

2012

(0572-0095)

7 CFR Part 1773, Policy on Audits of RUS Borrowers

SUPPORTING STATEMENT

OMB Terms of Clearance: None

A. Justification

1. Explain the circumstances that make the collection of information necessary.

Under the authority of the Rural Electrification Act of 1936 (Act), as amended 7 U.S.C. 901 et seq.:

“The Administrator is authorized and empowered to make loans in the several States and Territories of the United States for rural electrification and the furnishing of electric energy to persons in rural areas who are not receiving central station service, and for the purpose of furnishing and improving telephone service in rural areas, as hereinafter provided; to make or cause to be made, studies, investigations, and reporting concerning the condition and progress of the electrification of and the furnishing of adequate telephone service in rural areas in the several States and Territories; and to publish and disseminate information with respect thereto.” (May 20, 1936, Ch. 432, s2,49 Stat. 1363; Oct. 28, 1949, ch 776, s3,63 State. 948; 7 U.S.C. 902.)

Article V, Section 5.19, of the RUS loan contract requires:

“The Borrower shall cause to be prepared and furnished to RUS a full and complete annual report of its financial condition and of its operations in form and substance satisfactory to RUS, audited and certified by Independent certified public accountants satisfactory to RUS and accompanied by a report of such audit in form and substance satisfactory to RUS. The Borrower shall also furnish to RUS from time to time such other reports concerning the financial condition or operations of the Borrower, including its Subsidiaries, as RUS may reasonably request or RUS Regulations require.”

2. Indicate how, by whom, and for what purpose the information is to be used. Except for a new collection, indicate the actual use the Agency has made of the information received from the current collection.

RUS, in representing the Federal Government as Mortgagee and in furthering the objectives of the Act, relies on the information provided by the borrowers in their financial statements to make lending decisions as to borrowers' credit worthiness and to assure that loan funds are approved, advanced, and disbursed for proper RE Act purposes. These financial statements are audited by a certified public accountant to provide independent assurance that the data being reported are properly measured and fairly presented. 7 CFR 1773 requires borrowers to furnish a full and complete report of its financial condition, operations, and cash flows, in form and substance satisfactory to RUS, audited and certified by an independent certified public accountant (CPA), satisfactory to RUS, and accompanied by a report of such audit, in form and substance satisfactory to RUS. 7 CFR 1773 requires information in accordance with generally accepted government auditing standards (GAGAS). The specific burden required by RUS, that is not covered by GAGAS, is as follows:

Selection of a qualified Certified Public Accountant (CPA): The borrower must notify the Agency when it changes CPA firms. It is estimated that approximately 100 borrowers select a CPA firm different from the previous year. Preparation will take approximately 15 minutes.

Submission of auditor's report: The borrower must submit to RUS the required auditor's report which reports on compliance and on internal control over financial reporting, and management letter. Preparation time of those items not covered by GAGAS is estimated at 11 hours.

Submission of plan of corrective action: The borrower must submit written comments to the Agency on the findings and recommendations in the Auditor's report. This will include a plan of corrective action. It is estimated that one-fourth of borrowers will have recommendations of some nature and preparation time is estimated at .15 minutes.

Submission of peer review reports: The CPA must submit a copy of any peer review report and accompanying letter of comment to RUS. Each firm must have a peer review performed every three years. Approximately 450 firms audit with the RUS program; therefore, approximately 150 firms must submit reports each year. Time to prepare and mail accompanying letter with report is 15 minutes.

Scope limitation: The CPA must inform the Agency of any limitation of the scope of the audit by the borrower. Scope limitations are rare and estimated at no more than 2 each year. Notification is estimated at 15 minutes by telephone.

Irregularities: The CPA must report any irregularities and all indications or instances of illegal act, whether material or not, to the president of the borrower's board of directors, to RUS, and to the Regional OIG. The Agency estimated 10 irregularities per year that will require an average of 1 hour professional time and 1 hour of clerical time.

3. Describe whether, and to what extent, the collection of information involves the use of automated, electronic, mechanical, or other technological collection techniques or other forms of information technology, e.g. permitting electronic submission of responses, and the basis for the decision for adopting this means of collection.

Rural Development is committed to meeting the requirements of the E-Government Act, which requires Government agencies in general to provide the public the option of submitting information or transacting business electronically to the maximum extent possible. The agency will accept the change in CPA firm via e-mail. In addition, the agency has developed a method for accepting the CPA Audits electronically from borrowers and has begun receiving audits via pdf. documents. The documents are then posted to a document management system for internal review by staff. The agency expects to receive 75 percent of audits in this manner.

4. Describe efforts to identify duplication. Show specifically why any similar information already available cannot be used or modified for use for the purposes described in Item 2 above.

General purpose financial information is provided at December 31 for all borrowers. This information, however, is not audited and does not contain compliance testing required by GAGAS. The general purpose financial statements for RUS borrowers with fiscal dates other than December 31 are not duplicated on any other report. The reports required by GAGAS on compliance testing and internal controls are not duplicated in any other format. Interim financial reports that may duplicate data submitted in the annual report are not required to be prepared. If borrowers elect to prepare interim reports for management's evaluations, they are not required to furnish these reports to RUS.

5. If the collection of information impacts small businesses or other small entities, describe any methods used to minimize burden.

The information reported in the financial statements may be taken directly from the accounting records normally maintained by borrowers; therefore, no additional burden is imposed that would impact small businesses or small entities. The agency estimates that according to the Table of Small Business Size Standards established by the Small Business Administration (SBA) which is matched to the North American Industry Classification System NAICS) for industries, all 1,250 borrowers (or 100 percent of the respondents) for this collection are considered small businesses.

6. Describe the consequences to Federal program or policy activities if the collection is not conducted or conducted less frequently, as well as any technical or legal obstacles to reducing burden.

The annual reporting of financial information is considered the standard for all business enterprises. Collecting the information less frequently would delay RUS' analysis of the borrower's financial strength, thereby adversely impacting current lending decisions. It would also delay corrective action on improper accounting issues and financial downturns.

7. Explain any special circumstances that would cause an information collection to be conducted in a manner:

a. Requiring respondents to report information more than quarterly.

There are no requirements to report more than quarterly.

b. Requiring written responses in less than 30 days.

There are no requirements to report in less than 30 days.

c. Requiring more than an original and two copies.

There are no requirements to submit more than an original and two copies.

d. Requiring respondents to retain records for more than 3 years.

Recordkeeping requirements are in accordance with 7 CFR 1770 and 7 CFR 1767 and normally do not exceed three years, except for records supporting plant accounts which are required to be maintained for 25 years or the life of the plant.

e. That is not designed to produce valid and reliable results that can be generalized to the universe of study.

There is no statistical information involved in this collection.

f. Requiring use of statistical sampling which has not been reviewed and approved by OMB.

There is no statistical information involved in this collection.

g. Requiring a pledge of confidentiality.

There is no requirement of a pledge of confidentiality.

h. Requiring submission of proprietary trade secrets.

There is no requirement of submission of proprietary trade secrets.

8. If applicable, identify the date and page number of publication in the Federal Register of the agency's notice soliciting comments on the information collection. Summarize public comments received and describe actions taken by the agency in response to these comments. Describe efforts to consult with persons outside the Agency to obtain their views on the availability of data, frequency of collection, the clarity of instructions and recordkeeping, disclosure, reporting format (if any), and on data elements to be recorded, disclosed, or reported.

As required by 5 CFR 1320.9(d), a Notice to request comments was published on May 23, 2012 at 77 FR 30499. No comments were received.

Part 1773 is published in the Code of Federal Regulations and transmitted to all RUS borrowers. The Agency's Field Accountants work closely with borrowers in the field regarding RUS accounting and auditing requirements. Any suggestions by borrowers to improve program operations are considered. In addition, RUS conducts CPA seminars in several parts of the United States on a biennial basis to provide information to CPA firms regarding RUS' audit requirements.

Additionally, RUS has contacted the following users of 7 CFR 1773 and inquired as to whether the regulation is unduly burdensome and if the users have any suggestions for improvement. All three of the contacts indicated that they did not consider the requirements burdensome. When asked, none offered any suggestions for improvement.

Shawn Deisz
Manager of Accounting
Basin Electric Power Cooperative
701-557-5432

Mark DePerrior
Controller
Citizens Telephone of NY
315-324-5911

Carol Braxton
Chief Financial Officer
Peace River Electric Cooperative
863-767-4611

9. Explain any decision to provide any payment or gift to respondents, other than remuneration of contractors or grantees.

Payments or gifts are not provided to respondents.

10. Describe any assurance of confidentiality provided to respondents and the basis for the assurance in statute, regulation, or Agency policy.

There is no assurance of confidentiality provided.

11. Provide additional justification for any question of a sensitive nature, such as sexual behavior or attitudes, religious beliefs, and other matters that are commonly considered private.

There are no questions of a sensitive nature.

12. Provide estimates of the hour burden of the collection of information.

A breakdown of the reporting requirements by section is indicated on the attached spreadsheet. The hourly wages for clerical and auditors are from the *U.S. Department of Labor Bureau of Labor Statistics, 2011 Occupational Employment Statistics (OES)*. The professional time billing rates are based on the most recent Institute of Finance & Management (IOFM) CPA Firm Practice Management Survey for Managers, Seniors & Juniors (averaged). The following is a summary of this information collection.

Regulation	Number of Respondents	Total Annual Responses	Total Hours
7 CFR 1773	1,250	1887	13,927

The cost per burden item is estimated as follows:

Selection of CPA

Clerical Time:

$$100 \times .25 \times \$17.37 = \$ 434.25$$

Auditor's Report

Professional time

$$1,250 \times 11 \text{ hrs} \times \$36.09 = \$ 496,237.50$$

Submission of Plan of Corrective Action

Professional Time:
 $375 \times .25 \text{ hrs} \times \$36.09 = \$ 3,383.44$

Submission of Peer Review Reports

Clerical Time
 $150 \times .25\text{hrs.} \times \$17.37 = \$ 651.38$

Notification of Scope Limitation

Professional Time:
 $2 \times .25 \text{ hrs} \times \$130.00 = \$ 65.00$

Notice of Irregularities

Professional Time:
 $10 \times 1 \text{ hr} \times \$130.00 = \$ 1,300.00$

Clerical Time:
 $10 \times 1 \text{ hrs} \times \$17.37 = \$ 173.70$

Total = \$ 1,473.70

Total Cost to Respondents is = \$502,245.27

13. Provide an estimate of the total annual cost burden to respondents or recordkeepers resulting from the collection of information.

(a) Total capital and start-up cost component (annualized over its expected useful life); and (b) Total operation and maintenance and purchase of services component.

There are no capital/start-up or operation and maintenance costs involved.

14. Provide estimates of annualized cost to the Federal Government.

Review of audit report @\$48.35/hour X 6 hours \$290.10

Processing @\$20.63/hour X 2 hours (clerical) \$ 41.26

Yearly cost per borrower \$331.36

Attributed to an Accountant – GS 13, step 5)

Attributed to a clerical-type – GS 6, step 5)

1,250 Electric and Telephone @ \$331 X 1,250 borrowers \$413,750

Borrowers

The cost to the Federal Government is: \$413,750

15. Explain the reasons for any program changes or adjustments.

There are no burden changes in this collection. This package represents the same number of active borrowers (1250) as the previous package and there were no changes to the reporting requirements for these borrowers.

16. For collection of information whose results will be published, outline plans for tabulation and publication.

The information will not be published for statistical use.

17. If seeking approval to not display the expiration date for OMB approval of the information collection, explain the reasons that display would be inappropriate.

No approval sought.

18. Explain each exception to the certification statement identified in item 19 on OMB 83-1.

There are no exceptions to item 19.

B. Collection of Information Employing Statistical Methods.

This information collection does not employ statistical methods.