

For: State Offices

Internal Controls for FLP

Approved by: Acting Deputy Administrator, Farm Loan Programs



1 Overview

A

Background

The 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
- State Offices to carryout their part of the review according to the National Internal Review Guide.

C

Contacts

If there are questions about this notice, contact Bobby O. Reynolds, Director, PDEED at 202-720-3647.

Disposal Date	Distribution
January 1, 2000	State Offices

Notice FLP-20

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, 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
- civil rights review to assess civil rights as related to program delivery
- State and County Office management segments included in the National Internal Review (NIR) Guide
- County Office reviews, conducted under the direction of EDSO, to assess the performance of individual County Offices.

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

B

FLP Chief Action

FLP Chiefs shall use the NIR:

- Guide for FY 1999 to complete the review process for FY 1999

Note: The "Fiscal Year (FY) 1999 Farm Loan Program (FLP) National Internal Review (NIR) Guide" is located on FSA-BBS in the Ag Credit Library with the filename 99NIR.wpd.

- software to support the process. The software will be located on the System 36. KCMO will provide the software to each State Office.
-

C

State Office Action

State Offices shall:

- review a minimum of 30 case files, selected at random from the population, for each of the following categories:
 - direct loan making
 - guaranteed loan making
-

Continued on the next page

Notice FLP-20

2 Action (Continued)

C

State Office Action (Continued)

- direct loan servicing
- guaranteed loan servicing
- direct loan debt settlements
- guaranteed loan loss claims
- farm inventory properties

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

- after completing the review:
 - enter the compliance data for all review categories in the NIR software
 - enter financial data for direct and guaranteed loanmaking categories in the NIR software
 - download the data to diskette and send to KCMO
 - conduct County Office management review biennially to coincide with scheduled quality assurance review
 - conduct County Office civil rights review on one third of County Offices to ensure that each office is reviewed every third year
 - retain, for three 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.

The review 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 are encouraged to review at least 15 case files for each of the 7 categories **before** their scheduled review.

Continued on the next page

Notice FLP-20

2 Action (Continued)

D

DAFLP Action

DAFLP shall be responsible for:

- developing appropriate guidelines to incorporate the permanent procedures in the NIR Guide
- conducting quality assurance reviews for each State on a 2-year cycle
- conducting the State Office civil rights reviews

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

- establishing a tracking system to monitor the implementation and effectiveness of corrective action plans
- at the beginning of each FY, scheduling States for the 2-year cycle quality assurance review. For FY 1999, the following schedule has been established.

States	Week of Review
FL, GA, NC, SC, and AR	April 12, 1999
CA, CO, NM, OK, and HI	May 10, 1999
ID, WY, ND, SD, and NE	June 14, 1999
MN, MO, MI, and PA	July 12, 1999
IN, NY, VT/NH, MA/RI, CT, and ME	August 9, 1999

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

Notice FLP-20

3 Reports

A

State Office

State Offices shall:

- review a minimum of 15 cases for each category before the scheduled date of the quality assurance review
- complete the minimum review requirements (30 case files per category)
- 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.

- identify weaknesses and deficiencies in the FLP operations

Note: Weaknesses are those questions showing 10 percent or greater noncompliance.

- develop specific corrective actions for the elimination of deficiencies identified
- implement the approved corrective actions
- submit a mid-year progress report as of March 31, 1999, to DAFLP before April 15, 1999

Note: The mid-year progress report shall be a brief memorandum indicating:

- the present status of NIR by category
- problems outside the scope of the review process that need attention.

Notes: 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.

- submit an annual report as of August 31, 1999, to DAFLP before September 30, 1999, with a complete analysis and summary of findings. Use the reporting format in Exhibit 1.

Continued on the next page

Notice FLP-20

3 Reports (Continued)

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

**Formatting
Report in Three
Parts**

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	<p>State profile data.</p> <p>Examples: Following are examples of this data:</p> <ul style="list-style-type: none"> • the number of loans • percentage of delinquency • applications on hand • servicing actions completed • acquired properties on hand. <p>Note: This data should also include personnel information on the number of 1, 2, and 3 offices and guaranteed lenders within the State.</p>
Part 2	<p>An analysis and summary of findings of the State Office Management, County Office Management, and Civil rights segment of NIR.</p>
Part 3	<p>An analysis and summary of findings for each category of the NIR Guide.</p> <p>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 the:</p> <ul style="list-style-type: none"> • responsible official • target date for completion • actual completion date. <p>Note: The corrective action plan may be closed when the records show that all corrective actions have been implemented.</p>

Continued on the next page

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.

Send all electronic data to:

KCMO, PSCAD, TPB
ATTN: THANAH HUA
8930 WARD PARKWAY
KANSAS CITY, MO 64141.

**C
Using Matrix**

A matrix using the following headings for **each** category is encouraged.

Category:

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