

Done in Washington, DC, this 11th day of July 2001.

Bobby R. Acord,

Acting Administrator, Animal and Plant Health Inspection Service.

[FR Doc. 01-17902 Filed 7-17-01; 8:45 am]

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DEPARTMENT OF AGRICULTURE

Rural Utilities Service

7 CFR Part 1773

RIN 0572-AB66

Policy on Audits of RUS Borrowers; Management Letter

AGENCY: Rural Utilities Service, USDA.

ACTION: Notice of confirmation of direct final rule.

SUMMARY: The Rural Utilities Service (RUS) hereby gives notice that comments were received regarding direct final rule, 7 CFR Part 1773, Policy on Audits of RUS Borrowers; Management Letter, and confirms the effective date of the direct final rule. This notice also serves to address the comments received.

DATES: The direct final rule published in the **Federal Register** on May 21, 2001 (66 FR 27829) is effective July 5, 2001.

FOR FURTHER INFORMATION CONTACT: Richard Annan, Chief, Technical Accounting and Auditing Staff, Program Accounting Services Division, Rural Utilities Service, U.S. Department of Agriculture, 1400 Independence Ave., SW., STOP 1523, Washington, DC 20250-1523. Telephone: 202-720-5227.

Background

Title 7 part 1773 implements the standard RUS security instrument provision requiring RUS electric and telecommunications 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 report of such audit, in form and substance satisfactory to RUS.

The Rural Utilities Service (RUS) published a direct final rule on May 21, 2001, at 66 FR 27829, in the **Federal Register** revising the requirements for the management letter. Section 1773.33(c) is revised to address continuing property records (CPRs) rather than the term plant records. In addition, the requirement that the CPA

state whether the CPRs have been established, is expanded wherein the CPA must state that the CPRs are established, maintained on a current basis, and are reconciled to the general ledger plant accounts. The requirements for the CPA to determine that the borrower secured RUS approval for the sale of plant in § 1773(c)(5) is expanded to include the sale, lease, or transfer of assets secured under the mortgage and to state whether the proceeds were handled in conformance with RUS requirements.

The following requirements under § 1773.33 are eliminated: (1) The requirement for the CPA to determine that loan funds were deposited in banks designated in the loan documents; (2) a corresponding requirement in the telecommunications management letter; (3) the requirement for the CPA to determine that the borrower has complied with the RUS requirement for approval of any lease of a building or land, standard traffic settlement agreement, billing and collecting agreements, toll pooling arrangements, directory service agreements, and joint-use agreement; and (4) the requirement for the CPA to determine borrower compliance with the requirement to maintain a net plant to secured debt ratio or a funded reserve for certain loans wherein the maturity period exceeds the economic life of the plant facilities being financed.

Section 1773.33, Management Letter, specifies the minimum requirements for the CPA's management letter. RUS borrowers have increasingly diversified into other utility and nonutility related activities through the formation of subsidiary and affiliated companies. RUS has need of information on investments in these subsidiary and affiliated companies to assist in its efforts to monitor loan security issues and respond to claims of cross subsidization. A new requirement for the CPA to provide a detailed analysis of borrowers' investments is therefore being added to the management letter requirements. The CPA is required to disclose certain general and financial information regarding each of a borrower's investments in subsidiary and affiliated companies accounted for on the cost or equity basis. This information should readily available in the borrower's investment subsidiary records.

In previous versions of part 1773 the sample reports, financial statements, and management letters were contained in four appendices, two for electric borrowers and two for telecommunications borrowers. Beginning with this revision of part

1773, the appendices will no longer be codified in the Code of Federal Regulations. The appendices will be available in new RUS Bulletin 1773-1, which will contain all of 7 CFR part 1773 and the appendices. Appendix A will contain the sample reports, financial statements and management letter for electric borrowers while Appendix B will contain similar sample for telecommunications borrowers. The exhibits of the management letters, which are included in the appendices, are attached to this notice for information only. Publishing part 1773 in bulletin form will provide the RUS audit policy in a user-friendly format. A single copy of this publication will be provided to all RUS borrowers and certified public accounts approved to perform audits of RUS borrowers and will be available at <http://www.usda.gov/rus/ruswide.htm>.

RUS received three comments on this direct final rule from one party, Kiesling Associates LLP, Madison Wisconsin, which RUS deemed to be not adverse. All of the comments were regarding the requirement to include a supplemental schedule of each investment in subsidiary and affiliated companies in the management letter as required in § 1773.33(i). A summary of their comments and the responses follows:

Comments

Comment: Keisling stated that the audited financial statements of an RUS borrower already include disclosures of equity method investments and similar information is reported in Part G of the RUS Form 479. In addition, RUS requires the submission of supplemental schedules of financial condition and statement of operations for each subsidiary for consolidated financial statements. Kiesling also noted that Generally Accepted Auditing Standards (GAAP) also requires such disclosures.

Reply: The supplemental schedules containing the statement of financial condition and the statement of operations submitted with the audited consolidated financial statements contain only the information for the current and prior year for each subsidiary or affiliated company. However, if the investment is not considered material the supplemental statements are not required to be submitted with the consolidated financial statements. Only footnote disclosure would be required in such instances. The RUS requirement for the supplemental information regarding investments included in the management letter will provide a summary of the financial condition since inception for each individual

subsidiary or affiliated company. For this reason RUS does not consider this information to be duplicative of similar RUS or GAAP reporting requirements. The information submitted with the RUS Form 479 is in the aggregate for all subsidiary companies.

Comment: Keisling also commented that similar disclosure requirements for investments accounted for on the cost method should not be required as such investments are typically not of a material nature. And if such investments were material they would be properly disclosed in the footnotes to the audited financial statements.

Reply: While investments accounted for on the cost method may or may not be material, RUS' purpose for including similar disclosures for investments accounted for cost method is to provide a means for RUS to track the RUS borrowers' investments in rural infrastructure. When called upon to provide this information from Congressional and government oversight agencies, RUS has not been able to readily gather and summarize such data. The disclosure of all investments in subsidiary and affiliated companies, whether accounted for on the cost or equity method, will provide the appropriate information for such inquiries.

Confirmation of Effective Date

This is to confirm the effective date of July 5, 2001, of the direct final rule 7 CFR Part 1773, Policy on Audits of RUS Borrowers; Management Letter, published in the **Federal Register** on May 21, 2001, at 66 FR 27829.

Dated: July 12, 2001.

Blaine D. Stockton,

Acting Administrator, Rural Utilities Service.

[FR Doc. 01-17933 Filed 7-17-01; 8:45 am]

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DEPARTMENT OF AGRICULTURE

Rural Utilities Service

7 CFR Part 1773

RIN 0572-AB62

Policy on Audits of RUS Borrowers; Generally Accepted Government Auditing Standards (GAGAS)

AGENCY: Rural Utilities Service, USDA.

ACTION: Notice of confirmation of direct final rule.

SUMMARY: The Rural Utilities Service (RUS) hereby gives notice that no adverse comments were received regarding the direct final rule 7 CFR part 1773, Policy on Audits of RUS

Borrowers; Generally Accepted Government Auditing Standards (GAGAS), and confirms the effective date of the direct final rule.

DATES: The direct final rule published in the **Federal Register** on May 21, 2001 (66 FR 27833) is effective July 5, 2001.

FOR FURTHER INFORMATION CONTACT:

Richard Annan, Chief, Technical Accounting and Auditing Staff, Program Accounting Services Division, Rural Utilities Service, U.S. Department of Agriculture, 1400 Independence Ave., SW., STOP 1523, Washington, DC 20250-1523. Telephone: 202-720-5227.

Background

The rule amends Part 1773 to incorporate two amendments to Generally Accepted Government Auditing Standards (GAGAS) adopted in 1999 by the General Accounting Office. Among other requirements the GAGAS amendments require the auditor to document in the working papers the basis for assessing risk when certain assertions are significantly dependent on computerized information systems; expands the requirements for the auditor's communication with the borrower; replaces the term irregularities with the term fraud; and requires the auditor to emphasize in the auditor's report the importance of the report on compliance and on internal control over financial reporting. In addition to the GAGAS amendments, this rule corrects errors and omissions in previous versions of Part 1773.

Confirmation of Effective Date

This is to confirm the effective date of July 5, 2001, of the direct final rule, 7 CFR Part 1773, Policy on Audits of RUS Borrowers; Generally Accepted Government Auditing Standards (GAGAS), published in the **Federal Register** on May 21, 2001, at 66 FR 27833.

Dated: July 12, 2001.

Blaine D. Stockton,

Acting Administrator, Rural Utilities Service.

[FR Doc. 01-17932 Filed 7-17-01; 8:45 am]

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DEPARTMENT OF THE TREASURY

Office of Thrift Supervision

12 CFR Parts 506, 560, 563, 566, and 584

[No. 2001-51]

RIN 1550-AB42

Liquidity

AGENCY: Office of Thrift Supervision, Treasury.

ACTION: Final rule.

SUMMARY: The Office of Thrift Supervision (OTS) is adopting as final an interim rule that removed the regulation that required a savings association to maintain an average daily balance of liquid assets of at least four percent of its liquidity base, and retained a provision requiring a savings association to maintain sufficient liquidity to ensure its safe and sound operation. The interim rule implemented the statutory repeal of the percentage liquidity requirement.

DATES: Effective July 18, 2001.

FOR FURTHER INFORMATION CONTACT:

Josephine Battle, Program Analyst Trainee, Office of Corporate Governance and Controls, Office of Supervision Policy, (202) 906-6870; or Sally Warner Watts, Counsel (Banking and Finance), Regulations and Legislation Division, Office of Chief Counsel, (202) 906-7380, Office of Thrift Supervision, 1700 G Street, NW., Washington, DC 20552. Persons wishing to access any of these telephone numbers by text telephone (TTY) may call the toll-free Federal Information Relay Service at 1-800-877-8339.

SUPPLEMENTARY INFORMATION:

Background

Section 1201 of the Financial Regulatory Relief and Economic Efficiency Act of 2000 (Pub. L. 106-569, 114 Stat. 2944) repealed the statutory liquidity requirement for savings associations. *See* section 6 of the Home Owners' Loan Act (HOLA), 12 U.S.C. 1465 (1994). OTS published an interim rule implementing this repeal on March 15, 2001 (66 FR 15015). The interim rule removed part 566, which implemented the percentage of assets liquidity requirement of section 6 of the HOLA. The interim rule also moved a general requirement that each savings association must maintain sufficient liquidity to ensure safe and sound operations from part 566 to § 563.161 and made a few conforming changes.