award, the table below shows the recipients' headquarters city and State, the application ID number, awardee ID, cluster number, cluster stratum, total award, applicable NOFA round, and project type (I = Infrastructure, S = Satellite, TA = Technical Assistance).

Recipient Headquarters City, State	Application ID	Awardee ID	Cluster Sample	Stratum	Total Award	NOFA Round	Project Type
Little Rock, Arkansas	5261	AR1102-B39	55	1	\$7,285,202	2	I
Little Rock, Arkansas	5262	AR1102-C39	55	1	\$38,288,349	2	I
Little Rock, Arkansas	5265	AR1102-F39	55	1	\$5,129,575	2	I
Little Rock, Arkansas	5266	AR1102-G39	55	1	\$4,665,116	2	I
Little Rock, Arkansas	5268	AR1102-K39	55	1	\$27,644,292	2	I
Little Rock, Arkansas	5271	AR1102-N39	55	1	\$10,328,319	2	I
Little Rock, Arkansas	5272	AR1102-P39	55	1	\$1,005,566	2	I
Little Rock, Arkansas	5279	AR1102-W39	55	1	\$855,901	2	I
Little Rock, Arkansas	5291	AR1102-AD39	55	1	\$20,497,604	2	I
Little Rock, Arkansas	5292	AR1102-AE39	55	1	\$3,050,160	2	I
O'Neals, California	484	CA1112-A40	9	3	\$3,852,862	1	I
Kerman, California	961	CA1110-A40	9	3	\$5,483,010	1	I
Peetz, Colorado	888	CO1105-A39	14	3	\$1,513,850	1	I
Wiggins, Colorado	2971	CO1106-A40	14	3	\$4,328,431	1	I
Joes, Colorado	5258	CO1110-A40	14	3	\$11,147,200	2	I
Merino, Colorado	5430	CO1114-A40	14	3	\$791,947	2	I
Nunn, Colorado	5744	CO1107-A40	14	3	\$5,172,500	2	I
Stoneham, Colorado	7013	CO1109-A40	14	3	\$1,641,785	2	I
Englewood, Colorado	SAT03	CO1111-A45	14	3	\$14,159,250	2	S
Greenwood Village, Colorado	SAT04	CO1112-A45	14	3	\$19,533,444	2	S
Darien, Georgia <sup>48</sup>	5045	GA1107-A40	63	3	\$447,993	2	I
Plummer, Idaho	3539	ID1103-A40	4	3	\$12,285,758	1	I
Chicago, Illinois	5337	IL1105-B40	45	3	\$3,546,826	2	I
Burr Ridge, Illinois	7340	IL1104-A40	45	3	\$11,250,000	2	I
Meriden, Iowa	1836	IA1110-A39	40	3	\$1,519,225	1	I
Hospers, Iowa	4790	IA1119-A40	40	3	\$8,325,402	2	I
Breda, Iowa	5339	IA1116-A40	40	3	\$2,611,909	2	I
Curran, Michigan	7445	MI1110-A39	49	3	\$8,622,754	2	I
Curran, Michigan	7449	MI1110-B39	49	3	\$1,107,903	2	I
Onamia, Minnesota	TA08	MN1120-A47	39	3	\$47,380	2	TA
Green City, Missouri	218	MO1105-A40	29	3	\$10,280,916	1	I
Princeton, Missouri	4520	MO1106-A40	29	3	\$11,395,606	2	I
Green City, Missouri	5094	MO1105-B40	29	3	\$7,191,620	2	I
Princeton, Missouri	5728	MO1106-B39	29	3	\$12,363,759	2	I
Princeton, Missouri	5729	MO1106-C39	29	3	\$8,970,781	2	I
Princeton, Missouri	5730	MO1106-D40	29	3	\$9,294,309	2	I
Princeton, Missouri	5731	MO1106-E40	29	3	\$20,270,861	2	I
Santa Fe, New Mexico	1176	NM1106-A40	17	3	\$1,264,450	1	I
Des Moines, New Mexico	1177	NM1104-A40	17	3	\$3,237,000	1	I
Artesia, New Mexico	2054	NM1105-A40	18	3	\$9,589,267	1	I

<sup>47</sup> We selected the sample during our prior audit of RUS' BIP pre-approval controls (*American Recovery and Reinvestment Act of 2009—Broadband Initiatives Program—Pre-Approval Controls*, 09703-0001-32, March 29, 2013). During this audit (09703-0002-32), we determined 3 of the 86 sampled awards had been rescinded: Application IDs 5337 (Chicago, Illinois), 1176 (Santa Fe, New Mexico), and 2535 (Wheeling, West Virginia).

<sup>48</sup> To save resources, we did not travel to this location; however, we completed the review by alternate means.

Recipient Headquarters City, State	Application ID	Awardee ID	Cluster Sample	Stratum	Total Award	NOFA Round	Project Type
Mora, New Mexico	4925	NM1108-B40	17	3	\$11,856,832	2	I
Taos, New Mexico	5392	NM1107-A40	17	3	\$63,768,671	2	I
Potsdam, New York	3066	NY1103-A40	70	3	\$5,328,642	1	I
Potsdam, New York	4470	NY1103-B40	70	3	\$27,832,767	2	I
Hammond, New York	6596	NY1104-A40	70	3	\$7,168,559	2	I
Akwesasne, New York	7311	NY1105-A40	70	3	\$10,562,517	2	I
Red Springs, North Carolina	5133	NC1107-B40	66	3	\$19,947,739	2	I
Marshall, North Carolina	5166	NC1103-A40	68	3	\$1,775,692	2	I
Shallotte, North Carolina	5424	NC1105-A40	66	3	\$16,003,418	2	I
Wilkesboro, North Carolina	5562	NC1108-A40	68	3	\$21,611,000	2	I
West Jefferson, North Carolina	5582	NC1104-A40	68	3	\$28,985,294	2	I
Yadkinville, North Carolina	5927	NC1109-A40	68	3	\$21,668,232	2	I
Burnsville, North Carolina	6389	NC1106-A40	68	3	\$25,297,000	2	I
Belhaven, North Carolina	7282	NC1110-A40	67	3	\$14,147,215	2	I
Sandy, Oregon	702	OR1105-A40	5	3	\$749,085	1	I
Gervais, Oregon	1221	OR1104-A40	5	3	\$628,860	1	I
Warm Springs, Oregon	4269	OR1107-A40	5	3	\$5,445,920	2	I
Monroe, Oregon	4512	OR1102-B40	5	3	\$5,654,734	2	I
Estacada, Oregon	5425	OR1109-A40	5	3	\$2,360,393	2	I
Estacada, Oregon	6325	OR1108-A40	5	3	\$5,197,732	2	I
Warm Springs, Oregon	TA45	OR1107-B47	5	3	\$200,000	2	TA
Dalhart, Texas	1245	TX1115-B39	19	3	\$3,065,440	1	I
Dalhart, Texas	5382	TX1115-C39	19	3	\$2,112,950	2	I
McLean, Virginia	SAT02	VA1111-E45	54	3	\$7,530,000	2	S
Spokane, Washington	5818	WA1109-A40	4	3	\$20,458,320	2	I
Longview, Washington	6267	WA1108-A40	5	3	\$3,731,069	2	I
Okanogan, Washington	7158	WA1106-A40	4	3	\$9,169,637	2	I
Wheeling, West Virginia	2535	WV1102-A40	53	3	\$2,893,056	1	I
Riverton, West Virginia	4216	WV1104-A39	54	3	\$8,529,310	2	I
Lost River, West Virginia	5324	WV1103-A40	54	3	\$31,648,274	2	I
Madison, Wisconsin	608	AL1104-A39	72	2	\$3,892,920	1	I
Madison, Wisconsin	627	MI1106-A39	72	2	\$8,605,935	1	I
Madison, Wisconsin	5491	WI1120-A39	72	2	\$1,669,255	2	I
Madison, Wisconsin	5494	WI1121-A39	72	2	\$1,655,504	2	I
Madison, Wisconsin	5526	WI1129-A39	72	2	\$1,143,784	2	I
Madison, Wisconsin	5529	WI1116-A39	72	2	\$639,218	2	I
Madison, Wisconsin	5530	WI1143-A39	72	2	\$1,363,547	2	I
Madison, Wisconsin	5549	WI1130-A39	72	2	\$702,933	2	I
Madison, Wisconsin	5607	WI1135-A39	72	2	\$2,021,197	2	I
Madison, Wisconsin	5624	WI1142-A39	72	2	\$3,570,745	2	I
Madison, Wisconsin	5633	WI1138-A39	72	2	\$1,837,421	2	I
Madison, Wisconsin	5635	WI1126-A39	72	2	\$5,150,691	2	I
Baldwin, Wisconsin	5792	WI1102-B40	39	3	\$9,067,898	2	I
Madison, Wisconsin	6020	MI1107-B39	72	2	\$2,001,528	2	I
Reedsburg, Wisconsin	6057	WI1107-A39	44	3	\$5,239,168	2	I
Oxford, Wisconsin	6060	WI1106-B40	44	3	\$20,007,501	2	I
<b>Total</b>					<b>\$783,895,685</b>		

## **Exhibit D: Statistical Plan – Sampling Methodology and Analysis Results**

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### **Objective:**

The sampling objective was to develop a random statistical sample for review, to analyze sample data collected by the audit team, and to provide estimates for criteria being audited.

### **Audit Universe:**

The universe used was identical to the universe we employed in our first phase of audit work for BIP, Report 09703-0001-32, *American Recovery and Reinvestment Act of 2009—Broadband Initiatives Program—Pre Approval Controls*, dated March 29, 2013. It consisted of 320 approved awards for BIP established by the Recovery Act and was obtained from RUS’ Broadband Division Director. The original universe dated October 29, 2010, contained 320 awards. The final universe size excludes eight awards in Alaska (6), Hawaii (1), and American Samoa (1) from review due to travel and resource considerations<sup>49</sup> as well as the 28 awards that were rescinded at the time of sampling. Therefore, the final BIP Recovery Act universe consisted of 284 awards spread across the United States.

### **Sample Design:**

For this audit, we used a clustered multistage sample design. Grants and loans awarded under BIP were spread across the United States. Because of travel considerations, we decided to look at the dispersion of the awards across the country. The audit team used mapping software to plot the 284 awards in the audit universe into a total of 70 geographic clusters based on travel considerations. Therefore some clusters crossed State lines, some States had more than one cluster, some “clusters” were singletons,<sup>50</sup> etc. We considered the clusters thus defined to be reasonable selection unit, providing both nationwide<sup>51</sup> coverage and some economy with regard to travel.

Two clusters included a significantly higher number of awards than the rest. We placed those two in two separate census strata—stratum one and stratum two. The two large clusters contained more awards than we could feasibly review; hence, we used a second-stage sampling to select random samples of awards per each cluster for review.

In stratum three, we selected 20 out of 68 clusters at random; for those clusters, all awards per cluster were included in the sample. Table 1 below shows the selected clusters and the number of awards selected for review within each cluster.

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<sup>49</sup> We did not perform awardee site visits during the first-phase audit (09703-0001-32). However, we designed our sample with the knowledge that we would follow that audit of RUS’ pre-award controls with this audit of RUS’ post-award controls, during which we would visit the sample awardees’ headquarters locations. Therefore, to minimize travel time and make the most of our resources, we elected to remove from our universe the awards with headquarters in Alaska, American Samoa, and Hawaii.

<sup>50</sup> Singleton means the “cluster” contained only one award; no others were located nearby.

<sup>51</sup> Excluding Alaska, American Samoa, and Hawaii.

**Table 1: BIP phase 2 sample design structure**

	SRS order of random cluster selection	Cluster ID	Location of awards in cluster	Number of awards in this cluster	Number of awards selected for review at stage 2
Stratum 1	n/a	55	Arkansas	16	10
Stratum 2	n/a	72	Wisconsin	44	13
Stratum 3	1	45	Illinois	2	2
	2	53	West Virginia	1	1
	3	29	Missouri	7	7
	4	44	Wisconsin	2	2
	5	5	1 in Washington; 7 in Oregon	8	8
	6	17	New Mexico	4	4
	7	40	Iowa	3	3
	8	70	New York	4	4
	9	4	2 in Washington; 1 in Idaho	3	3
	10	66	North Carolina	2	2
	11	54	2 in West Virginia; 1 in Virginia	3	3
	12	63	Georgia	1	1
	13	39	1 in Wisconsin; 1 in Minnesota	2	2
	14	18	New Mexico	1	1
	15	67	North Carolina	1	1
	16	9	California	2	2
	17	14	Colorado	8	8
	18	68	North Carolina	5	5
	19	49	Michigan	2	2
	20	19	Texas	2	2
<b>Total number of awards in sample:</b>					<b>86</b>

In some instances, we needed to use a third stage of sampling. If an awardee selected for review at stage two included five or fewer advances (draws), our audit team reviewed all advances. If, however, the number of advances was six or higher, we selected a simple random sample of five advances per awardee for review (audit team selected the five advances with the smallest random numbers on a *master random number spreadsheet* provided to them by the statistician). Note:

the audit team limited their review of award advances (drawdowns) for the sampled awards to those advances processed in Rural Development's Commercial Loan Servicing System within the scope cutoff date of March 31, 2012.

The audit sample included three satellite awards. Due to the large number of broadband subscriber installations requested for reimbursement on each drawdown request, we selected a random sample of subscriber accounts for each satellite award to review.

In summary, we selected 86 awards clustered in 22 geographical areas. At stage one of sampling we selected the 22 geographical areas, at stage two we selected random samples or censuses of advances per awardee, and at stage three we selected random samples of payment requests. For reporting purposes we are only projecting to the "awardee" level of sampling.

During the progression of the audit, three awards were rescinded. We counted those rescinded awards as having no exceptions in any of the criteria tested. This approach provided more conservative estimates.

We had no historical information, relevant to the criteria tested in this audit. In particular, we did not know where to expect variance to occur. Therefore, the total sample size selected for review was based on some *best guess* assumptions about our expected error rate. All estimates are reported with corresponding precision and confidence levels.

### **Results:**

To support the audit objectives, the audit team reviewed the sample of awards and measured compliance and performance criteria associated with findings: (1) Performance Measures Do Not Effectively Show Whether BIP is Successful in Accomplishing the Goals and Objectives of the Recovery Act; and (3) RUS Advance Funding Was Disproportional.

Estimates are presented in the table below. All estimates and calculations shown are rounded to the nearest whole number.

**Table 2: BIP phase 2 - statistical projections**

Criteria	Estimate	Standard Error	95% Confidence Interval		Actual Found	Margin of Error
			Lower	Upper		
Performance measure	65	12.758	38	91	19	27
As a % of universe	22.7%	4.5%	13.3%	32.1%	6.7%	9.4%
Dollar questioned based on performance measure	\$789,389,587	\$213,775,977	\$341,951,326	\$1,236,827,848	\$232,173,408	57%
As a % of universe	25.0%	6.8%	10.8%	39.2%	7.4%	14.2%
Effectiveness of RUS Tool	27	8.694	9	45	8	18
As a % of universe	9.6%	3.1%	3.2%	16.0%	2.8%	6.4%
Dollar based on effectiveness of RUS tool	\$340,175,256	\$125,752,690	\$76,971,852	\$603,378,661	\$100,051,546	77%
As a % of universe	10.8%	4.0%	2.4%	19.1%	3.2%	8.3%

Based on our sample results, we project that:

- 65 awardees (22.7 percent of universe) do not have adequate documentation to support performance measure data the awardee submitted in BCAS. We are 95 percent confident that between 38 (13.3 percent of universe) and 91 awardees (32.1 percent) have this issue.
- \$789 million (25 percent of universe) was awarded to awardees who did not have adequate documentation to support performance measure data the awardee submitted in BCAS. We are 95 percent confident that this estimate is between \$342 million (10.8 percent) and \$1.2 billion (39.2 percent).
- For 27 awards (9.6 percent of the universe) RUS’ spreadsheet tool was ineffective. We are 95 percent confident that between 9 (3.2 percent) and 45 awards (16 percent) have this issue.<sup>52</sup>

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<sup>52</sup> Our audit team reviewed RUS’ “spreadsheet tool” for the quarter ending March 31, 2012. They verified the number of subscribers reported in the March 2012 quarterly BCAS report for 40 awardees. The estimate presented is based on those 40 awardees only. The remaining 46 awardees were counted as having no exceptions in this criterion. The method used most likely lead to underestimation. However, we had no way of verifying the information needed for the rest of the awardees in the sample. We are reporting the most conservative measure for this estimate.

- \$340 million (10.8 percent) was awarded to awardees for whom the RUS tool was ineffective. We are 95 percent confident that this estimate is between \$77 million (2.4 percent) and \$603 million (19.1 percent).

## Exhibit E: Scope Information for Advances

Exhibit E presents scope information for advances for the sample infrastructure, technical assistance, and satellite awards, including those sample infrastructure awards that were rescinded. For each sample award, the tables below show the awardee ID number and dollar value of the advances approved on or before March 31, 2012, and the number and dollar value of those advances reviewed. In addition, the satellite table shows the number and dollar value of IPRs for the advances selected for review, as well as the number and dollar value of IPRs actually reviewed.

### Sample Infrastructure Awards

Awardee ID	Total Award	Advances Approved on or before March 31, 2012 (Number)	Advances Approved on or before March 31, 2012 (Dollars)	Reviewed Advances (Number)	Reviewed Advances (Dollars)
AL1104-A39	\$3,892,920	2	\$681,944	2	\$681,944
AR1102-AD39	\$20,497,604	6	\$952,955	5	\$604,768
AR1102-AE39	\$3,050,160	6	\$466,345	5	\$284,316
AR1102-B39	\$7,285,202	4	\$234,965	4	\$234,965
AR1102-C39	\$38,288,349	6	\$2,217,612	5	\$2,198,418
AR1102-F39	\$5,129,575	9	\$959,777	5	\$797,724
AR1102-G39	\$4,665,116	7	\$563,271	5	\$193,111
AR1102-K39	\$27,644,292	0	\$0	0	\$0
AR1102-N39	\$10,328,319	6	\$1,006,241	5	\$597,733
AR1102-P39	\$1,005,566	7	\$904,335	5	\$232,914
AR1102-W39	\$855,901	6	\$168,017	5	\$167,347
CA1110-A40	\$5,483,010	5	\$4,358,374	5	\$4,358,374
CA1112-A40	\$3,852,862	1	\$18,201	1	\$18,201
CO1105-A39	\$1,513,850	11	\$1,091,612	5	\$527,338
CO1106-A40	\$4,328,431	3	\$250,378	3	\$250,378
CO1107-A40	\$5,172,500	5	\$282,373.50	5	\$282,373.50
CO1109-A40	\$1,641,785	3	\$672,166	3	\$672,166
CO1110-A40	\$11,147,200	13	\$1,761,689	5	\$976,286
CO1114-A40	\$791,947	4	\$295,028	4	\$295,028
GA1107-A40	\$447,993	0	\$0	0	\$0
IA1110-A39	\$1,519,225	4	\$1,146,232	4	\$1,146,232
IA1116-A40	\$2,611,909	4	\$1,012,279	4	\$1,012,279
IA1119-A40	\$8,325,402	7	\$6,574,702	5	\$4,236,416

<b>Awardee ID</b>	<b>Total Award</b>	<b>Advances Approved on or before March 31, 2012 (Number)</b>	<b>Advances Approved on or before March 31, 2012 (Dollars)</b>	<b>Reviewed Advances (Number)</b>	<b>Reviewed Advances (Dollars)</b>
ID1103-A40	\$12,285,758	2	\$282,989	2	\$282,989
IL1104-A40	\$11,250,000	4	\$621,791	4	\$621,791
IL1105-B40 <sup>53</sup>	\$3,546,826	0	\$0	0	\$0
MI1106-A39	\$8,605,935	3	\$5,349,245	3	\$5,349,245
MI1107-B39	\$2,001,528	0	\$0	0	\$0
MI1110-A39	\$8,622,754	4	\$1,603,723	4	\$1,603,723
MI1110-B39	\$1,107,903	4	\$735,383	4	\$735,383
MO1105-A40	\$10,280,916	7	\$9,491,619	5	\$7,140,720
MO1105-B40	\$7,191,620	1	\$242,907	1	\$242,907
MO1106-A40	\$11,395,606	1	\$6,457,922	1	\$6,457,922
MO1106-B39	\$12,363,759	2	\$5,064,969	2	\$5,064,969
MO1106-C39	\$8,970,781	2	\$4,381,415	2	\$4,381,415
MO1106-D40	\$9,294,309	1	\$2,440,000	1	\$2,440,000
MO1106-E40	\$20,270,861	1	\$4,275,890	1	\$4,275,890
NC1103-A40	\$1,775,692	3	\$624,129	3	\$624,129
NC1104-A40	\$28,985,294	7	\$19,729,121	5	\$9,916,394
NC1105-A40	\$16,003,418	4	\$8,773,055	4	\$8,773,055
NC1106-A40	\$25,297,000	8	\$946,303	5	\$484,508
NC1107-B40	\$19,947,739	2	\$3,059,840	2	\$3,059,840
NC1108-A40	\$21,611,000	2	\$6,391,237	2	\$6,391,237
NC1109-A40	\$21,668,232	5	\$8,334,620	5	\$8,334,620
NC1110-A40	\$14,147,215	4	\$6,128,659	4	\$6,128,659
NM1104-A40	\$3,237,000	8	\$3,056,848	5	\$1,719,461
NM1105-A40	\$9,589,267	3	\$5,373,848	3	\$5,373,848
NM1106-A40 <sup>54</sup>	\$1,264,450	0	\$0	0	\$0
NM1107-A40	\$63,768,671	3	\$1,395,151	3	\$1,395,151
NM1108-B40	\$11,856,832	1	\$23,687	1	\$23,687
NY1103-A40	\$5,328,642	11	\$1,924,810	5	\$562,026
NY1103-B40	\$27,832,767	10	\$7,346,221	5	\$3,385,690
NY1104-A40	\$7,168,559	7	\$2,117,149	5	\$955,687
NY1105-A40	\$10,562,517	0	\$0	0	\$0
OR1102-B40	\$5,654,734	10	\$2,531,424	5	\$873,281

<sup>53</sup> Award was rescinded.

<sup>54</sup> Award was rescinded.

<b>Awardee ID</b>	<b>Total Award</b>	<b>Advances Approved on or before March 31, 2012 (Number)</b>	<b>Advances Approved on or before March 31, 2012 (Dollars)</b>	<b>Reviewed Advances (Number)</b>	<b>Reviewed Advances (Dollars)</b>
OR1104-A40	\$628,860	3	\$621,790	3	\$621,790
OR1105-A40	\$749,085	1	\$55,032	1	\$55,032
OR1107-A40	\$5,445,920	4	\$1,746,064	4	\$1,746,064
OR1108-A40	\$5,197,732	0	\$0	0	\$0
OR1109-A40	\$2,360,393	1	\$12,840	1	\$12,840
TX1115-B39	\$3,065,440	1	\$1,454,781	1	\$1,454,781
TX1115-C39	\$2,112,950	0	\$0	0	\$0
WA1106-A40	\$9,169,637	6	\$1,072,399	5	\$933,275
WA1108-A40	\$3,731,069	2	\$302,580	2	\$302,580
WA1109-A40	\$20,458,320	0	\$0	0	\$0
WI1102-B40	\$9,067,898	10	\$8,629,895	5	\$4,665,990
WI1106-B40	\$20,007,501	6	\$10,094,291	5	\$9,410,984
WI1107-A39	\$5,239,168	4	\$1,212,740	4	\$1,212,740
WI1116-A39	\$639,218	0	\$0	0	\$0
WI1120-A39	\$1,669,255	2	\$64,409	2	\$64,409
WI1121-A39	\$1,655,504	2	\$52,797	2	\$52,797
WI1126-A39	\$5,150,691	2	\$262,524	2	\$262,524
WI1129-A39	\$1,143,784	2	\$52,769	2	\$52,769
WI1130-A39	\$702,933	0	\$0	0	\$0
WI1135-A39	\$2,021,197	0	\$0	0	\$0
WI1138-A39	\$1,837,421	2	\$52,123	2	\$52,123
WI1142-A39	\$3,570,745	2	\$249,943	2	\$249,943
WI1143-A39	\$1,363,547	0	\$0	0	\$0
WV1102-A40 <sup>55</sup>	\$2,893,056	0	\$0	0	\$0
WV1103-A40	\$31,648,274	7	\$2,420,572	5	\$1,057,727
WV1104-A39	\$8,529,310	2	\$575,234	2	\$575,234
<b>Totals</b>	<b>\$742,425,611</b>	<b>298</b>	<b>\$173,255,235</b>	<b>232</b>	<b>\$139,150,140</b>

<sup>55</sup> Award was rescinded.

**Sample Technical Assistance Awards**

<b>Awardee ID</b>	<b>Total Award</b>	<b>Advances Approved on or before March 31, 2012 (Number)</b>	<b>Advances Approved on or before March 31, 2012 (Dollars)</b>	<b>Reviewed Advances (Number)</b>	<b>Reviewed Advances (Dollars)</b>
MN1120-A47	\$47,380	1	\$47,380	1	\$47,380
OR1107-B47	\$200,000	1	\$200,000	1	\$200,000
<b>Totals</b>	<b>\$247,380</b>	<b>2</b>	<b>\$247,380</b>	<b>2</b>	<b>\$247,380</b>

**Sample Satellite Awards**

<b>Awardee ID</b>	<b>Total Award</b>	<b>Advances Approved on or before March 31, 2012 (Number)</b>	<b>Advances Approved on or before March 31, 2012 (Dollars)</b>	<b>Reviewed Advances (Number)</b>	<b>Eligible IPRs for Reviewed Advances (Number)</b>	<b>Eligible IPRs for Reviewed Advances (Dollars)<sup>56</sup></b>	<b>Eligible IPRs Reviewed (Number)</b>	<b>Eligible IPRs Reviewed (Dollars)</b>
CO1111-A45	\$14,159,250	3	\$865,500	3	1,154	\$865,500	65	\$48,750
CO1112-A45	\$19,533,444	9	\$7,468,482	5	11,207	\$4,471,593	85	\$33,915
VA1111-E45	\$7,530,000	6	\$1,930,500	5	1,141	\$1,711,500	65	\$97,500
<b>Totals</b>	<b>\$41,222,694</b>	<b>18</b>	<b>\$10,264,482</b>	<b>13</b>	<b>13,502</b>	<b>\$7,048,593</b>	<b>215</b>	<b>\$180,165</b>

<sup>56</sup> The dollar values of the eligible IPRs for reviewed advances and the dollar values of the reviewed advances are the same—advances were paid on only the eligible IPRs.



**USDA'S  
RURAL UTILITIES SERVICE'S  
RESPONSE TO AUDIT REPORT**





United States Department of Agriculture  
Rural Development

**TO:** Gil H. Harden August 1, 2013  
Assistance Inspector General for Audit  
Office of Inspector General

**THRU:** John C. Padalino /s/ John C. Padalino  
Administrator  
Rural Utilities Service

John Dunsmuir /s/ John Dunsmuir  
Acting Director  
Financial Management Division

**FROM:** Doug O'Brien /s/ Patrice H. Kunesh for  
Acting Under Secretary  
Rural Development

**SUBJECT:** Audit Number 09703-0002-32  
American Recovery and Reinvestment Act of 2009 – Broadband  
Initiatives Program – Post Award Controls

Thank you for the opportunity to comment on OIG's recent audit of the Rural Utilities Service's (RUS) Broadband Initiative Program (BIP) post-award controls. RUS appreciates the Inspector General's input into ensuring that BIP meets its statutory and regulatory missions and that RUS has established sufficient controls over BIP awardees' fulfillment of their grant and loan/grant agreements.

The Agency is pleased that OIG's first phase of its audit found that RUS implemented BIP in compliance with the Recovery Act and found no instances of ineligibility of any BIP-funded project. We are also pleased that OIG's second phase of its audit found that RUS' advances of BIP funds were substantially supported out of hundreds of advances. We understand that OIG found two instances where advances were not made proportionately to the amount of loan and grant funding awarded to the project. We have corrected both instances and taken corrective measures to ensure this will not reoccur. We also appreciate the OIG's comments regarding the need for adequate controls to measure and transparently report on how BIP is meeting its subscribership goals. RUS

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has now published its quarterly subscribership numbers and will continue to publish updated numbers going forward. The following is the agency's response to the individual findings and recommendations.

**Finding 1: Performance Measures Do Not Effectively Show BIP Outcomes**

*Recommendation 1*

*Capture and report performance data that directly measure the impact of each award on the expansion of broadband service in underserved and unserved rural areas.*

The Agency does assess the impact of each award on the expansion of broadband service. On a quarterly basis, all BIP awardees are required to report on the number of subscribers receiving new or improved broadband service as a result BIP. As OIG cited in its audit report, RUS began publishing the results of these quarterly reports on its website. However, the Agency cannot provide data related directly to new or improved broadband service solely within underserved or unserved rural areas of an awardee's total service area, as that level of detail is not set out in our legal agreement with awardees. In addition to the legal issues OGC advises that such a new requirement would raise, the agency would have to make substantial changes to its reporting system. Given that BIP is a one-time program for which all projects must be completed by September 30, 2015, we do not believe such use of taxpayer funding would be appropriate.

As a general matter, RUS has required individual subscriber reporting in its programs for decades, principally to gauge the financial feasibility of a project. And while we believe that subscriber numbers are more than just financially important, we do not believe that they are the measure of success of the BIP program. In addition to bringing crucial utility infrastructure to rural areas for future economic growth, RUS also believes the success of the BIP program is tied to the Recovery Act's purpose of job creation, which large-scale infrastructure project such as these undoubtedly create.

For the reasons stated above, we feel the present public reporting of new or improved broadband service throughout an awardee's service area is an adequate measure of the impact of each award.

*Recommendation 2*

*Quarterly update the performance measurements on the Rural Development Recovery Act broadband webpage to compare the actual numbers of BIP subscribers reported by awardees as of the end of the quarter to the projected numbers of subscribers.*

As stated above, the Agency has already begun publishing quarterly updates of awardees' performance measurements on its program webpage. We will also take steps in future

reports to include the number of subscribers projected to be connected through the program.

*Recommendation 3*

*To ensure better reliability of awardee-reported performance data, revise Broadband Collection and Analysis System (BCAS) guides for awardees and staff to provide detailed and clear instructions relative to the entry and review of BIP performance data in BCAS.*

While RUS has two User Guides in place for the BCAS System, one for internal users and one for our clients, we understand there was some confusion with respect to the new or improved subscribership numbers required in one section of the BCAS report. We have developed additional guidance to better explain what should be reported in that section and will provide that written guidance to all active awardees by September 30, 2013. We have also established a practice whereby our Field Staff conducts reviews of the subscribership numbers being reported each quarter by BIP awardees and works with awardees to correct any problems. While OIG found some issues with the first such reviews conducted by our Field Staff, we have refined our practices and developed additional written guidance for our staff to improve the results and distributed that guidance to our staff.

**Finding 2: Grant Award Components Were in Excess of 75 Percent Cap**

*Recommendation 4*

*To ensure transparency and equitable treatment of BIP awardees and, to the extent practicable, formally notify all BIP awardees whose awards include loan components that RUS may allow them to substitute equity for the loan component.*

The Agency does not agree with OIG's opinion that the grant award component was in excess of the 75% cap, nor that RUS administered BIP differently than outlined in the NOFA, due to awardees being able to substitute their own equity for the loan component. Though the ability to utilize equity funding in lieu of the loan component was not specifically stated in the NOFA, RUS did take steps to inform all applicants through FAQs posted to our website and during our national workshops. Additionally, even now, any BIP awardee can pay off its loans, or any loan advance, in full at any point without a prepayment penalty. Therefore, all awardees already have the ability, pursuant to the existing legal arrangements, to substitute their own equity in lieu of the RUS loan.

While we appreciate OIG's suggestion that RUS notify all BIP awardees of their ability to substitute equity for the loan, we believe that at this late date, the Agency would be overburdened by such an undertaking, while it is concentrating on providing advances to complete projects before the statutory deadline that funds may be used. OIG accurately cites that the principal reason RUS entertained such substitutions was to make and close

as many awards in furtherance of the Recovery Act. However, at this stage, OGC has advised against sending out such correspondence, given that such actions would necessitate enormous amounts of limited RUS and OGC resources to effectuate the changed legal relationships for no benefit to awardees, because the documents already provide an existing legal right to prepay the loan with no penalty. Additionally, there was no legal benefit conferred to awardees in which the loan component was substituted with equity, such that no present awardee is disadvantaged.

*Recommendation 5*

*For future broadband programs, publish and follow clear and consistent policies and procedures relative to grant/loan funding mixes. Specifically, such policies and procedures should clearly describe the proportional relationships of a project's grant, loan, and equity components to the total award and to the total project costs, to include any limits thereon.*

The Agency believes that we published and followed clearly defined policies and procedures relative to the grant/loan funding mixes. At this time the RUS does not administer any other program which includes both loan and grant funding components. Should that change in the future, the Agency will implement clear and concise written guidance defining policies and procedures for advancing funds under new requirements.

**Finding 3: BIP Funds Were Not Always Proportionally Advanced**

*Recommendation 6*

*Review all grant/loan combination awards that are still actively drawing funds, including those for which equity was substituted for the loan component, to ensure the advances already made were proportional. For all identified as disproportional to the funding ratio, take corrective action.*

We appreciate OIG bringing to our attention two projects where advances were not made proportionately to the amount of grant, loan and equity funding awarded for a project. We have taken steps to correct both instances. While the Agency already ensures funds are being advanced appropriately when advancing funding on a project, we will also go back and review each BIP award to ensure that funds were, and are, being advanced correctly in proportion to the amount of loan, grant, or equity funding awarded to each project. This review will be completed by September 30, 2013.

*Recommendation 7*

*Implement written procedures to ensure future grant/loan combination funds are advanced in proportion to the amount of the award made in the forms of grants and loans, including those for which equity was substituted for the loan component.*

As noted above, the Agency has taken corrective action and developed written procedures for staff which will ensure all future loan/grant combination awards are advanced in proportion to the amount of loan, grant and equity funding associated with the project. We have incorporated this additional written guidance into our FRS Staff Instructions and distributed the updated guidance to our staff.

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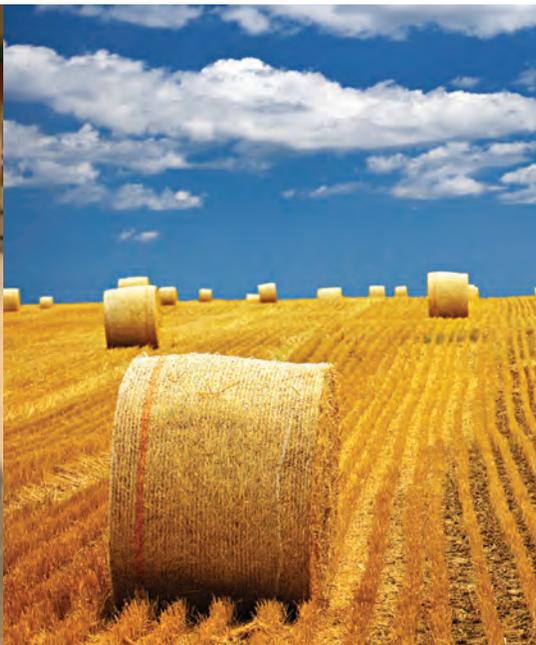
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