

PART 2006 - MANAGEMENT

SUBPART M - Management Control System

TABLE OF CONTENTS

| <u>Sec.</u> | | <u>Page</u> |
|-------------|--|-------------|
| 2006.601 | General. | 1 |
| 2006.602 | Sources of information. | 2 |
| 2006.603 | Definitions. | 3 |
| 2006.604 | Purposes. | 7 |
| 2006.605 | Responsibilities. | 8 |
| | (a) Deputy Under Secretary for Rural Development. | 8 |
| | (b) Rural Development Administrators. | 8 |
| | (c) Senior Management Control Council (SMCC). | 9 |
| | (d) Management Control Advisory Group (MCAG). | 10 |
| | (e) Director, Financial Management Division (FMD). | 11 |
| | (f) State Directors. | 13 |
| | (g) State Senior Management (SSM) team. | 15 |
| | (h) State Management Control Officer (MCO). | 15 |
| | (i) Management Control Review (MCR) team. | 17 |
| | (j) State Internal Review (SIR) team. | 17 |
| | (k) Rural Development Managers (RDMs). | 17 |
| | (l) Deputy Chief Financial Officer (DCFO). | 18 |
| | (m) Chief Information Officer (CIO). | 18 |
| | (n) Rural Development supervisors and managers. | 18 |
| | (o) Rural Development employees. | 18 |
| 2006.606 | [Reserved] | 19 |
| 2006.607 | GAO audits and OIG audits and investigations. | 19 |
| 2006.608 | Management Control Reviews (MCRs). | 19 |
| | (a) Purpose of MCRs. | 19 |
| | (b) Frequency and content of MCRs. | 20 |
| | (c) Planning MCRs. | 20 |
| | (d) Conducting MCRs. | 24 |
| | (e) MCR Final Report. | 26 |
| | (f) Maintenance of MCR records. | 27 |
| | (g) MCR follow-up system. | 27 |

| | | |
|----------|---|----|
| 2006.609 | State Internal Reviews (SIRs). | 32 |
| | (a) Purpose of SIRs. | 32 |
| | (b) Frequency and content of SIRs. | 33 |
| | (c) Planning SIRs. | 34 |
| | (d) Conducting SIRs. | 36 |
| | (e) Report of SIR findings and recommendations. | 38 |
| | (f) Maintenance of SIR records. | 41 |
| | (g) SIR/Mini-SIR tracking and monitoring. | 41 |
| | (h) SIR Summary Report. | 42 |
| | (i) Nationwide SIR Summary Report. | 43 |
| | (j) Components of the SIR follow-up system. | 44 |
| 2006.610 | [Reserved] | 48 |
| 2006.611 | Annual Report to the Secretary. | 49 |
| 2006.612 | [Reserved] | 49 |
| 2006.613 | Inquiries about the management control system. | 49 |
| 2006.614 | - 2006.650 [Reserved] | 49 |

Exhibit A - State Internal Review (SIR) Report Sample Cover Page.

PART 2006 - MANAGEMENT

Subpart M - Management Control System

§ 2006.601 General.

(a) The Federal Managers' Financial Integrity Act (FMFIA) of 1982 mandates that each agency in the Executive Branch of the U.S. Government establish and maintain a management control system to assure:

- (1) Obligations and costs comply with applicable laws;
- (2) Funds, property, and other assets are safeguarded from waste, loss, unauthorized use, or misappropriation; and
- (3) Revenues and expenditures are properly recorded, accounted for, and reported.

(b) The FMFIA further requires that heads of agencies report annually to the President and Congress on the effectiveness of the agencies' management control systems and delegates responsibility for guidance on implementation to the Office of Management and Budget (OMB) and the General Accounting Office (GAO).

(c) OMB Circular A-123 placed an additional requirement on each agency in the Executive Branch of the U. S. Government by mandating that programs are effectively and efficiently carried out in accordance with applicable laws and management policies.

(d) This Instruction defines Rural Development's management control system, details the procedures to implement this system, and describes its reporting requirements.

(e) Rural Development's management control system consists of three major components:

- (1) GAO audits and Office of Inspector General (OIG) audits and investigations as described in § 2006.607 of this Instruction.

DISTRIBUTION: WSAL

Administration
Management

(2) Management Control Reviews (MCRs) are detailed examinations of assessable units from the highest operational level to the lowest operational level to determine whether necessary controls are in place and producing the intended results, comply with applicable laws and regulations, and provide solutions to reduce or eliminate any deficiencies. The MCR process is described in detail in § 2006.608 of this Instruction.

(3) State Internal Reviews (SIRs) are comprehensive evaluation reviews, conducted by SIR teams, of the delivery of programs and administrative functions in field offices and centralized program functions within the State. Rural Utilities Service (RUS) Electric and Telecommunications Programs are administered at the National Office level and are excluded from SIRs. The SIR process is described in detail in § 2006.609 of this Instruction.

§ 2006.602 Sources of information.

The following is a list of documents, laws, regulations, and guidance pertaining to management control system requirements applicable to Rural Development:

- (a) 31 U.S.C. 3512, "Federal Managers' Financial Integrity Act of 1982," (Pub. L. 97-255).
- (b) 31 U.S.C. 3512, "Federal Financial Management Improvement Act of 1996," (Pub. L. 104-208).
- (c) OMB Circular A-130, "Management of Federal Information Resources," November 28, 2000.
- (d) OMB Circular A-127, "Policies and Standards for Financial Management Systems," dated July 23, 1993.
- (e) OMB Circular A-123, "Management Accountability and Control," dated June 21, 1995.
- (f) Standards for Internal Control in the Federal Government issued by GAO in November 1999.
- (g) USDA Departmental Regulation No. 1110-2, "Management Accountability and Control," dated February 23, 1999.
- (h) 5 U.S.C. App. "Inspector General Act of 1978, as amended," (Pub. L. 95-452, as amended).

§ 2006.602 (Con.)

(i) 5 U.S.C. App. "Inspector General Act Amendments of 1988," (Pub. L. 100-504).

(j) 5 U.S.C. 306 Chapter 3, "Government Performance and Results Act of 1993," (Pub. L. 103-62).

§ 2006.603 Definitions.

Action plan. A plan detailing how weaknesses identified in a review will be corrected.

Administrator's Briefing. A joint working session consisting of MCR Team Leaders, senior management, and Financial Management Division (FMD) to discuss MCR strengths and weaknesses, resolve issues, and reach agreement prior to the MCR formal exit conferences.

Assessable unit. Functional areas or components within Rural Development of an appropriate nature and size to facilitate meaningful risk assessments and MCRs.

Automated Reports Tracking System (ARTS). An automated tracking and monitoring system for OIG/GAO audits, single audits, investigations, MCRs, SIRs, hotline/whistleblower complaints, and all other reviews.

Control objectives. Documented policies/objectives to reduce and control risks and ensure programs operate as intended.

Control techniques. Documented procedures to achieve control objectives and assure that adequate controls exist.

Corrective action(s). Proposed solutions to weaknesses identified in any of the review processes mentioned in this Instruction. Each corrective action should contain specific activities/performance to eliminate or reduce the occurrence of the weakness, target dates for completion, names of officials responsible for implementation, and documentation necessary to reflect that corrective action(s) has been implemented.

Corrective Action Codes. Codes within ARTS used to identify corrective actions resulting from MCRs, SIRs, and all other reviews.

Financial Management Division (FMD) Liaison. FMD personnel assigned to serve as the liaison between FMD and Rural Development agencies/divisions for management control issues.

Finding. Strengths and/or weaknesses identified during a review.

Follow-up. The act of reviewing the corrective actions to assure that they were implemented as intended, and that the weaknesses are in fact reduced or eliminated by the corrective actions.

Formal entrance conference. A conference originating from the National Office to discuss details relating to the upcoming MCR of each assessable unit. The formal entrance conference is chaired by FMD and attended by senior management, MCR Team Coordinators and Team Leaders, and State Directors and their staff from the States to be visited during the MCR.

Formal exit conference. A conference originating from the National Office upon completion of an MCR to discuss strengths and weaknesses resulting from the MCR of an assessable unit. The formal exit conference is chaired by FMD and attended by senior management, MCR Team Coordinators and Team Leaders, and State Directors and their staff from the States visited during the MCR.

Management controls. Management controls are the organization, policies, and procedures used to reasonably ensure that:

- (1) Programs achieve their intended results;
- (2) Resources are used in a manner that is consistent with Rural Development's mission;
- (3) Programs and resources are protected from waste, loss, unauthorized use, and misappropriation;
- (4) Laws and regulations are followed; and
- (5) Reliable and timely information is obtained, maintained, reported, and used for decision making.

Management Control Advisory Group (MCAG). Advisory groups established for Operations and Management (O&M), the Office of Community Development (OCD), and each agency within Rural Development, comprised of National Office and field office employees. The MCAGs report to their respective Agency Administrator/Deputy Administrators and the Senior Management Control Council (SMCC) on management control issues within their agency/division. Each MCAG develops and recommends an MCR 5-year plan to be reviewed and approved for inclusion in the Rural Development-wide MCR 5-year plan of assessable units.

§ 2006.603 (Con.)

Management Control Officer (MCO). Personnel in each State and in the National Office, who maintain a working knowledge of all management control issues and MCR/SIR documents, provide guidance to other managers on MCR/SIR requirements, and perform tracking and follow-up activities to assure implementation of corrective actions.

- (1) Senior Rural Development MCO. The Deputy Under Secretary for Rural Development.
- (2) Senior Agency MCO. The Administrators for Rural Business-Cooperative Service (RBS), Rural Housing Service (RHS), and Rural Utilities Service (RUS), and the Deputy Administrator for O&M, and OCD.
- (3) Rural Development MCO. The Director of the Financial Management Division.
- (4) Deputy MCO. The State Director in each State Office.
- (5) State MCO. The individual designated by the State Director to have the oversight responsibility to ensure the state remains within purview of National Office management control requirements.
- (6) Alternate MCO. The individual designated by the State Director to assist the State MCO with all management control responsibilities. (Alternate MCO is synonymous with "State MCO" throughout this Instruction.)

Management Control Review (MCR). A detailed examination of an assessable unit from the highest to the lowest operational level to determine whether necessary controls are in place and producing the intended results, complying with applicable laws and regulations, and providing solutions to reduce or eliminate any weaknesses.

Material weakness. A deficiency that is determined to be significant enough to be reported outside the Department (i.e., included in the Department's annual FMFIA Report to Congress).

MCR Nationwide Compilation Report. A nationwide report issued by FMD of all MCRs conducted within a fiscal year. The MCR Nationwide Compilation Report contains, in part, the findings (strengths/weaknesses) and recommendations resulting from the MCRs.

MCR team. Rural Development personnel assigned to perform MCRs of assessable units.

MCR Team Coordinator. The agency/division's liaison for management control issues responsible for overall coordination of MCRs with FMD.

MCR Team Leader. The agency/division's representative responsible for the MCR team and for conducting the review of a single assessable unit.

Mini-State Internal Review (Mini-SIR). A follow-up review of a specific administrative/program area once a comprehensive SIR has been completed.

Nationwide SIR Summary Report. A nationwide summary report of trends of weaknesses identified in SIRs/Mini-SIRs prepared annually by FMD.

On-site entrance conference. A conference conducted by the review team with the reviewed office prior to, or at the beginning of each review. The scope of the review and other related issues are discussed by the review team during the on-site entrance conference. If warranted, the entrance conference may be conducted via teleconference.

On-site exit conference. A conference conducted by the review team with the reviewed office at the conclusion of each review. The findings resulting from the review are discussed by the review team during the on-site exit conference. If warranted, the exit conference may be conducted via teleconference.

Other reviews. In addition to SIRs and MCRs, other reviews may be performed such as information technology reviews done in accordance with OMB Circular A-130, financial system reviews done in accordance with OMB Circular A-127, FMD reviews, and administrative/program evaluations conducted by National and State Offices.

Review Finding Codes. Codes within ARTS used to identify findings resulting from MCRs, SIRs, and all other reviews.

Senior Management Control Council (SMCC). An advisory council comprised of senior management and State Directors, as appointed by the Deputy Under Secretary for Rural Development to establish and evaluate management controls within Rural Development.

§ 2006.603 (Con.)

State Internal Review (SIR). Comprehensive evaluation reviews, conducted by SIR teams, of the delivery of programs and administrative functions in field offices and centralized program functions within the state. RUS Electric and Telecommunications Programs and their management controls are administrated at the National Office level and are excluded from SIRs.

State Internal Review (SIR) Handbook. National Office approved questionnaires for review of all program and administrative operations administered by the state. The appropriate National Office program and administrative area will be responsible for updates and revisions to the SIR Handbook. Coordination and consolidation of all changes will be made on an annual basis by FMD.

State Internal Review (SIR) Summary Report. A fiscal year-end report prepared by the State Office of trends of weaknesses resulting from the SIRs/Mini-SIRs conducted within the state.

State Internal Review (SIR) team. Team members comprised of State Office employees who conduct the SIRs within a state as designated by the State Director.

State Senior Management (SSM) team. Team members designated by the State Director to facilitate the SIR process within a state.

§ 2006.604 Purposes.

The management control system consists of a series of mechanisms to determine whether:

- (a) Policies and procedures for making, servicing, and liquidating loans and grants are properly developed, issued, and implemented;
- (b) Administrative functions (such as personnel management, budgeting, contracting, acquisition, and maintenance of space and equipment, etc.) are performed in an efficient and cost-effective manner;
- (c) Training is sufficient to provide for a skilled and knowledgeable workforce;
- (d) Resources are monitored, reported, and protected against waste, loss, unauthorized use, or misappropriation;

- (e) Functions and programs vulnerable to waste, loss, misuse, and abuse are identified and appropriate controls are installed or improved;
- (f) Deficiencies are reduced or eliminated; and
- (g) Appropriate officials are in compliance with Rural Development procedures and regulations and make recommendations for corrective action.

§ 2006.605 Responsibilities.

(a) Deputy Under Secretary for Rural Development. The Senior Rural Development MCO responsible for:

- (1) Assuring that Rural Development maintains an effective and efficient management control system; and
- (2) Reporting annually to the Under Secretary for Rural Development, who then reports annually to the Secretary of Agriculture, whether there is reasonable assurance to believe that Rural Development's management control system fulfills the requirements of the FMFIA and OMB Circular A-123.

(b) Rural Development Administrators. The Administrators for Rural Development: RBS, RHS, and RUS; and the Deputy Administrators for O&M and OCD, are the Senior Agency MCOs responsible for:

- (1) Assuring that there is an effective and efficient management control system in their area of responsibility.
- (2) Supporting the MCR process by:
 - (i) Assigning experienced personnel to serve as MCR team members;
 - (ii) Working with FMD in planning the MCRs by reviewing existing data on the assessable unit(s) being reviewed to help define the scope of the review; and
 - (iii) Assuring that corrective actions are implemented in a timely manner to improve overall operations.
- (3) Reporting annually to the Under Secretary for Rural Development whether there is reasonable assurance to believe that the management control system fulfills the requirements of the FMFIA and OMB Circular A-123.

§ 2006.605 (Con.)

(c) Senior Management Control Council (SMCC). The SMCC is chaired by the Deputy Under Secretary for Rural Development and consists of senior level management to establish and evaluate the management control program within Rural Development.

- (1) The SMCC duties are to:
 - (i) Assess risk and make recommendations regarding material weaknesses, vulnerable/high risk areas, and needed improvements within Rural Development;
 - (ii) Make recommendations concerning material weaknesses that warrant disclosure in Rural Development's annual report to the Secretary; and appropriate statements of assurance and compliance to be included in Rural Development's annual FMFIA report;
 - (iii) Assess risks identified by the MCAGs as a result of weaknesses identified and reported to the Administrators;
 - (iv) Develop goals for management accountability for Rural Development to meet needs/risks identified in a particular area, region, or state;
 - (v) Evaluate:
 - (A) Program delivery;
 - (B) Mission compliance;
 - (C) The review process for effectiveness;
 - (vi) Assure regulatory compliance;
 - (vii) Determine the cause(s) of program strengths and weaknesses; and
 - (viii) Approve MCAG recommended 5-year plans.
- (2) The term limits of the SMCC members are as follows:
 - (i) All senior level management other than State Directors will remain as SMCC members indefinitely to maintain continuity; and

(ii) The three State Directors' seats will be rotated and staggered as follows to retain state representation without losing all past experience:

(A) Each State Director will serve a term of 3 years;
and

(B) The Deputy Under Secretary for Rural Development will select new State Directors to serve on the SMCC when a replacement is necessary.

(d) Management Control Advisory Group (MCAG). The MCAG is a working group established for O&M, OCD, and each agency within Rural Development. MCAGs:

(1) Are chaired by the Director of FMD, the designated Rural Development MCO.

(2) Are comprised of representatives from:

(i) Each program within an agency;

(ii) Each administrative area within O&M;

(iii) OCD;

(iv) At least one State Director; and

(v) Field office representative(s).

(3) Members will:

(i) Become familiar with all phases of Departmental, OMB, and GAO guidance on management controls.

(ii) Meet semi-annually or at the call of the Chairperson to discuss ongoing management control initiatives, plan new initiatives, and review and evaluate the implementation status of previously approved matters.

(iii) Report to the SMCC through the Chairperson and their Agency Administrator on identified control weaknesses, deficiencies, mismanagement, or other problems; including recommended corrective actions and estimated resources required to correct them.

§ 2006.605(d)(3) (Con.)

(iv) Advise and assist Rural Development managers in the various phases of management controls, including conducting risk assessments, developing and recommending an MCR 5-year plan to be reviewed and approved, and formulating corrective actions.

(v) Advise SMCC on management control matters by proposing milestones, plans, target dates for planned actions, and the materiality of reported weaknesses.

(vi) Perform follow-up checks and reviews to ensure that approved corrective actions have been implemented and the weaknesses have been reduced or eliminated.

(vii) Provide semi-annual management control updates to Administrators/Deputy Administrators and the SMCC.

(4) The term limits of members are as follows:

(i) All members other than field office representatives will remain as MCAG members indefinitely to maintain continuity; and

(ii) Field office representatives will be rotated and staggered as follows to retain field representation without losing all past experience:

(A) Each field office representative will serve a term of at least 3 years; and

(B) The Administrator/Deputy Administrator will select new field office representatives when a replacement is necessary.

(e) Director, Financial Management Division (FMD). The Director of FMD is the designated Rural Development MCO with the following duties:

(1) In conjunction with the SMCC, develops, implements, and administers management control policies that will provide reasonable assurance of compliance with the intent of the FMFIA and OMB Circular A-123.

- (2) Serves as Rural Development's point of contact for all management control matters, including OIG/GAO audits, single audits, hotline/whistleblower complaints, and investigations, as well as liaison with the Department's Office of the Chief Financial Officer (OCFO), GAO, and OIG.
- (3) Provides training as needed to all State MCOs on management control requirements and their responsibilities.
- (4) Compiles the nationwide findings (strengths and weaknesses) of all MCRs within each fiscal year and issues the annual MCR Nationwide Compilation Report to National Office officials and states.
- (5) Analyzes the SIR/Mini-SIR trends of weaknesses for all states, issues the annual Nationwide SIR Summary Report to National Office officials and states, and provides a copy to all MCAG members prior to or during the fourth quarter MCAG meeting.
- (6) Develops and maintains a formalized automated tracking system that will allow for effective and efficient monitoring of reviews, weaknesses, and corrective actions stemming from Rural Development's management control process.
- (7) Maintains primary responsibility for the direction of the MCR process under the overall supervision of the Deputy Under Secretary for Rural Development. This direction includes the following:
 - (i) Working with the SMCC and MCAGs to establish and maintain an MCR 5-year plan;
 - (ii) Working with senior management and program managers in developing MCR work plans, defining the scope of the review, and analyzing existing program data;
 - (iii) Planning for each MCR, to include notifying any State Offices that will be affected by the MCR and providing guidance regarding the organization and preparation of the MCR team;
 - (iv) Serving as coordinator for each MCR, including the direction of MCR planning meetings, formal entrance and exit conferences, conducting the MCR detailed in § 2006.608 of this Instruction, and issuance of the MCR Nationwide Compilation Report;

§ 2006.605(e) (7) (Con.)

(v) Overseeing MCR follow-up activities to assure timely completion of corrective actions; and

(vi) Providing policy guidance and oversight to Rural Development National and State Office managers on the implementation of the MCR process.

(f) State Directors. State Directors are the designated Deputy MCOs responsible for assuring the implementation of the management control process throughout their respective states. The State Director will:

(1) Designate, in writing:

(i) The State MCO to assist in carrying out the responsibilities of the Deputy MCO.

(A) Notify all state personnel in writing of the State MCO designation so that questions and inquiries may be submitted to the State MCO.

(B) Notify FMD when there are any changes affecting the State MCO designation.

(ii) The representatives from all program and administrative areas to serve as SSM team members.

(iii) The State Office staff representatives from appropriate program and administrative functional areas to serve as SIR team member. At the discretion of the State Director, the Rural Development Manager (RDM) may be assigned to the SIR team on a review of an area other than his/her own area on a rotating basis.

(2) Participate in all OIG, GAO, SIR/Mini-SIR, and MCR entrance and exit conferences either by attendance or teleconference. If the State Director is unable to participate in the entrance and exit conferences, the State Director should designate someone other than the MCO to serve as his/her representative.

(3) Schedule the SIRs on a SIR 5-year plan.

(i) Annually update a current plan of SIRs scheduled over a 5-year period.

(ii) Provide to FMD, STOP 0707, 1400 Independence Avenue, SW., Washington, DC 20250-0707:

(A) A copy of the annual update to the SIR 5-year plan by December 31 of each year; and

(B) A copy of a revised SIR 5-year plan when additional changes or updates are made between the annual updates.

(4) Evaluate the performance related to management controls of the State MCO, SIR/SSM team members, and RDMs. Management Controls/Resource Management must be a critical element in the annual performance plan for all State MCOs. Additionally, Management Controls/Resource Management must be a critical element in the annual performance plan for all managers and supervisors GS-13 and above.

(5) Issue the final SIR Report within 30 working days from the date of the exit conference.

(6) Make the final decision to require additional action or close the final SIR Report after receiving recommendations from the State MCO and SSM team, and notify the reviewed office, in writing.

(7) Issue the SIR Summary Report to all Program Directors and all field offices for information sharing. A copy should also be provided FMD, STOP 0707, 1400 Independence Avenue, SW., Washington, DC 20250-0707, no later than December 31 of each year.

(8) Use the FMD developed Nationwide SIR Summary Report of SIR/Mini-SIR trends of weaknesses when developing the State's Annual Training Plan. The Nationwide SIR Summary Report is used to determine areas of training to be conducted at the State Office and field office levels.

(9) Support and participate in the MCR process in their states by:

(i) Assuring that State Office and field office personnel are available and cooperative during the on-site portion of the MCR process;

(ii) Being receptive to recommendations for improved operations throughout the state resulting from an MCR report;

(iii) Implementing the required corrective actions by the scheduled dates for completion; and

§ 2006.605(f)(9) (Con.)

(iv) Conducting State follow-up efforts as well as cooperating in National Office follow-up efforts to determine whether the identified weaknesses have been corrected.

(g) State Senior Management (SSM) team. The State Director will designate SSM team members in writing. All program and administrative areas will be represented on the SSM team. The SSM team will:

- (1) Be responsible for selecting offices to be reviewed each fiscal year and work with the State MCO in developing and updating the SIR 5-year plan;
- (2) Review various management reports, DCFO reports, FOCUS reports, etc., to preplan the SIR for each field office;
- (3) Identify the SIR trends of weaknesses to ensure proper emphasis during upcoming reviews;
- (4) Provide copies of the various management reports to the SIR team;
- (5) Review SIR team findings and action plans prior to issuance of the final SIR Report; and
- (6) In conjunction with the State MCO, review status reports and make recommendations to the State Director regarding additional action needed or final closure of SIR Reports.

(h) State Management Control Officer (MCO). The State MCO will have the oversight responsibility as designated by the State Director to ensure that the state remains within the purview of National Office requirements in the SIR process. The State MCO will:

- (1) Report directly to the State Director and keep him/her informed of all issues relating to SIRs and Mini-SIRs;
- (2) Participate as the SIR Team Coordinator for all comprehensive SIRs and Mini-SIRs;
- (3) Participate in all OIG, GAO, SIR/Mini-SIR, Business Programs Assessment Review (BPAR), and MCR entrance and exit conferences either by attendance or teleconference;

- (4) Prepare an annual plan with the SSM team for conducting SIRs and any Mini-SIRs:
 - (i) Maintain and update the current SIR 5-year plan on an annual basis,
 - (ii) Submit a copy of the annual update of the SIR 5-year plan to FMD no later than December 31 of each year, and
 - (iii) Submit all changes/updates to the current SIR 5-year plan to FMD as soon as they occur;
- (5) Keep separate schedules for SIRs and Mini-SIRs to ensure that each field office receives a SIR at least once every 5-fiscal years, and as often as required for Mini-SIRs;
- (6) Distribute SIRs as evenly as possible over the 5-year cycle so that 20 percent of all field offices are reviewed each year;
- (7) Notify all field offices at least 20 working days prior to conducting any SIR or Mini-SIR;
- (8) Consolidate the SIR team's final report of findings and each reviewed offices' action plans into the approved final SIR Report format. Provide the final SIR Report to the SSM team for review and concurrence. In addition, the MCO must prepare a cover letter for State Director signature that includes a timeframe for the reviewed offices' initial status report;
- (9) Distribute the final SIR Report and cover letter;
- (10) Distribute copies of each reviewed offices' status report(s) to the SSM team for comment and recommendation for further action or closure;
- (11) Consolidate responses from the SSM team and prepare subsequent letters for the State Director's signature for follow-up of corrective actions until closure of the SIR by the State Director;
- (12) Track and monitor the status of all MCRs, SIRs, Mini-SIRs, OIG/GAO audits, single audits, investigations, and hotline/whistleblower complaints in ARTS;

§ 2006.605(h) (Con.)

(13) Prepare a SIR Summary Report annually to summarize statewide trends of weaknesses identified in SIR/Mini-SIR Reports completed during the fiscal year. Ensure that the SIR Summary Report contains an analysis of the findings with probable causes and conclusions made;

(i) Provide the SIR Summary Report to the State Director for evaluation and distribution, and

(ii) Send the SIR Summary Report to FMD no later than December 31 of each year, FMD, STOP 0707, 1400 Independence Avenue, SW., Washington, DC 20250-0707.

(14) Serve as the State's point of contact for all management control matters. This includes MCRs, SIRs/Mini-SIRs (except for the RUS Electric and Telecommunications Programs), OIG/GAO audits, single audits, investigations, and hotline/whistleblower complaints;

(15) Ensure prompt handling and completeness of all SIR, MCR, OIG/GAO audit, single audit, investigation, and hotline/whistleblower complaint responses;

(16) Attend and participate in State Office staff planning meetings and program reviews;

(17) Develop state procedures on management control matters; and

(18) As necessary, provide training on management control matters to personnel within the state.

(i) Management Control Review (MCR) team. The MCR Team Leader and team members will conduct MCRs as detailed in § 2006.608 of this Instruction.

(j) State Internal Review (SIR) team. The State MCO will serve as the SIR Team Coordinator for all SIRs. SIR team members will conduct SIRs as detailed in § 2006.609 of this Instruction.

(k) Rural Development Managers (RDMs). RDMs have oversight responsibilities in the SIR process for each office within their jurisdiction. RDMs must:

(1) Participate in all SIR exit conferences either by attendance or teleconference. If unable to participate personally, RDMs should designate a qualified representative;

(2) Review and concur with SIR action plans prior to forwarding them to the State Director, Attention: MCO;

(3) Maintain a copy of the final SIR Report for each office within his/her jurisdiction; and

(4) Perform follow-up activities as defined in § 2006.609(j) of this Instruction.

(l) Deputy Chief Financial Officer (DCFO). The Rural Development DCFO assures that adequate accounting controls are in place and functioning properly to safeguard resources and to administer the programs of Rural Development. The DCFO is responsible for reviewing and reporting on financial systems compliance with the FMFIA, Federal Financial Management Improvement Act (FFMIA), and OMB Circular A-127.

(m) Chief Information Officer (CIO). The CIO for Rural Development assures that adequate management controls are in place and functioning properly related to systems security. The CIO is responsible for performance of system reviews in accordance with OMB Circular A-130.

(n) Rural Development supervisors and managers. Each Rural Development supervisor and manager must:

(1) Maintain effective and efficient controls over resources, periodically evaluate these controls, and take appropriate action to reduce or eliminate identified weaknesses; and

(2) Support the MCR process by:

(i) Assigning experienced personnel to serve as MCR team members;

(ii) Working with FMD in planning the MCRs by reviewing existing data on the assessable unit(s) being reviewed to help define the scope of the review; and

(iii) Assuring that timely corrective actions are implemented to improve overall operations.

(o) Rural Development employees. All Rural Development employees are responsible for delivering the programs of Rural Development and providing the support services for these programs in such a way as to protect the public's resources from waste, loss, unauthorized use, and misappropriation.

§ 2006.606 [Reserved]

§ 2006.607 GAO audits and OIG audits and investigations.

GAO audits and OIG audits and investigations are conducted every year. These audits result from the continuous oversight responsibilities of each organization. Rural Development also periodically request OIG to conduct audits and investigations. Reports of these audits and investigations contain specific deficiencies with required corrective actions. OIG, OCFO, and Rural Development monitor the implementation of the corrective actions and report on them to the Secretary of Agriculture. Monitoring, follow-up actions, and tracking system requirements are found in RD Instruction 2012-A for audits and RD Instruction 2012-B for investigations.

§ 2006.608 Management Control Reviews (MCRs).

MCRs are conducted on all assessable units within Rural Development on a 5-year cycle. These reviews are conducted utilizing control objectives and techniques (COTs) developed by management.

(a) Purpose of MCRs.

- (1) Review assessable units from the highest to the lowest operational level;
- (2) Determine if policies and procedures for making and servicing loans and making grants are being implemented as directed;
- (3) Determine if policies and procedures for working with supported and targeted communities are being implemented as directed;
- (4) Evaluate the effectiveness of administrative operations including, but not limited to, personnel management, contracting, financial management, civil rights, internal controls, and automated systems;
- (5) Identify weaknesses or deficiencies in program and administrative operations with specific corrective actions for their elimination or reduction;
- (6) Determine whether any problem areas require further, more intensive review;

(7) Recognize effective field office activities in the delivery of programs and in the management of personnel and resources;

(8) Assess the effectiveness and efficiency of management controls in Rural Development to minimize the potential for waste, loss, unauthorized use, or misappropriation; and

(9) Inform the Deputy Under Secretary for Rural Development, Rural Development Agency Administrators, Deputy Administrators for OCD and O&M, and senior managers of the status of operations and internal controls.

(b) Frequency and content of MCRs.

(1) Each MCAG will develop and recommend an MCR 5-year plan by identifying:

(i) Assessable units;

(ii) Risk level of each assessable unit;

(iii) Risk level for each COT; and

(iv) A review schedule for each assessable unit.

(2) The SMCC will review recommended plans from each MCAG and establish an MCR 5-year plan for all of Rural Development.

(3) The MCR 5-year plan will be reviewed annually and revised as necessary to assure all assessable units have undergone an MCR at least once within a 5-year cycle.

(c) Planning MCRs.

(1) MCAG meetings will be held in the second quarter of the fiscal year to review:

(i) Changes to the assessable units scheduled to be reviewed during the fiscal year;

(ii) Changes to the 5-year plan; and

(iii) Other changes affecting the MCR process.

§ 2006.608(c) (Con.)

(2) MCAG meetings will be held in the fourth quarter of the fiscal year to review:

- (i) MCR findings presented by the Team Coordinator;
- (ii) Recommendations made regarding the materiality of each reported weakness for the FMFIA Report;
- (iii) The overall risk level of each assessable unit;
- (iv) The risk level of each COT;
- (v) The next review date for an assessable unit; and
- (vi) The MCR 5-year plan.

(3) The SMCC will meet to review the recommendations of the MCAGs regarding material weaknesses to be included in the FMFIA Report and updates to the MCR 5-year plan. The schedule will be reviewed with attention given to the following criteria:

- (i) MCRs performed within the current fiscal year;
- (ii) Recommendations from the SMCC, the MCAGs, and National Office managers;
- (iii) Recent changes within Rural Development programs and administrative functions; and
- (iv) Budget and staff resource considerations.

(4) The number of MCR team members will vary with each assessable unit being reviewed. In determining MCR team size, consideration will be given to the size of the assessable unit, program caseloads, previous review findings, and related information. National Office managers will select personnel from their program and field offices to participate in the MCR process. Rural Development's Deputy Administrator for O&M will designate, in writing, all field office MCR team members who will participate in MCRs.

(i) Team Leaders and team members must be thoroughly knowledgeable of the assessable unit to be reviewed and must possess good evaluation skills.

(ii) Team Leaders and team members should avoid conducting reviews in States where they previously worked in the state or field office. Team Leaders or team members should notify FMD if they are scheduled to review an office where they previously worked. In these cases, the FMD Director will request that another individual be assigned to the review.

(5) Prior to the start of each MCR, FMD will conduct planning meetings with senior management, program managers, and the designated MCR Team Coordinator to explain the purpose and process of the MCR.

(i) FMD will request that the appropriate National Office managers develop:

(A) A work plan detailing how the review will be accomplished and the staff and travel funding that will be required;

(B) Control objectives and techniques from the highest to the lowest operational level for the assessable unit being reviewed, including a recommended risk level associated with each control objective; and

(C) A Review Guide based upon the control objectives and techniques to be used for MCRs. The Review Guides include areas for reporting on the size of the sample reviewed and the number of deficiencies noted within the sample size. In addition the Review Guides include areas for documenting the value of loans/grants reviewed and the value of loans/grants with deficiencies.

(ii) Throughout the MCR planning process, FMD, the Team Coordinator, Team Leader, and senior management will work together to determine the scope of the review, resources necessary to conduct the review, scheduling, and analysis of existing information regarding the assessable unit being reviewed.

§ 2006.608(c)(5) (Con.)

(iii) The work plan, control objectives and techniques, and Review Guide that must be approved by FMD before starting any MCR. The control objectives and techniques and Review Guides should be developed and updated utilizing Rural Development regulations and internal procedures, recent OIG/GAO audit reports, prior MCR findings, and the Nationwide SIR Summary Report.

(6) After the MCR planning meeting with FMD, the MCR Team Coordinator/Leader, and, if requested, the FMD Liaison should meet with team members and program managers to:

(i) Analyze the general management control environment of the assessable unit being reviewed;

(ii) Schedule State Offices, field offices, and projects for review, when appropriate (some functions are administered only at National Office level);

(iii) Develop tentative itineraries;

(iv) Discuss logistics of travel and accommodations; and

(v) Select the MCR participants for travel.

(7) Prior to any scheduled review, FMD will notify the appropriate National Office program managers and State Directors in writing, of:

(i) Tentative review dates;

(ii) Information regarding entrance and exit conferences; and

(iii) The MCR Team Leader as the point of contact.

(8) At least 20 working days prior to an on-site MCR in a State, FMD will provide the State Director with a confirmation of the tentative review dates, a list of MCR team members, and a final combined itinerary. Copies of the MCR team member list and the itinerary should be provided to appropriate offices within the State by the State MCO.

(9) The appropriate Deputy/Assistant Administrators will request the State Director to provide any loan dockets or other information necessary for the performance of an MCR. The extent and timing of these requests will be coordinated by the MCR Team Leader and team members.

(d) Conducting MCRs.

(1) Each MCR team member must use the appropriate Review Guide when conducting the review. The MCR Team Leader will be responsible for coordination and distribution of the Review Guides to MCR team members. The completed MCR Review Guides and all supporting documentation must accompany the MCR Final Report that is submitted to FMD. This documentation will be maintained by FMD to provide an audit trail.

(2) The time allotted for the MCR should be adequate for the MCR team members to complete the review.

(3) FMD will conduct a formal entrance conference with the appropriate National Office administrative/program managers and the State Directors and their staff.

(i) The MCR Team Coordinator and team members will participate in the formal entrance conference either by attendance or teleconference. FMD must be notified by the MCR Team Coordinator of personnel that are unable to participate.

(ii) The formal entrance conference provides National Office administrative/program managers and the State Directors with the following:

(A) An introduction of the MCR Team Leader and team members;

(B) An explanation of the purpose, scope, and methodology of the MCR; and

(C) Clarification of any itinerary questions or other concerns raised by the National or State Office.

§ 2006.608(d) (Con.)

(4) On-site reviews of documents, projects, and offices, coupled with interviews of Rural Development personnel, take place at the National, State, and field offices using the MCR Review Guides and the approved itinerary. An informal entrance and exit conference will be held by the MCR team with the State Office being reviewed, either on-site or by teleconference. National, State, and field office personnel must be available on the days scheduled for interviews with the MCR teams. Interviews may also be conducted with borrowers, banks, other lenders, community groups, employee associations, and other individuals and groups as appropriate for the review.

(5) After all on-site MCRs, docket reviews, and the evaluation of other information has been completed, the MCR Team Leader will compile and coordinate review findings into a draft MCR report and provide a copy to FMD and senior management. After receipt of the draft MCR report and prior to the formal exit conference, FMD will schedule an Administrator's Briefing with the MCR Team Leader and senior management to discuss MCR findings, resolve issues, and reach agreement prior to the formal exit conference.

(6) A formal exit conference will be held in the National Office, with National and State Office personnel and FMD.

(i) FMD will schedule the formal exit conference with the MCR Team Coordinator and issue notifications to appropriate participants.

(ii) The MCR Team Coordinator and Team Leader should attend the formal exit conference either in person or by teleconference.

(iii) The purpose of the formal exit conference is to acquaint the National Office administrative/program managers and State Directors with the probable findings that will be contained in the MCR Nationwide Compilation Report. No recommendations will be discussed during the formal exit conference.

(iv) The duration of the formal exit conference varies; however, for planning purposes, at least 1 hour should be allowed.

(v) FMD will call upon the Team Leader to concisely present a summary of the findings resulting from the review. All strengths and weaknesses agreed upon at the Administrator's Briefing will be presented without any additions or deletions. Questions and comments for purposes of clarification are encouraged.

(e) MCR Final Report.

(1) All MCR Team Coordinators/Leaders must submit their Final Report to FMD within 10 working days from the date of the formal exit conference.

(i) The MCR Final Report must be in the approved format provided by FMD and contain the following:

(A) The same findings (strengths and weaknesses) presented at the formal exit conference;

(B) Information on the sample size and number of deficiencies noted;

(C) Specific corrective actions to eliminate or reduce each weakness;

(D) Specific timeframes for completion and submission of correction action documentation to the National Office for State recommendations and to FMD for National Office recommendations;

(E) The title of the individual responsible for implementing the corrective action;

(F) The title of the individual responsible for providing quarterly status updates to FMD; and

(G) Signature of the Team Leader and approval through senior management.

(ii) All supporting documentation must be sent to FMD with the MCR Final Report. The supporting documentation includes all completed MCR Review Guides, review sheets, and any other documentation used to complete the review. The supporting documentation will be retained by FMD and will not be included in the MCR Nationwide Compilation Report.

§ 2006.608(e) (Con.)

(2) An MCR Nationwide Compilation Report will be issued by FMD to all appropriate National Office officials and State Directors.

(f) Maintenance of MCR records.

(1) All National Office records, MCR Final Reports, Review Guides, and questionnaires for each MCR will be maintained by FMD to provide an audit trail for use by oversight organizations. These records will be maintained by FMD for 5 fiscal years after the final closure memorandum is issued to the appropriate National Office officials for the MCR.

(2) The States should retain MCR records and documents for 5 fiscal years after submission of corrective action to the National Office. All corrective action taken by the state should be documented and maintained in a central file within the State Office.

(g) MCR follow-up system.

(1) Purpose and objectives of the follow-up system.

(i) To ensure that appropriate actions are taken within a timely basis (within prescribed timeframes) to correct or control identified weaknesses.

(ii) To determine whether weaknesses have been resolved and if the desired results have been achieved.

(iii) To verify that appropriate controls are in place and functioning as intended to eliminate vulnerability of Rural Development resources due to waste, loss, unauthorized use, and misappropriation.

(2) Components of the MCR follow-up system.

(i) Written status updates to FMD.

(A) After the MCR Nationwide Compilation Report is issued, quarterly status updates will be submitted to FMD (March 31, June 30, September 30, and December 31) from the responsible National Office managers. Quarterly status updates will indicate the progress made to implement corrective action(s) for each MCR recommendation.

(1) If corrective action has been implemented, supporting documentation should be included with the status update to close the recommendation.

(2) If the timeframe for implementation changes for a recommendation, the revised timeframe and explanation should be included in the quarterly status update.

(B) The findings reported in the MCR Nationwide Compilation Report are considered to be trends within the assessable unit. On-site reviews are conducted as a sampling of the entire nationwide population. Therefore, for any state recommendations included in the MCR Nationwide Compilation Report, all states will provide a written response and documentation supporting implementation of the corrective actions to the National Office manager responsible for the assessable unit.

(ii) Request for change in MCR recommendation. If there is a need to change an MCR recommendation after the MCR Nationwide Compilation Report is issued, a written request:

(A) Must be submitted to FMD by the Deputy/Assistant Administrator of the affected assessable unit; and

(B) Must include justification for the change.

(iii) On-site follow-up review in the State. When appropriate, on-site follow-up reviews will be conducted to ensure that proper actions have been taken as a result of the MCR and other reviews. The necessity for an on-site follow-up review will be based on the severity of weaknesses and the quarterly status updates from National Office managers.

(A) Method.

(1) Coordination. FMD will oversee coordination of any on-site follow-up reviews and reporting. Designated personnel will conduct these reviews and report findings to FMD concerning the progress made in correcting weaknesses identified in the MCR Nationwide Compilation Report.

§ 2006.608(g) (2) (iii) (A) (Con.)

(2) MCR review team. Team members must be competent and familiar with the operations of the area(s) they are assigned to review. The size and composition of the review team will be based on the degree of vulnerability and materiality of the weaknesses noted in the MCR Nationwide Compilation Report, and the nature and status of corrective actions required. National Office Deputy/Assistant Administrators and Staff Directors will select and approve members for the follow-up reviews.

(3) Scheduling. On-site follow-up reviews are to be conducted within 12 months of the date the MCR Nationwide Compilation Report is issued.

(4) Scope. The scope of these reviews will be based on the severity, prevalence, and frequency of weaknesses disclosed in the MCR Nationwide Compilation Report or other reviews, as appropriate.

(5) Duration. On-site follow-up reviews will typically be conducted over 3 or fewer days. Time spent in each office selected for review will vary depending on the scope of the review (number of interviews, dockets sampled, and records reviewed, etc.).

(6) Sampling. Offices reviewed will include both a sample of offices reviewed during the MCR and offices that were not previously reviewed.

(7) Entrance and exit conferences. The review team will conduct:

(i) A brief entrance conference with the office being reviewed to discuss the purpose and scope of the on-site follow-up review and any areas of concern.

(ii) An exit conference with the office being reviewed at the conclusion of the on-site follow-up review to discuss the findings.

(B) National Office reporting of on-site follow-up reviews.

(1) Due date. Team members will submit a written finding report to senior management and FMD within 20 working days of the on-site exit conference.

(2) Content. The finding report will clearly describe the status of corrective actions, and conclusions regarding the progress made in resolving weaknesses disclosed in the MCR Nationwide Compilation Report. Team members must document the specific dates that corrective actions were completed and include this information along with any other documentation supporting the review results and conclusions. A subsequent corrective action plan with timeframes for completion must be included for unresolved weaknesses. Documentation supporting the findings must be submitted to FMD with the finding report signed by the Deputy/Assistant Administrator.

(C) Conclusions.

(1) The need for any additional corrective actions will be determined by the results of the on-site follow-up review. The intent is to resolve all weaknesses in a responsible and timely manner.

(i) If all corrective actions have been completed and the identified weaknesses have been resolved, FMD will close the MCR and notify the appropriate National Office officials. No further response will be required from the National Office managers or State Directors.

(ii) If corrective actions have been taken as recommended in the MCR Nationwide Compilation Report but the weaknesses have not been resolved, a subsequent corrective action plan will be developed including timeframes for completion.

§ 2006.608(g) (2) (iii) (C) (1) (Con.)

(iii) If corrective actions have not been taken as recommended, the appropriate National Office officials will be required to document the reasons in a written statement to the Deputy Under Secretary for Rural Development, Attention: FMD, STOP 0707, 1400 Independence Avenue, SW., Washington, DC 20250-0707.

(2) The appropriate National Office officials will be required to submit quarterly status updates to FMD (March 31, June 30, September 30, and December 31) until all corrective actions have been implemented and the MCR has been closed.

(iv) MCR tracking and monitoring. ARTS is to be maintained by FMD and the State Offices. The assigned FMD Liaison and the State MCO are responsible for tracking and monitoring the status of efforts to correct weaknesses. ARTS will be used to identify widespread trends of weaknesses; facilitate updates on progress made; and prepare quarterly status updates and annual summaries of MCRs and other reviews. All findings resulting from reviews will be identified/coded using the ARTS Review Finding Codes. In addition, all corrective actions should be identified/coded using the ARTS Corrective Action Codes. ARTS will also include GAO and OIG audits, single audits, OIG investigations, and hotline/whistleblower complaints conducted in the States, DCFO, and National Office.

(A) FMD will maintain ARTS for weaknesses and corrective actions for all MCR reports.

(B) When MCR recommendations are to be implemented by State Offices, each State MCO will track and monitor those recommendations. State MCOs may close their MCR report in ARTS at the time corrective action is submitted to the responsible individual in the National Office.

(C) FMD will continue ARTS tracking and monitoring until all corrective actions have been implemented and the MCR Nationwide Compilation Report is closed.

(3) Closure of the MCR Nationwide Compilation Report. The MCR Nationwide Compilation Report will remain open until all recommendations included in the report have been implemented and final closure documentation is submitted to FMD.

§ 2006.609 State Internal Reviews (SIRs).

SIRs are comprehensive evaluation reviews of the delivery of program and administrative functions in field offices and centralized program functions within a State. RUS Electric and Telecommunications Programs are administered at the National Office level and are excluded from SIRs. The SIR Handbook must be used to review the specific administrative/program functions, to include program functions that are centralized in the State Office.

(a) Purpose of SIRs. The SIR process is a state management review of operations in field offices and centralized program functions to:

- (1) Determine if policies and procedures for making and servicing loans/grants are being implemented according to Rural Development regulations, policies, and procedures;
- (2) Determine if policies and procedures for working with supported and targeted communities are being implemented as directed;
- (3) Evaluate the effectiveness of administrative operations, including but not limited to, personnel management, contracting, collections and disbursements, civil rights monitoring, and automated systems;
- (4) Identify weaknesses in program and administrative operations with specific corrective actions for their elimination or reduction, including timeframes for completion;
- (5) Recognize effective field office and centralized program function activities in the delivery of programs and in the management of personnel and resources;
- (6) Assess the effectiveness of management controls to minimize the potential for waste, loss, unauthorized use, and misappropriation in field office operations;
- (7) Inform the State Director of the status of operations and controls in all field offices; and
- (8) Inform the Deputy Under Secretary for Rural Development and Agency Administrators of the effectiveness of the state's oversight responsibilities.

§ 2006.609 (Con.)

(b) Frequency and content of SIRs.

(1) The SIR team shall complete reviews of each field office and centralized program functions at least once every 5 years.

(i) The State Director may elect to conduct more frequent SIRs when major trends of weaknesses have been noted, when changes in personnel occur, or at his/her discretion.

(ii) A SIR will be scheduled when an analysis of various management reports indicates possible major trends of weaknesses.

(iii) The SIR Handbook provides the format and content for the review of field offices and centralized program functions. The SIR Handbook must be used to review the specific administrative/program functions of all Area and Local Offices and centralized program functions in the State Office.

(iv) The SIR Handbook may be supplemented by the State Director to address areas of concern or areas of major emphasis within the state.

(v) RBS conducts Business Programs Assessment Reviews (BPARs) of its Business Programs in all states on a 5-year cycle. The Review Guide used to conduct BPARs includes questions similar to those included in the SIR Handbook. Therefore, if the program function is centralized within a state, BPARs replace the requirement to conduct a SIR.

(A) Centralized Business Programs must be maintained by the State MCO on the SIR 5-year plan indicating the date of the last review and the proposed date for the next review.

(B) If a BPAR is not conducted within the SIR 5-year cycle, a SIR will be required by the State.

(C) The National Office Business Programs will issue a final BPAR Report to the State Director with a copy to the State MCO. The final BPAR Report will contain findings resulting from the review and recommended corrective actions.

(D) State MCOs will track BPAR findings as a SIR in ARTS using the Review Finding Codes.

(E) State MCOs will conduct follow-up and monitoring in ARTS until the National Office Business Programs considers all recommendations resolved, corrective actions implemented, and the BPAR is designated as being closed by Business Programs.

(2) Each SIR will result in a final SIR Report identifying all program and administrative functions reviewed, findings (strengths and weaknesses), corrective actions, implementation timeframes, and follow-up efforts related to the weaknesses. The final SIR Reports are to be maintained until another SIR is completed of that office and a new final SIR Report is issued. A copy of the final SIR Report should be maintained:

- (i) In the office reviewed;
- (ii) In the State Office; and
- (iii) By the RDMS, for each office within his/her jurisdiction.

(c) Planning SIRs.

(1) The State MCO and the SSM team should develop a 5-year plan for conducting SIRs. SIRs should take place between October 1 - September 30, allowing sufficient time for the preparation and submission of the annual SIR Summary Report to FMD by December 31. The criteria for developing the SIR 5-year plan include:

- (i) Time elapsed since the last review;
- (ii) Management reports, previous review findings, and management's existing knowledge of the field offices and centralized program functions;
- (iii) Recent change of manager/supervisor position; and
- (iv) Budget and staff resource considerations.

§ 2006.609(c) (Con.)

(2) The State MCO will be the Team Coordinator for all SIRs to assure efficient use of resources. In determining SIR team size, consideration should be given to loan program caseload, previous review findings, experience of personnel, and related information.

(i) The SIR team should be comprised of State Office personnel that are knowledgeable of the area being reviewed.

(ii) The SIR team must be designated in writing by the State Director.

(iii) The SIR team must consist of members that do not complete the work of the area being reviewed (e.g., a Multi-Family Housing (MFH) loan program that is centralized in the State Office cannot be reviewed by the MFH personnel within the State).

(iv) SIR team members will conduct an on-site review and issue a draft report of findings to the reviewed office at the exit conference. A final report of findings will be issued by the SIR team members to the State MCO within 10 working days of the date of the exit conference.

(3) A state may request assistance from another state to conduct SIRs for centralized program functions if there are no other resources and options available within their own state.

(i) A written request for assistance will be sent from the State Director requesting the assistance to the State Director providing the assistance.

(ii) After agreement has been reached, SIR team members will be designated in writing by the state requesting the assistance.

(iii) All correspondence and requests for assistance will be routed through the MCOs in each state, with copies provided to the designated SIR team member(s) and their supervisor(s).

(iv) After conducting the SIR, team members and program managers of centralized program functions will follow the reporting and follow-up requirements detailed in § 2006.609(j) of this Instruction.

(4) A state may request National Office assistance to conduct SIRs for centralized program functions if there are no other resources or options available. Requests for assistance must be submitted in writing to the Director, FMD, STOP 0707, 1400 Independence Avenue, SW., Washington, DC 20250-0707. Requests must include the justification and details outlining how the SIR will be accomplished if assistance is granted.

(d) Conducting SIRs.

(1) The State Director will determine the length of time needed to conduct the SIR. The length of time must be sufficient to permit the SIR team members to perform a complete review.

(2) SIR team members will use the appropriate Review Guide of the SIR Handbook when conducting the reviews. The SIR team should document the size of the sample reviewed and the number of weaknesses noted within the sample size. In addition, the SIR team should also document the value of loans/grants reviewed and the value of loans/grants with deficiencies. A comprehensive review covering all program and administrative areas should be conducted. All questions on the Review Guide should be answered, and "N/A" must be entered if the question is not applicable. The Summary of Review Findings must be completed for each program and administrative area reviewed as part of the SIR. Review Guides with no findings must have "none" entered on the Summary of Review Findings.

(3) The State MCO will notify offices being reviewed at least 20 working days in advance of the review date. All personnel must be available on the days of the review unless excused by the State Director.

(4) The SIR team will conduct a brief entrance conference with the office being reviewed to discuss the purpose and scope of the SIR.

(5) The SIR team will conduct the on-site portion of the review which will consist of interviews with Rural Development personnel, borrowers, bankers, other lenders, and review of projects, documents, and loan files. The State MCO and SIR team will determine if additional interviews will be necessary.

(i) A sampling of borrowers should be contacted to ascertain if they are legitimate Rural Development borrowers. These borrowers should also be surveyed to determine the quality of customer service provided by the Rural Development staff.

§ 2006.609(d)(5) (Con.)

(ii) Organizations that routinely deal with Rural Development (e.g., lenders, contractors, tenant groups, etc.) should be contacted to invite their reaction to Rural Development's delivery of programs and to learn of any problem areas.

(6) At a minimum, at least 10 dockets for individual-type loans/grants should be reviewed by the SIR team members in each program area. For group-type loans, a representative sample of dockets should be reviewed. The dockets should be selected by the reviewers, not by the personnel in the office being reviewed.

(i) Loan dockets being reviewed should include loans recently closed, borrowers with servicing problems, guaranteed and direct loans, property in inventory, and rejected/withdrawn applicants.

(ii) The SIR team member should note the following on each docket reviewed:

(A) The date of the SIR;

(B) That the SIR findings and documentation are maintained in the State Office official SIR file; and

(C) His/her signature.

(7) At the conclusion of the on-site review, the SIR team will conduct an exit conference with the reviewed office and State Director to discuss findings and provide a draft report of their findings. SIR team members will not provide recommendations for corrective action to the reviewed office. The reviewed office is required to develop corrective action plans independent of the SIR team.

(8) The RDM, or designee, will participate in all SIR exit conferences in his/her jurisdiction either by attendance or teleconference.

(9) Compliance scores of SIRs will be calculated for each administrative/program area in the SIR Handbook. The SIR Handbook is comprised of individual administrative/program areas such as: Administrative, Procurement, Information Resources Management, Civil Rights, Environmental, Water and Environmental, Business Programs, Community Facilities, Multi-Family Housing, Single Family Housing, Guaranteed Single Family Housing, Water and Waste, and Community Development. Each individual administrative/program area within the SIR Handbook includes various sections. For example, the Administrative area of the SIR Handbook is divided into several sections (i.e., Financial Management, Office Management and Administrative Services, Human Resources and Training, and Equal Employment Opportunity Responsibilities). Any administrative/program area falling below an 80 percent compliance score will require a Mini-SIR of that area. However, the Mini-SIR will be conducted only on those sections within the administrative/program area falling below 80 percent, not on the entire administrative/program area.

(e) Report of SIR findings and recommendations.

(1) Within 10 working days of the date of the SIR exit conference, the SIR team members will submit their signed final report of findings through their supervisor/Program Director to the State Director, Attention: MCO.

(2) Within 10 working days of the date of the SIR exit conference, the reviewed office will submit an action plan in response to the SIR team's draft report of findings. The action plan will:

(i) Address each weakness identified at the exit conference;

(ii) Include proposed corrective actions for each weakness to eliminate or prevent the weakness from occurring in the future. In addition, the action plan should identify specific timeframes for implementation of corrective actions; and

(iii) Be submitted through the respective RDM, if appropriate, to the State Director, Attention: MCO.

(3) The State MCO will compile the SIR team members' final report of findings and the reviewed office's action plan into a draft SIR Report. The draft SIR Report containing the compiled data will be presented to the SSM team. The entire SSM team and State MCO:

§ 2006.609(e)(3) (Con.)

(i) Will review the draft SIR Report to ensure that each weakness is appropriately addressed and the proposed corrective actions will correct the noted weaknesses.

(ii) May accept, add, delete, or change the action plan, ensuring the corrective actions properly address the noted weaknesses.

(4) After meeting with the SSM team, the State MCO will prepare the final SIR Report for State Director approval. The final SIR Report should consist of the following:

(i) A cover sheet, as shown in Exhibit A of this Instruction, identifying the following:

- (A) Office reviewed,
- (B) Review date(s),
- (C) Date of the exit conference,
- (D) Report date,
- (E) Status Report due date,
- (F) Date and type of the last review,
- (G) Date(s)/Timeframe(s) for Mini-SIR(s) (if required),
- (H) Date(s)/Timeframe(s) for next complete SIR,
- (I) Exit conference attendees (minimum required):

- (1) State Director or designee,
- (2) RDM or designee, and
- (3) MCO (mandatory)

- (J) Areas included in the review, and
- (K) SIR team members;

(ii) An executive summary addressing the major findings and issues together with an overall summary analysis of the review;

(iii) A separate summary of review findings by each program and administrative functional area reviewed; and

(iv) Recommendations for specific corrective actions that address each weakness and the target dates for completion.

(5) The State Director will approve and issue the final SIR Report within 30 working days from the date of the exit conference by transmittal memorandum. The memorandum will outline the date a status report is due and any other comments as deemed appropriate. The final SIR Report will be distributed as follows:

- (i) The original to the State Director, maintained by the State MCO;
- (ii) A copy to the reviewed office;
- (iii) A copy to the RDM, when appropriate;
- (iv) A copy to the SSM and SIR team members;
- (v) A copy to the Program Directors, Environmental Coordinator, and Civil Rights Coordinator, unless they are already part of the SSM/SIR teams; and
- (vi) A copy to other personnel as deemed appropriate by the State Director.

(6) Important recommendations are often received and exchanged between the SIR team and the reviewed office when a SIR is conducted. The State MCO is responsible for retaining these recommendations throughout the fiscal year until all SIRs have been conducted. As part of the SIR process, recommendations for State Office or National Office consideration may be identified.

- (i) The SIR team members should document and report these recommendations to the State Director, Attention: MCO.
- (ii) The recommendations should include specific actions to be taken by the reviewed office. The SSM team and State MCO will review all recommendations to determine if further consideration is appropriate.
- (iii) If the SSM team and State MCO determine that a recommendation does not merit further consideration, a written response will be provided to the reviewed office with an explanation why it is not feasible to implement.
- (iv) If the recommendation has merit and should be reviewed further, it will be handled as follows:

§ 2006.609(e)(6)(iv) (Con.)

(A) A recommendation for State Office consideration will be forwarded to the appropriate administrative/program manager for their review. A written response should be provided to the office making the recommendation indicating whether the recommendation was implemented. If the recommendation was not implemented, the response should provide an explanation. If the recommendation will be implemented, a reasonable and achievable timeframe for completion should be included in the written response.

(B) A recommendation for National Office consideration will be included in the SIR Summary Report and forwarded to FMD by December 31 of each year.

(1) FMD will compile the SIR Summary Report recommendations and forward them to the appropriate National Office program managers for review.

(2) Responses will be provided to all states for information sharing.

(f) Maintenance of SIR records. Supporting documentation consists of completed Review Guides and all additional data collected while performing the review. The supporting documentation will become part of the original SIR Report to be delivered to the State MCO. The supporting documentation will be maintained in the State Office operational file until the next SIR is conducted on that office and the final SIR Report is issued.

(g) SIR/Mini-SIR tracking and monitoring. The State MCO is responsible for tracking and monitoring SIR/Mini-SIR reports in ARTS. The State MCO should:

(1) Track the size of the sample reviewed, number of deficiencies noted within the sample size, reported weaknesses, corrective actions, timeframes identified, and status of efforts to correct weaknesses for each SIR/Mini-SIR;

(2) Identify/code all weaknesses resulting from reviews using the ARTS Review Finding Codes;

(3) Identify/code all corrective actions resulting from reviews using the ARTS Corrective Action Codes;

- (4) Update ARTS as soon as possible after each SIR/Mini-SIR Report is issued and each status report is received, reviewed, and a response issued;
- (5) Update ARTS with all SIRs/Mini-SIRs conducted during the previous fiscal year not later than December 31 of each year;
- (6) Track SIRs and Mini-SIRs separately; and
- (7) Close a SIR only when all corrective actions included in the final SIR Report, and associated Mini-SIR (if necessary), have been implemented. A SIR should be reflected as open in ARTS until all corrective actions identified in both the SIR and Mini-SIR are implemented.

(h) SIR Summary Report. By December 31 of each year, each State Director will submit a SIR Summary Report of all SIRs/Mini-SIRs conducted during the previous fiscal year to the Director, FMD, STOP 0707, 1400 Independence Avenue, SW., Washington, DC 20250-0707. FMD will review each state's annual SIR Summary Report for compliance with this Instruction and advise the State Director of the results of the review. The annual SIR Summary Report should contain the following items:

- (1) A cover sheet with the following;
 - (i) The fiscal year of the report,
 - (ii) The list of field offices reviewed and review dates,
 - (iii) The list of SIR team members, and
 - (iv) The list of program and administrative operations/ functions reviewed.
- (2) An introduction in narrative or bullet form that includes the following;
 - (i) Any necessary background information on the state,
 - (ii) The purpose of the analysis, and
 - (iii) The benchmark used to identify trends of weaknesses (e.g., If 10 dockets/offices are reviewed and a benchmark of 6 or more dockets/offices is established, a trend would exist if the same weakness is noted in 6 or more of the 10 dockets/offices reviewed).

§ 2006.609(h) (Con.)

(3) A list of the trends of weaknesses (by administrative/program area of the SIR Handbook) identified by using the established benchmark indicated in paragraph (h)(2)(iii) of this section and the frequency rate that these trends occurred.

(4) A summary analysis in narrative or bullet form that includes the following:

(i) The conclusions made from an analysis of the trends of weaknesses identified,

(ii) The factors contributing to the major trends of weaknesses noted, and

(iii) The areas where emphasis for improvement should be placed.

(5) A list of program and administrative trends of weaknesses that require National Office attention/action.

(6) The recommendations to strengthen existing operations for National Office consideration.

(7) A comparative assessment of the overall effectiveness of the current year's performance with previous years' operations, including trends of weaknesses that are recurring, reduced, or eliminated.

(i) Nationwide SIR Summary Report. A Nationwide SIR Summary Report of all SIR/Mini-SIR trends of weaknesses will be prepared annually by FMD and distributed to National Office officials and states. The Nationwide SIR Summary Report will also be provided to all MCAG members prior to or during the fourth quarter MCAG meetings. The MCAG members will review the Nationwide SIR Summary Report to determine if any material weaknesses exist which should be reported in the annual FMFIA Report to the Secretary of Agriculture. The Nationwide SIR Summary Report will also be utilized in the MCR process for developing and updating control objectives and techniques and Review Guides.

(j) Components of the SIR follow-up system.

(1) Written status reports.

(i) Once the final SIR Report is issued, the reviewed office should promptly initiate corrective action(s) for each recommendation within the prescribed timeframes.

(ii) Within 20-60 working days from the date of the final SIR Report, the supervisor of the reviewed office will prepare an initial written status report on the implementation of the corrective action(s).

(A) If corrective actions have been fully implemented, documentation should be included with the status report.

(B) If corrective actions have not been fully implemented, the progress being made towards implementation should be reported in the status report. If timeframes identified in the final SIR Report will not be met, new timeframes should be identified in the status report.

(iii) The supervisor of the reviewed office will submit the initial and any subsequent status reports to the RDM having jurisdiction and oversight responsibilities for that office, if applicable.

(iv) The RDM will review all status reports and prepare a written recommendation for additional corrective actions or for closure of the final SIR Report. The RDM will support the recommendation with documentation of trip reports and reviews conducted during regular office visits.

(v) Within 10 working days of receipt of each status report, the RDM will submit the reviewed office's status report and his/her written recommendation regarding the corrective actions to the State Director, Attention: MCO. The status reports and the RDM's recommendations will be submitted by the due date identified in the State Director's memorandum.

(vi) RDMs and supervisors are responsible for ensuring that corrective actions are taken in their respective jurisdictions and that identified weaknesses are eliminated.

§ 2006.609(j)(1) (Con.)

(vii) Within 10 working days of receipt of each status report and RDM's recommendations, the entire SSM team and State MCO will review the information for adequacy and compliance with the final SIR Report recommendations. The entire SSM team and State MCO will recommend to the State Director whether additional information is needed or if the final SIR Report should be closed.

(viii) The State Director will make the final determination to request a subsequent status report if additional information is needed or to close a final SIR Report based upon the recommendations received from the entire SSM team and State MCO.

(ix) The State Director will notify the reviewed office in writing that:

(A) A subsequent status report should be provided within 60 working days of the date of the request. The State Director's memorandum will outline the additional information requested and a specific due date; or

(B) The final SIR Report is closed.

(x) The State Director will require written subsequent status reports from the reviewed office every 60 working days until all corrective actions have been completed and the final SIR Report is closed.

(2) Follow-up reviews (Mini-SIRs). When required, follow-up reviews (Mini-SIRs) will be conducted to ensure that proper corrective actions have been taken on weaknesses noted in SIRs. The necessity for a follow-up review will be based on the severity of weaknesses and the reviewed office's status reports.

(i) Method.

(A) Coordination. The State MCO will oversee coordination of Mini-SIRs and reporting. State Office and other designated personnel will conduct Mini-SIRs and report on the progress in correcting weaknesses identified in the final SIR Report to the State Director. Mini-SIRs are typically conducted on-site at the reviewed office. However, the State Director may approve Mini-SIRs to be completed by desk review when appropriate.

(B) Reviewers. Individuals responsible for conducting Mini-SIRs must be competent and familiar with the operational areas they are assigned to review. The size and composition of the Mini-SIR team will be determined by the State Director. The State Director will select the Mini-SIR team based upon the severity of the weaknesses disclosed in the final SIR Report and the nature and status of the corrective actions required.

(C) Scheduling. Mini-SIRs may be conducted either in conjunction with regularly scheduled office visits or independently throughout the year. Initial Mini-SIRs of administrative areas are to be conducted within 6 months of the date of the final SIR Report. Initial Mini-SIRs of program areas are to be conducted within 12 months of the date of the final SIR Report. If necessary, subsequent Mini-SIRs are to be conducted at least every 6 months thereafter. Mini-SIRs will continue until the SSM team, State MCO, and the respective RDM, as appropriate, have verified that the weaknesses have been corrected and effective controls are in place.

(D) Scope. The scope of the Mini-SIR will be based on the severity and frequency of weaknesses disclosed in the final SIR Report. Mini-SIRs will be conducted if the following occurs:

(1) An administrative/program area falls below the 80 percent compliance score. In this instance, a Mini-SIR is mandatory. The Mini-SIR should be conducted only on those sections within the administrative/program area falling below 80 percent, not the entire administrative/program area.

(i) The appropriate Review Guide of the SIR Handbook will be utilized to conduct the Mini-SIR.

(ii) Compliance scores will be calculated for the administrative/program area being reviewed.

(iii) Mini-SIRs of the deficient administrative/program area will be conducted until the score for that administrative/program area reaches 80 percent compliance.

§ 2006.609(j)(2)(i)(D) (Con.)

(2) The State Director may require additional Mini-SIRs regardless of compliance scores based upon recommendations from the entire SSM team, State MCO, or SIR team. Areas requiring additional Mini-SIRs will receive special emphasis during follow-up reviews.

(E) Content. In reviewing dockets as part of a Mini-SIR, those dockets that contained the identified weaknesses should be checked to verify that the problems were corrected. In addition, a sampling of new dockets should be reviewed to verify that the original weakness has been corrected and new weaknesses are not occurring.

(F) Duration. Mini-SIRs will typically be conducted over 3 or fewer days. Time spent in each office selected for a Mini-SIR will vary depending on the scope of the review (e.g., number and complexity of loan dockets, files, and records to be reviewed; complexity of weaknesses and respective corrective actions required; number of interviews to be conducted; number of construction inspections to be made; etc.). Mini-SIRs are to be conducted in a manner that will enable the reviewer to verify that:

(1) Corrective actions required in the final SIR Report have been implemented, and

(2) The weaknesses have been eliminated and have not recurred since the corrective action was implemented.

(ii) Reporting of Mini-SIRs.

(A) Due date. Within 10 working days of the date of the Mini-SIR, a final Mini-SIR report of findings and conclusions will be submitted by the Mini-SIR team to the State Director, Attention: MCO, with a copy to the respective RDM and the reviewed office.

(B) Content. The final Mini-SIR report of findings will clearly describe the status of corrective actions and the progress made in resolving weaknesses disclosed in the final SIR Report. Mini-SIR team members must document the specific dates that corrective actions were completed and any other documentation supporting the Mini-SIR results and conclusions.

(C) Documentation. Mini-SIR team members must retain documentation supporting the findings and file this information with the final Mini-SIR Report. The supporting documentation will become part of the original Mini-SIR Report to be delivered to the State MCO. The documentation will be maintained in the State Office operational file until the next review of that office is conducted.

(3) Conclusions.

(i) The need for any additional corrective actions will be determined by the results of the Mini-SIR. The intent of the Mini-SIR is to ensure that the reviewed office resolves all weaknesses in a responsible and timely manner.

(ii) If the Mini-SIR team members have verified that all corrective actions have been implemented and the identified weaknesses have been resolved, the SIR and resulting Mini-SIR will be closed and the reviewed office notified in writing by the State Director. No further response will be required from the reviewed office.

(iii) If corrective actions have been implemented as recommended in the final SIR Report but the weaknesses have not been resolved, an alternative corrective action plan will be developed including timeframes for completion.

(iv) If corrective actions have not been implemented as recommended, the RDM will be required to document the reasons in writing to the State Director.

§ 2006.611 Annual Report to the Secretary.

Rural Development is required to report on the status of its management control system to the Secretary, USDA on an annual basis. The Secretary, in turn, must report to the President and to the Congress on the status of the USDA's management control system.

(a) The year-end FMFIA Report on management controls will be prepared by FMD based upon information received from all sources within the Rural Development. The FMFIA Report is based on the current fiscal year's activities, and is due to the Department's Chief Financial Officer (CFO) in the fourth quarter of the fiscal year.

(b) The year-end FMFIA Report will contain the status of existing material weaknesses and corrective actions identified in the previous year-end FMFIA Report. The FMFIA Report will also include any new material weaknesses and corrective actions identified during the current fiscal year.

(c) The year-end FMFIA Report is submitted to the CFO and combined into a USDA-wide report.

§ 2006.612 [Reserved]

§ 2006.613 Inquiries about the management control system.

Inquiries concerning this Instruction or any part of Rural Development's management control system should be directed to FMD.

§ 2006.614 - 2006.650 [Reserved]

Attachment: Exhibit A.

o0o

