

**Pt. 1773**

**7 CFR Ch. XVII (1-1-01 Edition)**

Norwalk, CT 06856-5116.) For purposes of reporting to RUS, Statement No. 94 shall be applied as follows:

1. A borrower that is a subsidiary of another entity shall prepare and submit to RUS separate financial statements even though this financial information is presented in the parent's consolidated statements.

2. In those cases in which a borrower has a majority-ownership in a subsidiary, the borrower shall prepare consolidated financial statements in accordance with the requirements of Statement No. 94. These consolidated statements must also include supplementary schedules presenting a Balance Sheet and Income Statement for each majority-owned subsidiary included in the consolidated statements.

B. Although Statement No. 94 requires the consolidation of majority-owned subsidiaries, the RUS Form 479, Financial and Statistical Report for Telecommunications Borrowers, shall be prepared on an unconsolidated basis by all borrowers.

**PART 1773—POLICY ON AUDITS OF RUS BORROWERS**

**Subpart A—General Provisions**

Sec.

- 1773.1 General.
- 1773.2 Definitions.

**Subpart B—RUS Audit Requirements**

- 1773.3 Annual audit.
- 1773.4 Borrower responsibilities.
- 1773.5 Qualifications of CPA.
- 1773.6 Audit agreement.
- 1773.7 Audit standards.
- 1773.8 Audit date.
- 1773.9 Disclosure of irregularities and illegal acts.
- 1773.10 Access to audit-related documents.
- 1773.11-1773.19 [Reserved]

**Subpart C—RUS Requirements for the Submission and Review of the Auditor's Report, Report on Compliance, Report on Compliance and on Internal Controls Over Financial Reporting, and Management Letter**

- 1773.20 CPA's submission of the auditor's report, report on compliance, report on compliance and on internal controls over financial reporting, and management letter.
- 1773.21 Borrower's review and submission of the auditor's report, report on compliance, report on compliance and on internal controls over financial reporting, and management letter.
- 1773.22-1773.29 [Reserved]

**Subpart D—RUS Reporting Requirements**

- 1773.30 General.
- 1773.31 Auditor's report.
- 1773.32 Report on compliance and on internal control over financial reporting.
- 1773.33 Management letter.
- 1773.34-1773.37 [Reserved]

**Subpart E—RUS Required Audit Procedures and Documentation**

- 1773.38 Scope of engagement.
- 1773.39 Utility plant and accumulated depreciation.
- 1773.40 Regulatory assets.
- 1773.41 Extraordinary retirement losses.
- 1773.42 Clearing accounts.
- 1773.43 Capital and equity accounts.
- 1773.44 Long-term debt.
- 1773.45 Regulatory liabilities.
- 1773.46-1773.49 [Reserved]

APPENDIX A TO PART 1773—SAMPLE AUDITOR'S REPORT FOR AN ELECTRIC COOPERATIVE

APPENDIX B TO PART 1773—SAMPLE AUDITOR'S REPORT FOR A CLASS A OR B COMMERCIAL TELEPHONE COMPANY

APPENDIX C TO PART 1773—ILLUSTRATIVE INDEPENDENT AUDITOR'S MANAGEMENT LETTER FOR ELECTRIC BORROWERS

APPENDIX D TO PART 1773—ILLUSTRATIVE INDEPENDENT AUDITOR'S MANAGEMENT LETTER FOR TELECOMMUNICATIONS BORROWERS

AUTHORITY: 7 U.S.C. 901 *et seq.*; 7 U.S.C. 1921 *et seq.*; Pub. L. 103-354, 108 Stat. 3178 (7 U.S.C. 6941 *et seq.*).

SOURCE: 56 FR 63360, Dec. 3, 1991, unless otherwise noted.

EDITORIAL NOTE: Nomenclature changes to part 1773 appear at 63 FR 38722, July 17, 1998.

**Subpart A—General Provisions**

**§ 1773.1 General.**

(a) This part implements those standard provisions of the security instrument utilized by the Rural Utilities Service (RUS) for both electric and telephone borrowers and by the Rural Telephone Bank (RTB) for its telephone borrowers. The provisions require borrowers to prepare and furnish to RUS, at least once during each 12-month period, 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

## Rural Utilities Service, USDA

## § 1773.2

report of such audit, in form and substance satisfactory to RUS.

(b) This part 1773 applies to both RUS and RTB borrowers. For the purposes of RTB borrowers, as used in this part 1773, *RUS* means *RTB* and *Administrator* means *Governor* unless the text indicates otherwise.

(c) This part complies with the 1994 revision of Government Auditing Standards, issued by the Comptroller General of the United States, United States General Accounting Office.

(d) An auditor's report, report on compliance, report on compliance and on internal controls over financial reporting, and management letter are required to meet the reporting provisions of the RUS security instrument.

(1) The auditor's report must state that the audit was conducted in accordance with generally accepted government auditing standards (GAGAS).

(2) The management letter must state that the audit was conducted in accordance with this part.

(3) A report of the audit, in form and substance satisfactory to RUS, cannot be issued unless and until an audit has been performed in accordance with GAGAS and this part.

(4) A borrower is in violation of provisions of its security instrument with RUS if the borrower fails to provide an audit performed in compliance with GAGAS and this part. RUS security instruments normally provide for notice and an opportunity to cure such violations before RUS can exercise certain remedies.

(5) A report prepared in connection with a review or compilation of financial statements, as defined in Statement of Standards for Accounting and Review Services No. 1, Compilation and Review of Financial Statements, does not satisfy the requirements of the RUS security instrument.

(6) A report, as described in Statement on Auditing Standards (SAS) No. 62, entitled "Special Reports", or in SAS No. 35, entitled "Special Reports—Applying Agreed-upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement", does not satisfy the RUS loan security instrument requirements.

(7) An annual report containing audited financial statements does not

satisfy the RUS security instrument requirements.

(e) This part further implements those provisions of the standard RUS security instrument by setting forth the criteria for CPAs to be deemed satisfactory to RUS and the audit procedures and documentation standards that must be performed before a report of the audit satisfactory to RUS can be prepared and issued.

[56 FR 63360, Dec. 3, 1991, as amended at 61 FR 107, Jan. 3, 1996]

### § 1773.2 Definitions.

As used in this part:

*Administrator* means the Administrator of RUS and, as provided in § 1773.2 (b), *Governor*.

*AICPA* means the American Institute of Certified Public Accountants.

*Audit* means an examination of financial statements by an independent CPA for the purpose of expressing an opinion on the fairness with which those statements present financial position, results of operations, and changes in cash flows in conformity with generally accepted accounting principles (GAAP) and for determining whether the borrower has complied with applicable laws, regulations, and contracts for those transactions and events reflected in the financial statements.

*BAD* means the Borrower Accounting Division of RUS.

*Borrower* means an entity that has an outstanding RUS, RTB, or FFB loan or loan guarantee, or that has received a grant for electric, telecommunications, distance learning, or telemedicine purposes under the act.

*CPA* means certified public accountant. The terms *CPA* and *CPA firm* are used interchangeably.

*FFB* means the Federal Financing Bank, an instrumentality and wholly owned corporation of the United States.

*GAAP* means generally accepted accounting principles.

*GAGAS* means generally accepted government auditing standards as set forth in Government Auditing Standards, Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the Comptroller General of the United States.