



**United States Department of Agriculture
Rural Development**

February 7, 2014

SUBJECT: Clarification of RUS Part 1773 Audit Requirements

TO: Certified Public Accountants Auditing RUS Borrowers
Rural Utilities Service Borrowers and Grant Recipients

FROM: KENNETH M. ACKERMAN *Kenneth M. Ackerman*
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The Rural Utilities Service's (RUS) requirements for annual audits performed by independent certified public accountants of Loan and Grant Recipients are codified in 7 CFR 1773, Policy on Audits of RUS Borrowers (Part 1773). Part 1773 incorporates the requirements of Generally Accepted Auditing Standards (GAAS), Generally Accepted Government Auditing Standards (GAGAS) and RUS' agency specific requirements. In 2011, the American Institute of Certified Public Accountants (AICPA) completed work on its project to clarify the AICPA auditing standards (i.e., the Clarity Project). The purpose of redrafting the auditing standards is for clarity and convergence although there were some changes and additions in terms of requirements. In addition, the Government Accountability Office updated the GAGAS requirements on December 1, 2011. Part of the GAGAS revision was to incorporate the GAAS requirements by reference, rather than restating them. These changes to both GAAS and GAGAS were effective for audits for periods ending on or after December 15, 2012.

In order to conform the RUS requirements with the clarified audit standards, the current Management Letter described in Part 1773 will be replaced by a "Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements". The requirements for this report are found in AU-C Section 806, [Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements](#) (AU-C 806), of the AICPA's Statements on Auditing Standards. The report is considered a by-product of the annual financial statement audit. This policy clarification facilitates reporting under Part 1773 in accordance with GAAS. Enclosed is an illustrative Independent Auditors' Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers. This illustrative

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report should be modified for telecommunications borrowers and the recipients of grants from both the Electric and Telecommunications Programs, including Broadband. When instances of noncompliance are identified, this illustrative report must be modified to describe the instances of noncompliance identified in conjunction with the audit. Because this clarification results in reporting under AU-C 806, there is no need for the auditor to perform an “Agreed Upon Procedures” engagement to comply with the requirements of Part 1773.

A complete audit package will include the auditor's report on the financial statements, the report on internal control over financial reporting and on compliance and other matters issued under *Government Auditing Standards*, and the AU-C 806 report on compliance with aspects of contractual agreements and regulatory requirements.

We intend to consolidate all of these revisions into a revised Part 1773 in the near future. However, in the interim, this letter authorizes the above changes from the current Part 1773 effective immediately.

If you have any questions regarding Part 1773 auditing requirements, please contact Diana C. Alger, Chief, Technical Accounting and Auditing Staff at (202) 720-1905 or diana.alger@wdc.usda.gov.

Enclosure

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Illustrative Independent Auditors' Report on Compliance with Aspects of Contractual
Agreements and Regulatory Requirements for Electric Borrowers

Board of Directors
Center County Electric Energy Association, Inc.
[City, State]

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Center County Electric Energy Association, Inc. (CCEEA), which comprise the balance sheet as of December 31, 20X3, and the related statements of revenue and patronage capital, changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 2, 20X4. In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 20X4, on our consideration of CCEEA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that CCEEA failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding CCEEA's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding CCEEA's accounting and records to indicate that CCEEA did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountants
City, State

March 2, 20X4