



Accounting

USDA RUS ReConnect Program

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Agenda

- Accounting Principles
- Code of Federal Regulations 7 CFR 1773 Policy on Audits
- Internal Controls
- Compliance with Construction Procedures
- Capitalization versus Financing
- Documentation Requirements



Accounting Principles



Accounting Principles

- Generally Accepted Accounting Principles (GAAP)
- Telephone Uniform System of Accounts
 - Vs (Electric Uniform System of Accounts)
- Code of Federal Regulations, Title 2 Grants and Agreements



Generally Accepted Accounting Principles

Type of entity determines the overall accounting principles:

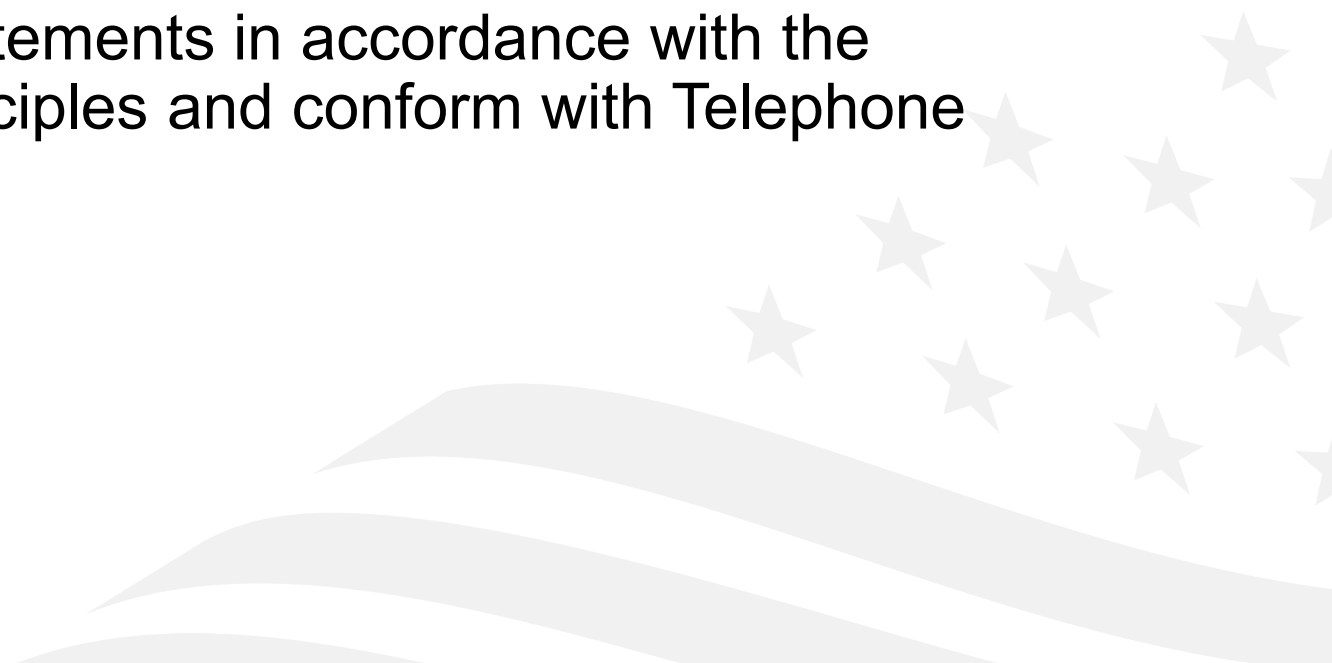
- For-profit private entity (Financial Accounting Standards Board)
 - Departures from Telephone USoA must be approved in advance
- Cooperative (Financial Accounting Standards Board –Telephone USoA)
- Not-For-Profit Entities (FASB 117)
 - Departures from Telephone USoA must be approved in advance
- Government Entities (Government Accounting Standards Board)
 - Departures from Telephone USoA must be approved in advance

Generally Accepted Accounting Principles

Not allowed:

- Cash Basis accounting and financial reporting
- Tax Basis accounting and financial reporting

LLC's must prepare the financial statements in accordance with the Generally Accepted Accounting Principles and conform with Telephone USoA



Generally Accepted Accounting Principles

Common elements for all GAAP:

- Conservatism, Comparability, Consistency, Matching Principles
- FASB Accounting Standards Codified: ASC 360
 - Self Constructed Assets
 - All Direct Costs are included in the total cost of the asset
 - Fixed Overhead Costs are not included unless they are increased by the construction of the asset
 - Interest costs may or may not be capitalized

Generally Accepted Accounting Principles

Common elements for all GAAP:

- Reasonable, Allocable, and Eligible
- Costs for internally generated assets must have direct relationship to construction. (note indirect costs are really direct costs that cannot be specifically identified to a specific project)

NOTE: The uniform system of accounts and title 2 of the code of federal regulations may constrain the capitalization of costs allowed under ASC 360.

Telephone Uniform System of Accounts

1770B-1 47 CFR Part 32 Uniform System of Account required for REA Telephone Borrowers

- Chart of Accounts required for all Telephone borrowers
 - Electric and non-telephone borrowers must have a general ledger/chart of accounts that complies with the system for purposes of projects funded by ReConnect loans and grants
- 32.12 Records
 - The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts.
 - The company's financial records shall be kept with sufficient particularity (detailed evidence) to show fully the facts pertaining to all entries in these accounts. The detailed records shall be filed in such a manner as to be readily available for examination.

Telephone Uniform System of Accounts

32.12 Records

- The commission (RUS) shall require a company to maintain financial and other subsidiary records in such a manner that specific information, of a type not warranting disclosure as an account or subaccount, will be readily available.
 - **Subsidiary Loan Budget Records** (reconcile amounts paid to contractors, invoice amounts, and amounts approved, advanced and disbursed from the pledged deposit account).
 - **Pledged Deposit Account Reimbursement Schedule** (shows by advance, deposit, and disbursement the budget purpose from the financial requirement statement that have been disbursed to the general fund cash account).
 - **Continuing Property Records** (detailed....)
 - **Labor, Material, and Overhead** subsidiary ledgers

Telephone Uniform System of Accounts

32.13 Accounts- General

- (e) Where the use of subsidiary records is considered necessary in order to secure the information required in reports to any state commission, the company shall incorporate the following controls into their accounting system with respect to such subsidiary records:
 - (i) Subsidiary Records shall be reconciled to the company's general ledger or books of original entry, as appropriate.
 - (ii) The company shall adequately document the accounting procedures related to subsidiary records.
 - (iii) The subsidiary records shall be maintained at an adequate level of detail to satisfy regulators.

Telephone Uniform System of Accounts

32.13 Accounts- General

- Continuing Property Records
 - Subsidiary Fixed Asset Listing that reconciles to the amounts within the classified plant accounts
 - Details must include Date installed, specific location installed, serial numbers if applicable, PFSA or non-PFSA designation, capitalized cost, accumulated depreciation, net cost, and for disposition purposes should have some indicator if grant funds were used.
 - Plant accounts should be divided into classified plant accounts based on uniform system of accounts and standard retirement units

2 CFR .200

- §200.402 Composition of costs
 - Total cost. The total cost of a Federal award is the sum of the allowable direct and allocable indirect costs less any applicable credits.
- §200.403 Factors affecting allowability of costs
 - Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:
 - a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
 - b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
 - c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.

2 CFR .200

- §200.403 Factors affecting allowability of costs
 - d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
 - e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
 - f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also §200.306 Cost sharing or matching paragraph (b).
 - g) Be adequately documented. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

2 CFR .200

- §200.404 Reasonable costs
 - A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:
 - i.e. Must have direct relationship and necessary for construction at a reasonable rate.

2 CFR .200

- §200.404 Reasonable costs
 - a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.

i.e. Administrative Assistant's labor not necessary for construction

- b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.

Affiliated Transactions must be pre-approved and at cost with no profit margin

2 CFR .200

- §200.404 Reasonable costs
 - c) Market prices for comparable goods or services for the geographic area

A CEO performing an install and recording his/her salary as the cost rather than the cost of an installer not reasonable. Increasing salaries for work performed under ReConnect is not reasonable

- d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.

Buying state of the art construction equipment when renting would have resulted in savings to taxpayer, federal government is not reasonable

2 CFR .200

- §200.404 Reasonable costs
 - e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

Changing overtime policy to increase amount charged to Federal award would not be reasonable.

Must employ conservatism, prudent person, third-party, arms length and geographic market considerations in all transactions.

When in doubt do not capitalize and do not finance.

2 CFR .200

- §200.405 Allocable costs
 - a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:
 - 1) Is incurred specifically for the Federal award
 - 2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods

Must use approved allocation methods under bulletin 1770-1 work order procedures to allocate these costs

2 CFR .200

- Eligible Costs
 - Even if a cost is reasonable and allocable it still may not be eligible
 - **Allowance For Funds Used During Construction** (AFUDC) should be capitalized if the criteria for AFUDC is met but this cannot be financed
 - Internal Control systems must accumulate the cost of AFUDC but it must be reduced on the summary of work orders before the cost is submitted for financing
 - Executive Compensation (Account 6711) any costs that would normally be included under account 6711 are not eligible for financing even if the amount is reasonable

2 CFR .200

- §200.420 Considerations for selected items of cost
 - Title 2 CFR 200 specifically covers eligibility of certain items of cost
- For the most part the Telephone Uniform System of Accounts, Work Order Procedures, and ReConnect Construction procedures outline the costs of construction that meet the eligibility criteria
- It is important to review this section though for any costs that might be deemed ineligible within other costs
 - §200.423 Alcoholic beverages.
 - Costs of alcoholic beverages are unallowable

Code of Federal Regulations 7 CFR 1773

Policy on Audits



1773 Policy on Audits of RUS Borrowers and Grantees

- Section 6.3 Annual Audit
 - Effective after an Advance has been made, one hundred twenty (120) days from the end of the Awardee's current fiscal year and, thereafter, one hundred twenty (120) days from the close of each subsequent fiscal year, the Awardee must submit annual audited financial statements along with a report on compliance and on internal control over financial reporting, and a management letter in accordance with the requirements of 7 CFR 1773

Note: Non-Federal Entities under .200 have 9 months to submit an audit.

1773 Policy on Audits of RUS Borrowers and Grantees

- §1773.3 Annual audit
 - a) Each auditee must have its financial statements audited annually by an auditor selected by the auditee and approved by RUS as set forth in §1773.4. All auditees must submit audited financial statements on a comparative basis covering two consecutive 12 month periods
 - b) Each auditee must establish an annual audit date within 12 months of the date of the first advance and must prepare annual financial statements for the audit date established. Each auditee must notify the AA-PARA of the audit date at least 90 days prior to the selected audit date
 - c) In addition to the requirements of this part, certain auditees may be subject to the Single Audit Act

1773 Policy on Audits of RUS Borrowers and Grantees

- §1773.3 Auditee's responsibilities
 - a) Selection of a qualified auditor. The auditee's governance board is responsible for the selection of a qualified auditor that meets the requirements set forth in §1773.5. When selecting an auditor, the auditee should consider, among other matters:
 - 1) The qualifications of auditors available to do the work;
 - 2) The auditor's experience in performing audits of utilities, related industries, or in the case of grantees, experience in auditing entities comparable to the grantee; and
 - 3) The auditor's ability to complete the audit and submit the reporting package within 90 days of the audit date.
 - b) Board approval of selection. The board's approval of an auditor must be recorded by a board resolution that states:
 - 1) The auditor represents that it meets RUS qualifications to perform an audit; and
 - 2) The auditee and auditor will enter into an audit engagement in accordance with §1773.6.

1773 Policy on Audits of RUS Borrowers and Grantees

- §1773.4 Auditee's responsibilities
 - c) Notification of selection. When the initial selection or subsequent change of an auditor has been made, the auditee must notify the AA-PARA, in writing, at least 90 days prior to the audit date
 - d) Audit engagement letter. The auditee must enter into an audit agreement with the auditor that complies with §1773.6 prior to the initiation of the audit
 - e) Debarment certification. The auditee must obtain, from the selected auditor, a lower tier covered transaction certification (Form AD-1048)
 - f) Peer review report. The auditee must obtain, from the selected auditor, a copy of the auditor's current approved peer review report.

1773 Policy on Audits of RUS Borrowers and Grantees

- 1773.5 Qualifications of the Auditor
 - Auditors that meet the qualifications criteria of this section and enter into an audit engagement with the auditee that complies with §1773.6, will be considered satisfactory to RUS.
 - (Licensed to audit in the United States of America, Independent, and Peer Review)
 - Peer review requirement. Auditors must be enrolled and participating in a peer review program and must have undergone a satisfactory peer review of their accounting and audit practice. The peer review must be in effect at the date of the audit report opinion.
 - RUS reserves the right to request peer review reports from selected audit.
 - The auditee must obtain, from the selected auditor, a copy of the auditor's current approved peer review report.

1773 Policy on Audits of RUS Borrowers and Grantees

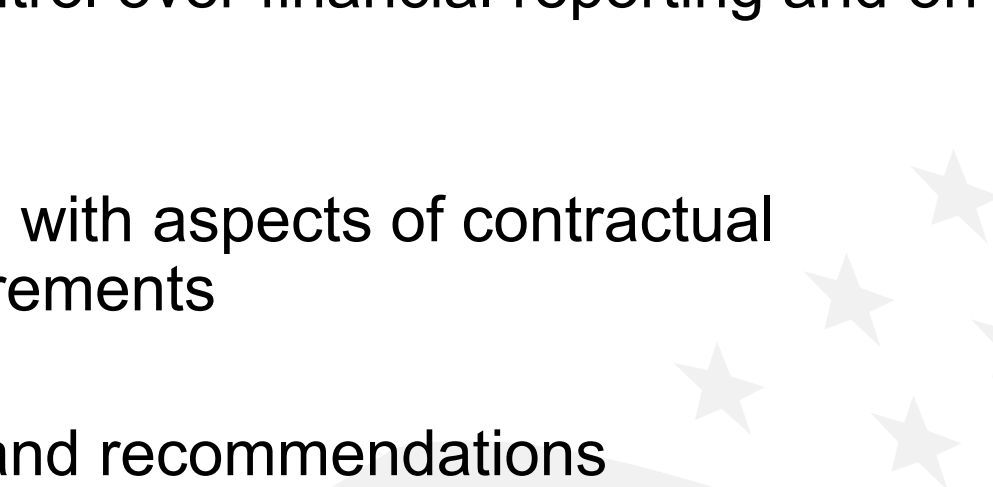
- §1773.10 Access to audit documentation
 - Pursuant to the terms of this part and the audit engagement letter, the auditor must make all audit documentation available to RUS, or its designated representative, upon request and must permit RUS, or its designated representative, to photocopy all audit documentation



1773 Policy on Audits of RUS Borrowers and Grantees

- §1773.21 Auditee's review and submission of the reporting package
 - a) The auditee's governance board should record receipt of the reporting package and any action taken in response to the reporting package in the minutes of the board meeting at which such reporting package is presented
 - b) The auditee must furnish RUS with an electronic copy of the reporting package within 120 days of the audit date as provided for in §1773.3
 - c) The auditee must furnish AA-PARA with a copy of its plan for corrective action, if any, within 180 days of the audit date
 - d) The auditee must include in the reporting package a copy of each special report, summary of recommendations or similar communications, if any, received from the auditor as a result of the audit
 - e) All required submissions to RUS described in paragraphs (b) through (d) of this section should be furnished electronically. The electronic copy must be provided in a Portable Document Format (PDF)

1773 Policy on Audits of RUS Borrowers and Grantees

- Subpart D – RUS Reporting Requirements
 - §1773.31 Auditor's report on the financial statements
 - §1773.32 Report on internal control over financial reporting and on compliance and other matters
 - §1773.33 Report on compliance with aspects of contractual agreements and regulatory requirements
 - §1773.34 Schedule of findings and recommendations
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Internal Controls



Internal Controls

REA Bulletin 1770-1 Work Order Procedure:

https://www.rd.usda.gov/files/UTP_Bulletins_1770-1.pdf

- Provides the basic internal controls over construction under a work order system

2.1) Contributions in the form of money or its equivalent toward the construction of telecommunications plant are credited to the accounts charged with the cost of such construction

Contributions in aid of construction should be reduced on the summary of work orders

Internal Controls

REA Bulletin 1770-1 Work Order Procedure

- 5) Estimated Work Orders: Estimated work orders should be prepared, as necessary, to management needs. The form should provide a section for listing the quantity of each construction unit to be installed. Unit costs are based upon engineering estimates and are multiplied by the quantities to determine total cost of construction.
 - Estimated Work Orders cannot be financed but should be done to control costs
- 6) A construction work order should accumulate, in one record, all cost assignable to a specific addition of telecommunications plant.

Internal Controls

REA Bulletin 1770-1 Work Order Procedure

ReConnect work orders will also have to be segregated further to comply with the construction procedures and differentiate between PFSA and non funded service areas.

- 8) Job Orders: usually refers to maintenance activities chargeable to expense. The term, however, may be used to identify small construction jobs that are not considered large enough to require a separate work order. Under a blanket work order system, job order numbers may be assigned to individual projects covered by one blanket work order.

Customer install might be handled by blanket with job numbers as long as it does not violate the construction procedures of ReConnect

Internal Controls

REA Bulletin 1770-1 Work Order Procedure

10) Work Order Register: Borrowers (all awardees) should (must) maintain a register or control record in which work orders are assigned a number and listed in numerical order.

10.1) The content of the Register

- a) The work order number (should include exchange (if applicable, the year, tax district, geo-code or specific location, evidence within service area, whether grant funds were used, and any serial numbers that should be associated with the plant equipment)

Internal Controls

REA Bulletin 1770-1 Work Order Procedures

10.1) The content of the Register

- b) The job order number, when identifying individual projects under a blanket work order (job order numbers for customer installs must identify location and whether the customer is within the service territory)

If a blanket work order is permitted to be used the work order must allocate cost properly between funded and non-funded service areas and the blanket work order must be reduced on the summary of work orders for costs not eligible for financing

Internal Controls

REA Bulletin 1770-1 Work Order Procedures

10.1) The content of the Register

- c) A description of the work or other identification
- d) The location of the work (physical address, geo-code, site specific information)
- e) The date the work began; and,
- f) The date work was completed. (date of staking and date of right of way may also be useful)

Internal Controls

REA Bulletin 1770-1 Work Order Procedure

11) Labor:

11.1) The daily Work Report is prepared each day by the personnel responsible for the work being performed. It is the basic accounting record for payroll hours, plant additions and retirements.

11.1.1) Enter each employee's name (employee i.d.) and provide a description of the work performed...and the work order number, if any. An employee's time should be reported by hours, with no attempt to segregate overtime from regular hours. This segregation is made on the payroll distribution sheet.

A separate "description of work" column should be used for each type of work that includes cost chargeable to separate accounts (i.e. non-funded area construction)

Award recipients under ReConnect may want to segregate construction work in progress 2003 into multiple accounts to ensure that costs are adequately tracked for different types of construction and eligible and non-eligible construction cost for financing purposes

Internal Controls

REA Bulletin 1770-1 Work Order Procedure

11) Labor:

11.1.2) The daily Work Report is the original record of material used. If a telecommunications entity does not employ a storekeeper/warehouse supervisor to control materials, non-exempt materials and supplies taken from stock for either construction or maintenance activities should be reported under the heading "Material Used." The kind of material, size, or **And** material code should be entered.

11.1.4) Motor Vehicle: The foreman, or individual when working alone, should distribute total hours/total miles a vehicle was used during the day. For multiple trips to various jobs the distribution of the vehicle time is made on the same basis as the direct labor hours for each job.

Internal Controls

REA Bulletin 1770-1 Work Order Procedure

The remaining sections of 1770-1 outlined below should also be followed in detail

12) Material (OFM on contracts is different)

13) Overhead

14) Account Analysis

15) Work Order Ledger (usually handled electronically now and used as basis for unitization and distribution)

16) Summary of Work Orders is used to summarize costs of completed work orders and to requisition funds from RUS

Construction Procedures



Construction Procedures

Located at:

https://www.rd.usda.gov/files/ReConnect_Program_Construction_Procedures_Final.pdf

These construction procedures must be complied with along with the USoA and Work Order procedures outlined above.

In the case where a perceived conflict exists between these documents or in the internal control system of an awardee, the issue must be communicated to the RUS ReConnect staff and vetted by RUS and External Compliance Division before a procedure is implemented.

Documentation



Documentation

- All documentation must be contemporaneous: That is, initiated and created at the time of the transaction;
- The original must be available for inspection and must have original signatures if an approval process is required for receipt and issuance of material, time reported and approved for labor.
- The awardee must document third party construction through invoices and reconcile those costs to the completed construction paid from general funds, advanced and disbursed from the pledged deposit account.

Engineers and Award Recipients should also provide evidence that monitors percentage of completion and compliance with contracts

Documentation

- Original Source documentation must be organized and retained in such a manner to be readily available for inspection by RUS and Rural Development personnel for at least 3 years after last date for advance, or until final costs are audited whichever is longer.
- 3 years after the last date for advance or the final audit, a retention period should be established that provides sufficient documentation for the economic life of plant assets constructed.
- Before any record is destroyed an Awardee must notify the General Field Representative and the Field Accountant to determine if the record must be retained for audit purposes.



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