



Rural Development

April 12, 2017

National Office  
Rural Housing Service

1400 Independence  
Avenue, SW  
Stop 0787, Rm 0180  
Washington, DC  
20250

Voice 202.720.1500  
Fax 202.690.0471

TO: State Directors  
Rural Development

ATTN: Community Programs Directors

FROM: Richard A. Davis /s/ **Richard A. Davis**  
Acting Administrator  
Rural Housing Service

SUBJECT: Fiscal Year 2016 Management Control Review  
Community Facilities Direct and Guaranteed  
Loan and Grant Programs

**PURPOSE:**

The purpose of this unnumbered letter is to emphasize some of the required Community Facilities (CF) policies and procedures that must be followed to ensure compliance with applicable Rural Development (RD) Instructions. A number of weaknesses have been identified as a result of the Fiscal Year (FY) 2016 Management Control Review (MCR).

**BACKGROUND:**

In accordance with the Federal Managers Financial Integrity Act requirements and the procedures of RD's management control system, MCR's are conducted on all assessable units within RD on a 5-year cycle. The MCR was conducted to evaluate the CF Direct and Guaranteed Loan and Grant Program operating processes. These processes were reviewed and evaluated to assure effective controls were in place; assure regulations were properly disseminated and administered; to detect weaknesses and/or inefficiencies; to identify corrective actions and procedures when necessary; and make recommendations for program improvements. Both National and State Office program delivery were reviewed and evaluated.

**FINDINGS AND RECOMMENDATIONS:**

As a result of the Fiscal Year 2016 MCR that was conducted on the CF Direct and Guaranteed Loan and Grant Programs, several strengths and weaknesses were identified. Although there were many strengths noted, we identified several weaknesses in the documentation of program files.

Expiration Date:  
January 31, 2018

Filing Instructions:  
Housing Programs

1400 Independence Ave, S.W. Washington DC 20250-0700  
Web: <http://www.rurdev.usda.gov>  
USDA is an equal opportunity provider and employer.

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form (PDF), found online at [http://www.ascr.usda.gov/complaint\\_filing\\_cust.html](http://www.ascr.usda.gov/complaint_filing_cust.html), or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at [program.intake@usda.gov](mailto:program.intake@usda.gov).

The weaknesses identified were as follows:

1. The executed Form AD-622, "Notice of Pre-application Review Action," could not be located in the program files as required by RD Instruction 1942-A, §1942.2 (a)(iv). There were also some forms, which were not properly executed;
2. Program files did not include evidence of RD's approval of the borrower's accounting, and financial reporting system in accordance with RD Instruction 1942-A, §1942.17 (q)(1) (ii);
3. Program files did not include evidence that processing conferences were held as required by RD Instruction 1942-A, §1942.2 (c)(3);
4. Program files did not reflect that the Project Summary was executed by all authorized officials in accordance with RD Instruction 1942-A, §1942.5 (a)(1) and (3);
5. The required Letter of Conditions (LOC) was not executed or all required grant language was not included in the LOC or the Letter of Intent was not executed and included in the file as required by RD Instructions 1942-A and 3570-B, sections 1942.5 (a)(1)(i), 1942.5 (a)(1)(ii) and 3570.71 (f)(1);
6. Evidence of the applicant's contribution or other sources of funding was not clearly documented prior to the disbursement of loan funds in accordance with RD Instruction 1942-A, §1942.17 (a)(6);
7. Program files did not include evidence that adequate insurance and fidelity bond coverage is being maintained in accordance with RD Instruction 1942-A, §1942.17 (j)(3);
8. The audit reports and financial statements were not received timely as required by RD Instruction 1942-A, sections 1942.17 (q)(4)(3)(b)(1) and 1942.17 (q)(5). The Community Programs Applications Processing servicing screens were not routinely updated reflecting that all documents were received;
9. Loan/Grant documentation was not located in the usual program file positions as required by RD Instruction 2033-A;
10. Program files did not include evidence that management reports were obtained timely as required by RD Instruction 1942-A, §(q)(2);
11. There were discrepancies noted on Forms RD 3570-1 and 3570-2 or the forms were not executed as required by RD Instruction 3570-B. Grant files should include these forms and any supporting documentation;
12. There was no evidence closing instructions were received from the Office of General Counsel (OGC) or the closing documents were not properly executed as required. In accordance with RD Instruction 1942-A, §1942.17 (o) all loans shall be closed with the closing instructions issued by OGC;

13. In some instances the guaranteed loan lender was not notified of approval or disapproval of an application within 30 days as required by RD Instruction 3575-A, §3575.54;
14. There was evidence of noncompliance with the requirements of construction phase management;
  - There was no evidence that the Pre-Construction Conference was held as required by RD Instruction 1942-A, §1942.18 (0)(1);
  - There was no record or documentation regarding the transfer of warranties to the owner at project completion as required by RD Instruction 1942-A, Guide 27;
  - There was no evidence that the Agency recorded or implemented the 1 year warranty inspection as required by RD Instruction 1942-A, Guide 19, attachment 9;
15. In some instances as noted below, environmental reviews were not adequate to meet the intent of the applicable laws and protect the Agency from litigation:
  - The Civil Rights Impact Analysis was not documented for the project file as required by rule 4300-4, 2006-P; and
  - The FEMA Form 81-93, "Standard Flood Hazard Determination" was not completed and documented in the file as required by rule 426.2.

A material weakness is a deficiency that the Agency head determines to be significant enough to be reported outside the Agency. The weaknesses identified were not considered material. Although the weaknesses identified were not material, the weaknesses should be addressed and CF field offices should ensure compliance with program requirements. Noncompliance with program requirements could result in fraud, waste, or abuse of Agency funds. Proper documentation of files will help ensure that we are in compliance with applicable RD Instructions. The CF FY 2016 MCR findings can be viewed in the FY 2016 Management Control Review Nationwide Compilation Report located on the RD Intranet site.

If you have any questions concerning this unnumbered letter, please contact Anita Outen at (202) 720-1497.