



U.S. Department of Agriculture

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Office of Inspector General  
Financial & IT Operations

## **Audit Report**

# **Rural Telephone Bank Closeout Audit**

Report No. 15401-8-FM  
July 2008

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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



JUL 11 2008

REPLY TO

ATTN OF: 15401-8-FM

TO: James M. Andrew  
Governor  
of Rural Telephone Bank

ATTN: John M. Purcell  
Director  
Financial Management Division  
Rural Development

FROM: Robert W. Young /s/  
Assistant Inspector General  
for Audit

SUBJECT: Rural Telephone Bank Closeout Audit

This report presents the results of our limited scope closeout audit of the Rural Telephone Bank (RTB). Our primary objective was to evaluate whether the dissolution and liquidation activities of RTB subsequent to the final RTB financial statement audit as of September 30, 2006, were conducted according to prescribed accounting principles. RTB had approximately \$40 million available for final distribution as of September 30, 2006, which was subsequently paid to the bank's stockholders. The distribution payment calculations for each shareholder were based on Section 411 of the Rural Electrification (RE) Act. To carry out our audit, we reviewed the financial and budgetary records of RTB's final distributions. Our audit was performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. We concluded that Rural Development and RTB conducted the final dissolution and liquidation activities of RTB according to prescribed accounting principles. Accordingly, we are not making any recommendations at this time.

**BACKGROUND:**

On May 7, 1971, RTB was established by amendment to the RE Act as a source of supplemental financing for telecommunications companies and cooperatives eligible to borrow under the RE Act's telephone loan program. A Board of Directors was appointed to manage RTB's operations and the employees of RE Administration (now part of Rural Development) performed RTB's day to day operations. The capital structure of RTB consisted of three classes of stock: Class A,

Class B, and Class C. Class A stock was issued in exchange for approximately \$600 million of capital provided by the taxpayers. This provided RTB with its initial “seed” money to begin its lending operations. Class B stock was purchased by recipients of RTB loans in an amount equal to 5 percent of the loan. Class C stock was available for purchase by RTB borrowers, entities eligible to borrow from RTB, and by organizations controlled by RTB borrowers. Class C stock was also acquired through the conversion of Class B stock after repayment of the loans associated with the Class B stock. The RE Act amendment also provided that the ownership, control, and operation of RTB be transferred to the Class B and C stockholders after 51 percent of the Class A stock was retired (known as privatization of RTB). The retirement of Class A stock began in fiscal year 1996.

After years of discussion regarding the possible privatization of RTB, in February 2005 President Bush’s fiscal year 2006 budget proposed the dissolution of RTB. On August 4, 2005, the Board of Directors unanimously approved resolutions to liquidate and dissolve RTB. The RTB Board of Directors at this meeting also approved a resolution to obtain a final closing audit of RTB 30 months after the date there ceased to be any restriction on the redemption of Class A stock. On November 10, 2005, the liquidation and dissolution process was initiated with the signing of the 2006 Agriculture Appropriations bill by President Bush, which contained a provision lifting the restriction on the retirement of more than 5 percent of the Class A stock held by the U.S. Government.

The Government’s Class A stock was redeemed on April 10, 2006; redemption payments to Class B and C shareholders began on April 11, 2006, and were completed by September 30, 2006. A final financial statement audit was conducted for the fiscal year ended September 30, 2006, resulted in an unqualified opinion. The final liquidation payments were made to Class A and B shareholders at the time of liquidation on November 13, 2007, at which time RTB paid out approximately \$40 million to its Class A (Government) and Class B (Private) stockholders.

### **OBJECTIVE:**

The overall objective of our audit was to determine whether the activities of Rural Development and RTB regarding the liquidation and dissolution of RTB were conducted according to prescribed accounting principles relating to disbursements.

### **SCOPE AND METHODOLOGY:**

To achieve our audit objectives, we reviewed the financial and budgetary documentation of the activities of Rural Development and RTB regarding the liquidation and dissolution of RTB. We assessed whether the final distributions were made to the proper recipients in the correct amounts. We also made inquiries of appropriate Rural Development and RTB management, supervisory, and staff personnel, and inspected documents at Rural Development Headquarters, Washington, D.C., and the Rural Development Office of the Deputy Chief Financial Officer, St. Louis, Missouri. We conducted our audit February 2008 through April 2008, in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and

conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**AUDIT RESULTS:**

Based on our review of financial and budgetary documentation of the dissolution and liquidation activities of RTB subsequent to the final RTB financial statement audit as of September 30, 2006, and inquiries of Rural Development and RTB personnel, we concluded that Rural Development and RTB conducted the final dissolution and liquidation activities of RTB according to prescribed accounting principles relating to disbursements. Therefore, we are not making any recommendations at this time.

We appreciate the courtesies and cooperation extended to us by your staff.