

2015

(0572-0095)

7 CFR Part 1773, Policy on Audits of RUS Borrowers

SUPPORTING STATEMENT

OMB Terms of Clearance: None. This is an extension of a currently approved collection. There was an increase of 987 burden hours, from 13,927 to 14,914, resulting from an agency adjustment because of an increase in the estimated annual respondents.

A. Justification

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

The intent of the Rural Electrification Act is to encourage utilities investments in rural communities in order to increase the quality of life for residents in those areas. 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 Rural Utilities Service (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.”

RUS relies on information provided by the borrowers in their annual audited financial report to allow RUS to analyze the borrowers’ financial strength. If financial downturns

or accounting irregularities are detected, RUS can act in a timely manner to protect the governments security interest by assisting the borrower in taking timely corrective action.

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. It is estimated that 1340 RUS borrowers will submit auditor's reports and 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 thirty percent, or 400 of RUS borrowers will have recommendations of some nature and preparation time for plan submission 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 115 firms must submit peer review 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 for total of 20 burden hours.

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. RUS accepts information concerning 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. RUS does not require interim financial reports that may duplicate data submitted in the annual report. 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 of the estimated 1,340 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 discovery of accounting irregularities and financial downturns possibly jeopardizing the governments security interest. Review of the collected information allows RUS to detect improper use of funds and take corrective action.

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 frequently than quarterly.

- b. Requiring written responses in less than 30 days.

There is no requirement to report in less than 30 days.

- c. Requiring more than an original and two copies.

There is no requirement 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.

This collection is not a survey.

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

This collection does not employ statistical sampling.

g. Requiring a pledge of confidentiality that is not supported by authority established in statute or regulation, that is not supported by disclosure and data security policies that are consistent with the pledge, or which unnecessarily impedes sharing of data with other agencies for compatible confidential use.

There is no requirement of a pledge of confidentiality.

h. Requiring submission of proprietary trade secrets.

There is no requirement to submit 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 June 15, 2015, at 80 FR 34139 (114). No comments were received.

Part 1773 is published in the Code of Federal Regulations and is transmitted to all RUS borrowers. The Agency's Field Accountants have direct contact with borrowers and work closely with borrowers in the field regarding RUS accounting and auditing requirements and provide technical assistance, if it is requested. 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. In addition, RUS actively requests borrower suggestions and comments in order to improve program operations.

Additionally, RUS contacted and interviewed the following users of 7 CFR 1773 and discussed the burden placed on their utilities in connection with the information collection required by the regulation. Interviewees names, contact information and a summary of comments is below:

Cynthia Anderson
CFO
Jefferson Energy Cooperative

3077 Hwy 17
Wrens, GA 30833
704-547-5025

Ms. Anderson stated that the information submitted according to the requirements of 7 CFR 1773 was not burdensome to obtain. She advised that the information required was maintained in their records as recommended by generally accepted accounting standards. Ms. Anderson was asked for suggestions for improvement of information collection and could think of no suggestions for improvement.

Kelly Wilkins
V. Pres of Administration
Habersham EMC
6135 Hwy 115E
Clarksville, GA 30523
706-754-2114

Mr. Wilkins expressed a similar opinion that what is required by the regulation is also required by good business practices and they would be compiling the same information and completing the same reviews if the electric cooperative was a RUS borrower or not.

Cheryl Willett
Director of Finance and Administration
Washington Electric Cooperative
PO Box 8, 40 Church Street
E. Montpelier, VT 05651
802-224-2338

Ms. Willett discussed the burden placed on the Washington Electric Cooperative by the RUS requirements. She stated that the accounting standards and the information required is what is standard within any utility or business organization. She stated that most of the information is kept in the normal course of business and she did not consider the requirements burdensome. Ms. Willett was asked for suggestions to improve the information collection and she was satisfied with the information collection and could not think of ways that the requirements could be lessened and still adhere to generally accepted accounting practices.

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.

There is an increase of 987 burden hours, from 13,927 to 14,914, during the last reporting period. The increase is an agency adjustment due to an increase of 90 respondents, from 1,250 to 1,340, during the last reporting period. The average number of respondents was calculated by taking the average of the actual number for the past three years. The number of borrowers submitting Auditors reports, CPA Selections, Plans of Corrective Actions, Peer Review Reports, Scope limitations and Reports of Irregularities for each year of the reporting period was totaled and the average is the estimate for the respondents. The number of borrowers submitting Auditor's reports for the reporting period is 1,340. CPA selection reports were submitted by an average of 100 of those borrowers. It is estimated that thirty percent, or 400 of the respondents submit written comments to the Agency concerning a plan of corrective action. The average annual number of CPA reports on irregularities is 10 irregularities per year requiring one hour professional time and one hour of clerical time.

RUS estimates a total annualized cost of \$617,379.10 for respondents to comply with these regulations. Wages for the calculations are based on information from the U.S. Department of Labor, Bureau of Labor Statistics, Occupational Employment Statistics (OES) retrieved from http://www.bls.gov/oes/current/oes_nat.htm#42-0000. There are three wage categories, Auditors, Clerical/Administrative, and Professional (Chief Executive). The median hourly wage for Clerical/Administrative is \$17.51 (OES Occupational Code 43-3031). The wage rate for Auditor is \$31.70 (OES Occupational Code 13-2011), and the median hourly wage rate for the Professional category is \$83.33 (OES Occupational Code 10-1011, Chief Executive). Benefits as a percentage of total compensation for private trades was 30.7 percent.¹ The total hourly wage and benefits for Clerical/Administrative is \$22.89; total hourly wage and benefits for Auditor category is \$41.43; and total hourly wage and benefit for Professional is \$108.92. A breakdown of the reporting requirements by section is indicated on the spreadsheet (RUS Form 36) attached to this package and the following is a summary of the respondent cost calculation for this information:

Regulation	Number of	Total	Total
------------	-----------	-------	-------

¹ See, [Employer Cost for Employee Compensation – March 2014](http://www.bls.gov/news.release/ecec.nr0.htm) at <http://www.bls.gov/news.release/ecec.nr0.htm> reporting benefits were 30.7% of total compensation for private industry.

	Respondents	Annual Responses	Hours
7 CFR 1773	1,340	1,967	14,914

The cost per burden item is estimated as follows:

Selection of CPA

Clerical Time:

$$100 \times .25 \times \$22.89 = \$ 527.25$$

Auditor's Report

Auditor time

$$1,340 \times 11 \text{ hrs} \times \$41.43 = \$ 610,678.20$$

Submission of Plan of Corrective Action

Auditor Time:

$$400 \times .25 \text{ hrs} \times \$41.43 = \$ 4,143.00$$

Submission of Peer Review Reports

Clerical Time

$$115 \times .25 \text{ hrs.} \times \$22.89 = \$ 658.09$$

Notification of Scope Limitation

Professional Time:

$$2 \times .25 \text{ hrs} \times \$108.92 = \$ 54.46$$

Notice of Irregularities

Professional Time:

$$10 \times 1 \text{ hr} \times \$108.92 = \$ 1,089.20$$

Clerical Time:

$$10 \times 1 \text{ hrs} \times \$22.89 = \$ 228.90$$

$$\text{Total Cost to Respondents is} = \$617,379.10$$

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.

The annualized cost to the Federal Government is estimated at \$653,007.49 based on an hourly professional rate of \$49.32 at the GS-13, Step 5 level and an hourly clerical rate of \$21.04 at the GS-6, Step 5 level. The Federal Government wage information was obtained from the Office of Personnel Management 2015 General Schedule Tables located at: https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/salary-tables/pdf/2015/DCB_h.pdf. After calculating the cost of total benefits, the hourly professional rate is \$67.20 and the hourly cost for wage and benefits for clerical rate is \$28.67.² For each of the 1,340 borrowers/respondents submitting audit reports, it is estimated that 6 hours of Staff Accountant time (at GS13/Step 5) is required to review the audit report and 2 hours of Clerical time (GS5/Step 5) is required for processing. In addition, each of the estimated 400 plans of corrective action that are submitted require an estimated one hour of review by Staff Accountants. Each of the estimated 115 annually submitted peer review reports requires one time for review by a Staff Accountant. It is estimated that 10 reports of irregularities will be submitted annually and will require one hour of time for review by Staff Accountant and .50 hour of time for clerical processing. The calculation of estimated annualized cost to the Federal Government is shown below:

Review of audit report	@\$67.20/hour X 6 hours	\$403.20
Processing	@\$28.67/hour X 2 hours (clerical)	\$ 57.34
	Yearly cost per borrower	\$460.54
Attributed to an Accountant – GS 13, step 5)		
Attributed to a clerical-type – GS 6, step 5)		
1,340 Electric and Telephone Borrowers	@\$460.54 X 1,340 borrowers	\$617,123.60
400 Plans of Corrective Action	@400X\$67.20 hour	\$ 26,880.00
115 Peer Review Reports	@115X \$67.20	\$7,728.00
10 irregularities	@10X \$67.20	\$ 672.00
	@10X .5 X 28.67	\$ 143.35
<u>The cost to the Federal Government is:</u>		<u>\$653,007.49</u>

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

There is an increase of 987 burden hours (from 13,927 to 14,914) from the previous collection package. The increase is an agency adjustment due to an increase in the

²Cost of total benefits as a percentage of total hourly compensation for Federal Government employees has been calculated by multiplying 36.25% by the hourly OPM wage in accordance with OMB Memorandum M-08 13.

average estimated telecommunications borrowers by 90 increasing respondents from 1,250 to 1,340. There were no changes to reporting requirements for borrowers/respondents related to this collection.

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.