



**SURFACE  
TRANSPORTATION  
BOARD**

Procedures Guide for R-1 2022  
Ex Parte 460 Certification of Annual Report R-1 by  
Independent Accountant

Office of Economics  
December 1, 2022

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## **Introduction and Financial Oversight**

### ***Purpose of Guide***

The purpose of this procedures guide is to provide the accounting profession and the Class I railroads with assistance and clarification in understanding the Board's expectations for audit quality in the context of compliance with applicable professional standards, the agreed-upon procedures, and to help ensure consistency in the documentation of work performed and reports issued. This guide sets out a framework for conducting and reporting on the agreed-upon procedures but does not include suggested formats or language auditors should follow.

### ***Agreed-Upon Procedures and Office of Economics Financial Oversight Responsibility***

Each Class I railroad is required to submit a report from an independent accountant stating that specified data in the railroad's R-1 Annual Report of Finances and Operations have been examined, using agreed-upon procedures and have been found in compliance with the Uniform System of Accounts for Railroad Companies, Title 49 CFR Part 1201. The accountant's report on the R-1 is also required to present any material exceptions as defined in the agreed-upon procedures, which may have come to the accountant's attention during the examination. Surface Transportation Board (STB) Office of Economics (OE) auditors review the work papers of the independent accountant for each Class I railroad to determine the railroad's compliance with the Uniform System of Accounts (USOA), and to determine that the independent accountant has complied with the railroad's specific agreed-upon procedures.

### ***Request for Changes to Agreed-Upon Procedures***

Modifications to the standard agreed-upon procedures will be considered by the OE on a limited, individual basis and only upon written request by the railroad. Requests for changes must be submitted yearly to the OE Director and must include a reason for deviation in the modification request. Requests for modification do not carryover and will be considered on a case-by-case basis yearly. Requests that do not include a justification will be returned with a request to provide a reason for the modification request. Agreed-upon procedures should be submitted no later than February 15 of the year following the period for which the report is rendered. Earlier submissions are encouraged to allow for OE review and to provide a response (approximately two weeks).

### ***Communication Protocols***

It is incumbent upon the railroad companies to ensure that their independent accountants perform the agreed-upon procedures, timely issue the report, timely schedule the review, and ensure the review is completed by July 31<sup>st</sup>. Any communication from the independent accountant to OE personnel (and vice versa) should have railroad personnel copied.

## **General Information**

### ***Monitoring of Procedures***

OE auditors will complete a work paper checklist and make summary notes and memoranda for inclusion in OE audit files.

Issues relative to the quality of the work performed will be addressed by the OE directly with appropriate officials of the accounting firm. Our intent is to resolve all issues of this type at the management level. If no agreement can be reached between the independent accountant and OE management level staff, the matter will be referred to the partnership/director level or other levels as the circumstances may warrant.

Exceptions developed by the independent accountant will be reviewed by OE and a determination will be made as to their disposition. OE auditors are responsible for identifying specifically what corrective action is required of the railroad. OE auditors will determine the extent to which a railroad has taken required correction action through follow up examination. To the extent possible, findings of non-compliance should be addressed on an ongoing basis as they are developed during the course of performing the procedures. Therefore, only those unresolved, material findings should remain for inclusion in the exception letter presented to the railroad.

Any unresolved and contested issues regarding USOA compliance remaining subsequent to the independent accountant's report will be addressed with the railroad by the Board through the normal appeal process.

### ***Availability of Work Papers and Review Schedule***

Work paper reviews must be completed no later than July 31 of the year following the period for which the report is rendered. To ensure sufficient planning, three proposed date ranges for the review must be submitted with the modification request or by February 15, 2023. The review will be scheduled for at least 2-3 days. The OE will confirm the date in its response to the modification request or approximately two weeks. If an access or acknowledgment letter is required, we request it be submitted with the modification or by February 15, 2023, to the extent possible, to ensure the scheduled review date is met and to prevent delays. However, if the access letter is not available at this time, it must be submitted no later than 30 days prior to the scheduled review date to ensure the scheduled review dates are met. The letters will be reviewed by the Board's Office of General Counsel.

During the review, OE auditors may request photocopies of selected accountant's work papers. At a minimum, auditors will request electronic copies of the year over year analysis for Schedules 410, 415, and 755. To the extent possible, we request this information be provided by the last day of the scheduled review to timely close out the review.

The R-1 is available to the public on the Board's website. The Board will protect confidential commercial information in related notes and workpapers in accordance with FOIA Exemption 4 and 49 C.F.R. § 1001.4.

## Technical Matters

### *Auditor's Report*

The Ex Parte 460 report is to be filed with the OE within 60 days of the filing of the railroad's R-1, generally by May 31 of the year following the period for which the report is rendered.<sup>1</sup> Reports shall be addressed to the individual railroad company and to the Surface Transportation Board. The text of the report should not indicate that the procedures are agreed to by the STB without reference to the particular railroad.

The OE uses a general materiality factor of 10% in taking exception to accounting and reporting errors. The basis of the 10% should be in relation to the amounts reported in the R-1. All unresolved material exceptions, as defined in the agreed upon procedures, must be disclosed in the independent accountant's report on agreed-upon procedures. The report should be in the form of procedures and findings. The report should contain sufficient detail to identify any exceptions noted. We will request clarification from the railroad for any exceptions without sufficient detail.

### *Work Paper Documentation*

The Office of Economics has not defined "adequate documentation" regarding the independent accountant's work papers. Nor is there a specific format prescribed for preparation and maintenance of Ex Parte 460 work paper files. Each accounting firm shall follow their own policies and procedures. However, all pertinent work papers and documentation supporting work performed should be readily accessible to OE auditors and retained for a time sufficient to satisfy STB requirements, generally three years. The independent accountant should provide a complete, documented audit trail in each audit area.

In instances where the independent accountant has relied heavily on the railroad's internal auditors or accountants to assist in the performance of the agreed-upon procedures, the independent accountant's work papers shall show the following:

- Identification of specific schedules and procedures where corporate audit or accounting staff were utilized.
- Copies of specific programs used by corporate audit or accounting.
- Copies of applicable planning, supervision, review memoranda, and notes of pending matters relating to procedures performed by railroad.
- Documentation of the engagement partner's conclusions as to the adequacy of the corporate audit or accounting work papers.
- Evidence of re-performance of test items to the extent considered necessary.

In reference to reconciliation of R-1 line item balances to the audited financial statements, an adequate audit trail must be provided in the work papers to allow verification of the reconciliation between the R-1 and the carrier's audited financial statements. Accordingly, work papers should show reconciliation computations in accordance with procedures particular to each schedule requiring reconciliations. A trail to work papers used to prepare the financial statements for public reporting would be acceptable to the extent that these papers are made available to OE

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<sup>1</sup> Any requests for extension of time will be limited and considered on a case-by-case basis and should be submitted no later than February 15, 2023.

auditors.

In reference to data comparisons for analytical review, the explanations obtained from management for all significant fluctuations and exceptions should be corroborated to the extent possible. If management's explanations are paraphrased in the work papers, they should be legible and in a format that is readily "liftable" from the general work paper file. This is most applicable to Schedules 410, 415, and 755.

Copies of source documents used for the test of detail transactions should be readily identifiable and available.

Where test of details is focused on specific expenses or statistics based on a cyclical basis, the cycle must be completed within three consecutive years unless otherwise agreed to by the OE.

Where Schedule 410 agreed-upon procedure 12(b) states "Trace the conversion..." the word trace encompasses the term test and should have work paper presentation by the independent accountant.

In instances where repairs are identified and recorded in carriers accounting and reporting system and subsequently converted into USOA coding for reporting in R-1 Schedule 415, the conversion process should be tested in conjunction with Schedule 410 operating expense guidelines above.

Where applicable, either a statistical or non-statistical approach to audit sampling may be used. However, statistical sampling is the preferred approach for selecting items for detail testing whenever the universe is susceptible to statistical treatment. The independent accountant is not required to project the results of the sample to the items in the population from which the sample was selected nor is the scope of the examination to be expanded. However, the size of the population, the number tested, the error rate and related amounts should be disclosed in the independent accountant's work papers in order to give the OE a basis for judging the prevalence of non-compliance with the USOA. If random sampling is used, the same random sample should not be used year over year. For example, the same monthly depreciation samples should differ from year to year.

### ***Internal Control***

In instances where detail testing of operating statistics in Schedule 755 reveals processing errors, the work papers should state whether the independent accountant considers errors as mistakes and whether the independent accountant believes that the mistakes materially affect the operating statistics reported in Schedule 755. Also, the independent accountant should state in the work papers whether they believe that errors are associated with the systems established to accumulate and report statistical data.

Where review and updating of documentation for the carrier's system of accounting and reporting for operating expenses is performed, the independent accountant's work papers should state if the results of the annual reporting requirement for Section 404 of the Sarbanes-Oxley Act of 2002 evaluation of internal control showed material weaknesses that could materially affect the operating expenses reported in Schedule 410.

For R-1 Schedules 410 and 755, the independent accountant shall accumulate complete system documentation which will be accessible to OE auditors. A written summary of the flow of data through the system should be prepared and maintained in the work papers file for each schedule mentioned above as well as a summary of the repair cost methodology for work associated with the agreed-upon procedures for Schedule 415.

***Timeline Summary***

Below is a summary of the deliverables due to OE.

<b><u>Deliverables</u></b>	<b><u>Date Due to OE</u></b>
Modification Request	February 15, 2023
Proposed Review Dates	February 15, 2023
Access or Acknowledgement Letter	February 15, 2023, but no later than 30 days prior to review date
Report	May 31, 2023
Review Completion	Dependent on review date, but no later than July 28, 2023