UNITED STATES DEPARTMENT OF AGRICULTURE
Farm Service Agency
Washington, DC 20250

Notice FLP-107

For: State Offices

Internal Controls for FLP

Approved by: Deputy Administrator, Farm Loan Programs

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1 Overview

A Background

FLP internal review process provides management with current information needed to efficiently and effectively administer FLP.

FLP maintains an efficient management control system to:

- comply with the requirements of the Federal Managers Financial Integrity Act
- effectively evaluate program delivery.

Also, as a Government lender, FLP receives a high degree of oversight from OIG, GAO, and OMB.

B Purpose

This notice provides guidelines for:

- ensuring that there is consistency among State Offices concerning the scope of the FLP internal review process
- carrying out State Office reviews according to the National Internal Review (NIR) Guide.

C Contact

State Offices shall contact Bobby O. Reynolds, Director, PDEED, at 202-720-3647 if there are questions.

Disposal Date	Distribution
January 1, 2001	State Offices

2 Action

A SED Action

SED's are responsible for ensuring that the following FLP internal review process is implemented in their State:

- farm loan docket reviews according to NIR Guide, Section III, conducted under the oversight of DAFLP, to assess program delivery according to laws and regulations
- gathering financial data for direct and guaranteed loan making categories according to NIR Guide, Section VI
- Servicing Office civil rights reviews according to NIR Guide, Section V, to assess civil rights as related to program delivery
- State and Servicing Office management reviews according to NIR Guide, Section V
- Servicing Office reviews, conducted under the direction of ORAS, to assess the performance of individual Servicing Offices.

  Note: COR's will complete these reviews according to 1-COR.

B FLP Chief Action

FLP Chiefs shall use NIR:

- Guide for FY 2000 to complete the review process for FY 2000

  Note: The "Fiscal Year (FY) 2000 Farm Loan Program (FLP) National Internal Review (NIR) Guide" is located on FSA-BBS in the Ag Credit Library with the filename NIRY2K97.doc.

- software to support the process.

  Note: The software will be located on System 36. KCMO will provide the software to each State Office.

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2 Action (Continued)

C
State Office Action

State Offices shall complete a docket review of a minimum of 30 case files selected at random from the population for each of the following categories:

- direct loan making
- guaranteed loan making
- direct loan servicing
- guaranteed loan servicing
- direct loan debt settlements
- guaranteed loan loss claims
- farm inventory property.

Note: If the population is less than 30 case files, review all files.

After completing the review, State Offices shall:

- enter the compliance data for all review categories in the NIR software

- enter financial data to direct and guaranteed loan making categories in the NIR software

- download the year-end data to diskette and send to KCMO, PSCAD, TPB, Attn: Thannah Hua, 8930 Ward Parkway, Kansas City, MO 64141

- conduct State Office management reviews biennially to coincide with scheduled quality assurance review

- conduct Servicing Office civil rights and management reviews in one-third of Servicing Offices on a rotating basis to ensure that each office is reviewed every third year

- retain, for 3 FY's, hard copies of review documentation, which includes questionnaires and summary sheets by borrower, for trend analysis and respond to oversight by OIG and GAO.

Notes: The user must enter the population, sample size, and amount obligated manually before printing the State's final report for FY. This information must be entered before sending the data diskette to KCMO. The obligations field applies only to the Direct and Guaranteed loan making categories.

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2 Action (Continued)

C
State Office Action (Continued)

The docket reviews can be completed as part of an ongoing process at the State level or during group sessions with DD's, Farm Loan Managers, and others. However, those States scheduled for a quality assurance review during the current FY shall review at least 15 case files for each of the 7 categories **before** their scheduled review.

D
DAFLP Action

DAFLP is responsible for:

- developing appropriate guidelines and procedures for NIR Guide
- conducting State Office civil rights reviews
- establishing a tracking system to monitor the implementation and effectiveness of corrective action plans
- conducting quality assurance reviews for each State on a 2-year cycle

  Note: To maximize the benefits of the reviews, FLP Chiefs shall participate in the National Office quality assurance reviews.

- scheduling State Offices for the 2-year cycle quality assurance review at the beginning of each FY.

The following schedule has been established for FY 2000.

States	Week of Review
DE/MD, NJ, PR, VA, and WV	May 8, 2000
AL, KY, LA, MS, and TN	June 5, 2000
AZ, KS, NV, UT, and TX	June 26, 2000
AK, MT, OR, and WA	July 17, 2000
IL, IA, OH, and WI	August 14, 2000

Note: FLP Chiefs will be requested to bring hard copies of current docket reviews documentation to their scheduled quality assurance review.

3 Reports

A State Office Action

State Offices shall take the following action.

Step	Action
1	Review a minimum of 15 cases for each category before the scheduled date of the quality assurance review.
2	Complete the minimum review requirements (30 case files per category).
3	Compile the responses to questionnaires and financial data. **Note:** Financial data must be reviewed for completeness, accuracy, and duplication. Youth Loans should not be included in financial data sampling nor be included in the list for selection for the quality assurance review.
4	Identify weaknesses and deficiencies in the FLP operations. **Note:** Weaknesses are those questions showing 10 percent or greater noncompliance.
5	Develop specific corrective actions for the elimination of deficiencies identified.
6	Implement the approved corrective actions.
7	Submit a mid-year progress report as of March 31, 2000, to DAFLP before April 15, 2000. **Notes:** The mid-year progress report shall be a brief memorandum indicating: • present status of NIR by category • problems outside the scope of the review process that need attention. Include the number of files reviewed by category and identify any **apparent** weaknesses or potential problems. A matrix may be helpful in presenting the data, but is not required.
8	Submit an annual report as of August 31, 2000, to DAFLP before September 30, 2000, with a complete analysis and summary of findings. **Note:** Use the reporting format in Exhibit 1.

B DAFLP Action

DAFLP shall:

- compile the information from all States
- analyze and prepare a summary report for senior management.

Annual FLP Internal Review Report

A
Report Format

For consistency in reporting and to provide the reader a better scope of activities going on within each State, the following 3-part format is requested.

Three-Part Format	Material to Include
Part 1	State profile data. **Examples:** Following are examples of this data: • number of loans outstanding • percentage of borrowers delinquent • applications on hand • number of servicing actions completed • total acquired properties on hand. **Note:** This data should also include personnel information on the number of type 1, 2, and 3 offices and guaranteed lenders within the State.
Part 2	An analysis and summary of findings of the State Office Management, Servicing Office Management, and Servicing Office Civil Rights segment of NIR.
Part 3	An analysis and summary of findings for each category of the NIR Guide. Proposed corrective action to eliminate identified weaknesses, and a review, validation, and analysis of the financial ratios for the direct and guaranteed loan making categories. The corrective action plan shall be specific and will indicate: • responsible official • target date for completion • actual completion date. **Note:** The corrective action plan may be closed by the National Office when the records show that all corrective actions have been implemented.

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Annual FLP Internal Review Report (Continued)

B
Submitting Report

State Offices shall submit a hard copy of the summary report to DAFLP, containing all data collected during the review, including financial data for direct and guaranteed loan making categories.

C
Using Matrix

State Offices are encouraged to use a matrix with the following headings for **each** category.

Category:

- **Weakness:**
- **Corrective Action:**
- **Official Responsible:**
- **Target Date for Completion:**
- **Actual Completion Date:**