

PART 2006 - MANAGEMENT

SUBPART M - Internal Control System

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## PART 2006 - MANAGEMENT

### Subpart M - Internal Control System

#### **§ 2006.601 General.**

(a) The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires each Executive Branch agency to establish and maintain an effective internal control system that provides reasonable assurance of the following:

- (1) Compliance with applicable laws and regulations in the obligation and expenditure of funds;
- (2) Safeguarding of assets to include funds, property, and other resources against waste, loss, unauthorized use, or misappropriation; and
- (3) Proper recording, accounting, and reporting of revenues and expenditures to ensure the reliability of financial and operational information.

The FMFIA further requires agency heads to submit annual assurance statements to the President and Congress on the effectiveness of the agencies' internal control systems. The Office of Management and Budget (OMB), in coordination with the General Accounting Office (GAO), provides guidance on implementation.

(b) OMB Circular A-123 Management's Responsibility for Enterprise Risk Management and Internal Control, which implements FMFIA, expands on these requirements by mandating that agencies ensure programs are carried out effectively and efficiently, in accordance with applicable laws and management policies.

(c) The 2006-M Instruction defines Rural Development's (RD) internal control framework system, outlines implementation procedures, and specifies reporting requirements.

(d) RD's internal control framework consists of four major components:

- (1) The GAO and Office of Inspector General (OIG) audits and investigations provide independent oversight and promote accountability across agency programs and operations.

(2) The OMB Circular A-123 review process is an annual assessment of internal controls conducted by federal agencies, aligned with the GAO's Green Book standards, to ensure effective operations, reliable reporting, and compliance with laws and regulations. Reviews conducted are comprised of financial, programmatic, and operational processes. The circular establishes management's responsibility for enterprise risk management (ERM) and internal control in federal agencies. Its main goal is to ensure that federal programs and operations are managed effectively, efficiently and with integrity. RD conducts reviews, documents deficiencies, and implements corrective actions for timely remediation. Under A-123, federal agency heads are required to provide an annual assurance statement to the President and Congress through OMB. The assurance statement is management's certification about the effectiveness of the agency's internal controls and risk management. The A-123 review is described in more detail in § 2006.610 of this Instruction.

(3) The Internal Compliance Reviews (ICRs) are comprehensive reviews of the internal control systems and processes governing both field level program delivery and centralized National Office functions. These reviews assess compliance with federal statutes, regulations, agency policies, as well as the effectiveness of control activities. ICRs are conducted in accordance with OMB Circular A-123 and GAO's Green Book standards to establish and monitor internal controls that provide reasonable assurance of program integrity and operational efficiency. The ICR process is described in more detail in § 2006.608 of this Instruction.

(4) The CRO Enterprise Risk Assessment is completed by the Chief Risk Officer (CRO), who develops the annual Risk Profile for RD based on USDA's strategic goals. This process is carried out in coordination with the Under Secretary (USEC) for RD and the Office of Budget and Program Analysis (OBPA). The resulting Risk Profile is used to inform annual risk-based assessments and guide the planning and scoping of internal control reviews in alignment with OMB Circular A-123.

#### **§ 2006.602 Sources of information.**

The following is a list of documents, laws, regulations, and guidance pertaining to internal control system requirements applicable to RD:

(a) [5 U.S.C. App. "Inspector General Act of 1978](#), as amended," (Pub. L. 95-452, as amended).

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

- (c) [5 U.S.C. 306 Chapter 3, "Government Performance and Results Act](#) of 1993," (Pub. L. 103-62).
- (d) [31 U.S.C. 3512](#), "Federal Managers' Financial Integrity Act of 1982," (Pub. L. 97-255).
- (e) [31 U.S.C. 3512](#), "Federal Financial Management Improvement Act of 1996," (Pub. L. 104-208).
- (f) [OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"](#) dated July 15, 2016.
- (g) [OMB Circular A-127, "Policies and Standards for Financial Management Systems,"](#) dated July 23, 1993.
- (h) [OMB Circular A-130, "Management of Federal Information Resources,"](#) November 28, 2000.
- (i) [Standards for Internal Control in the Federal Government issued by GAO in November 1999, and revised May 15, 2025 \(GAO-25-107721\).](#)
- (j) [USDA Departmental Regulation No. 1110-002, " Management's Responsibility for Internal Control"](#), dated March 5, 2021.

**§ 2006.603 Definitions.**

Administrator's Summary Report. Briefings held with Administrators, Program Leadership, and State Operations Director in June and October to report on findings identified at state level summarized to program level to report on common findings identified through the A-123 and ICR process.

Assistant Chief Information Officer (ACIO). The ACIO for RD assures that adequate management controls are in place and function properly related to systems security. The ACIO is responsible for the performance of system reviews in accordance with OMB Circular A-130.

Associate Chief Financial Officer (ACFO) Office of Compliance (OC). The RD Finance Office ACFO OC assures the internal and external compliance programs are managed effectively and efficiently and function properly to identify internal and external risks to RD programs. The ACFO OC is responsible for reviewing and reporting on financial systems compliance with the FMFIA, Federal Financial Management Improvement Act (FFMIA), and OMB Circular A-127.

Certification Statement. USDA is required to provide an annual Agency Financial Report (AFR) to the President and Congress that includes assertions on the effectiveness of the Department's system of internal controls. The guidance from the OMB Circular A-136, Financial Reporting Requirements, requires that the report contains the Secretary's Annual Statement of Assurance.

Statement of Assurance. The statement of assurance represents the agency's head, RD's Under Secretary, informed judgement as to the overall adequacy and effectiveness of RD's internal control framework within the agency.

Two separate statement of assurances are submitted to the Office of Chief Financial Officer (OCFO). The Statement of Assurance covers the periods October 1<sup>st</sup> through June 30<sup>th</sup>. The Bridge Memo covers periods July 1<sup>st</sup> through September 30<sup>th</sup>. Both Statement of Assurance reports on RD's effectiveness of RD's internal control framework and identified material weaknesses if applicable.

The Statement of Assurance is required under OMB Circular A-123 and the FMFIA and is submitted as part of the annual financial and performance reporting process. Assurance Statement Types include:

- (1) Unqualified Assurance. Internal controls are effective with no material weaknesses identified.
- (2) Qualified Assurance. Internal controls are generally effective, but one or more material weaknesses exist.
- (3) No Assurance. Internal controls are not effective and significant deficiencies or material weaknesses remain unaddressed.

Corrective Action Plan (CAP)Power App. An online user-friendly application used to develop CAPs and provide CAP status updates on the remediation process. The CAP Power app is used to maintain online documentation involving quarterly reports that include 4 phases:

- (1) Development Phase.
- (2) Implementation Phase.
- (3) Monitoring Phase.
- (4) Validation Testing Phase.

Commercial Assessment Branch (CAB). Conducts ICRs and manages CAPs for RBCS programs and the MFH program.

Compliance Oversight Branch (COB). Conducts ICRs and manages CAPs for Environmental policies. Serves as the Do Not Pay and Suspension and Debarment Coordinator, and coordinates grants management activities for RD.

Control objectives. A desired outcome or result that guides the design and implementation of controls within an organization. It serves as a goal to ensure that controls are aligned with the organization's overall objectives, focusing on aspects such as productivity, efficiency and profitability. Control objectives help organizations manage risks and ensure compliance, acting as the foundation for a robust internal control system. They are essential for guiding actions and ensuring the at internal controls are effectively targeted at achieving desired outcomes.

Control techniques. The methods and processes are used to monitor and evaluate actual performance against predetermined standards. These techniques help organizations ensure that activities align with their goals and objectives.

Corrective action(s). The steps are taken to identify and eliminate the root cause of a problem to prevent its recurrence. It involves analyzing the issue, implementing necessary changes, and ensuring that similar problems do not arise in the future. Corrective actions are essential in quality management and are distinct from preventative actions, which aim to address potential issues before they occur.

Corrective Action Plan (CAP). A structured, documented step-by-step plan detailing the proposed corrective actions to remediate the deficiency. The plan must include responsible party and realistic achievable due dates. The following four phases must be documented in a CAP:

- (1) Development Phase. The actions and steps to correct the root cause.
- (2) Implementation Phase. The execution of the corrective actions described in the development phase.
- (3) Monitoring Phase. The evaluation of the development and implementation tasks to ensure the issue has been properly corrected. Adjustments to the actions and steps documented in the development phase may be required if desired results are not achieved. The monitoring phase is conducted by the organization management team.

(4) Validation Testing Phase. The review process conducted by ICD to verify the corrective actions have effectively resolved the deficiency root cause.

CAP status reporting. The periodic reporting on the status of corrective actions to ensure that they were implemented as intended, and that the weaknesses are in fact reduced or eliminated by the corrective actions.

Deficiencies. The findings identified through the A-123 and ICR review process.

Deficiency Assessment. The process to evaluate the amount at risk to determine the risk-based deficiency level for findings; Control Deficiency (CD), Significant Deficiency (SD), or Material Weakness (MW).

Deficient process questions. Are critical processes that if not completed properly may result in an improper payment or a deficient loan or grant being made. These must achieve 100% compliance through the ICR review process.

Entity Level Controls (ELC). Internal controls that operate at the organization-wide level and have a pervasive impact on the overall system of internal control. These controls are foundational and influence the effectiveness of more detailed, process-level controls. These controls are part of a broader framework of internal controls that ensure the achievement of an entity's objectives. The OMB Circular A-123 emphasizes the importance of entity level controls in establishing and maintaining an effective system of internal control.

ELC are controls that management has put in place to ensure that the appropriate controls exist throughout the organization.

(1) High-level controls affecting the organization's overall internal control system.

(2) Comprised of 5 Components and 17 Principles

- The five components (Control Environment, Risk, Control Activities, Information and Communication, and Monitoring) represent the highest level of the hierarchy of standards for internal control
- The 17 principles demonstrate the effective design, implementation, and operation of the associated 5 components; and the requirements deemed necessary to establish an effective internal control system.

(3) Ensures compliance with legislation like Federal Managers Financial Integrity Act (FMFIA) and Federal Financial Managers Improvement Act (FFMIA).

(4) Requires completion of Annual ELC Assessment which substantiates management's position documented in the Certification Statement. The assessment requires senior RD management input and collaboration. Management must determine whether each principle is designed, implemented, and operated effectively.

(5) ACFO OC communicates to senior RD Management and requests for input into ELC Assessment pertaining to their organizations. ICD reviews responses and consolidates for briefing to the CFO.

(6) After CFO approval, ELC is submitted to the OCFO.

Entrance conference. A formal conference originating from the ICD to discuss details relating to the ICR. The formal entrance conference is organized and hosted by the ICD Review Lead and includes the review team members, the State Director (SD), Deputy State Director (DSD), Administrative Program Director (APD), Management & Program Analyst (MPA), Program Director (PD) and other program staff as requested by the State or National Office program staff. This conference is held the first day of the review.

Exit conference. A formal conference originating from the ICD upon completion of the review to advise the State/National Office of review findings. A Draft Report is issued and discussed. The formal exit conference is organized and hosted by the ICD Review Lead and attended by the ICR team members, State Program or National Office staff, the SD, DSD, APD, MPA, and other state staff as requested by the SD, or National Office program staff. The formal exit conference shall be conducted no more than thirty (30) workdays from the last date of the review (see step 13 for definition for last date of review).

Finance Office (FO) Chief Financial Officer (CFO). Fiduciary responsibility for the accurate accounting, spending, and reporting of all Administrative and Program funds of the Agency allocated across the states, along with cash receipts and disbursements that are an intricate part of managing a loan portfolio.

Financial Assessment Branch (FAB). Responsible for A-123 testing of financial activities, participating in and performing the quality review of the annual financial statements and footnotes, and preparing and submitting the annual of agency Certification Statements. Leads and coordinates the Senior Management Council Committee meetings.

Finding. Identified issues, weakness, or deficiency discovered during an audit, review, monitoring, or evaluation process.

Key control. A critical internal control activity that is specifically designed to prevent or detect material errors, irregularities or noncompliance in a timely manner. Essential to achieving control objectives and are typically prioritized during internal control assessments due to their direct impact on the reliability of financial reporting, operational effectiveness, and compliance with laws and regulations.

Kick-off Meetings. Kick-off meetings are meetings scheduled by ICD with each organization to identify organizational Points of Contact, distribute deliverable schedule, discuss new updated IT systems and programs introduced between April 1 of the previous fiscal year (FY) and March 31 of the current FY, evaluate the impact on business processes and complete a risk assessment questionnaire for OMB Circular A-123 planning.

Internal Compliance Division (ICD). RD personnel (Director, Branch Chiefs, Accountants, and Compliance Specialists) assigned to perform OMB Circular A-123 Reviews, ICRs, and other internal control reviews. ICD's responsibilities are described in more detail in § 2006.605(d) of this Instruction.

Internal Compliance Review (ICR). In-depth evaluation, conducted by the ICD, of the delivery of programs in State, Area, and Sub-Area offices, centralized program functions within the state, National Office and Regionally administered programs, and execution of Environmental policies for the programs. The ICR is described in more detail in § 2006.608 of this Instruction.

Internal Compliance Review Guides. Structured assessments that utilize a standardized set of test questions to evaluate the design, implementation, and operational effectiveness of an organization's internal control system. The ICR guide is designed to align with the objectives of the OMB Circular A-123 and GAO Green Book, supporting compliance with applicable laws, policies, and procedures. It helps identify control gaps, assess risk mitigation strategies, and inform corrective actions.

Internal Compliance Review Lead. The ICD review team representative responsible for planning, coordinating, and executing the review of a program administered in a State or National Office.

Internal control. A process effected by an organization's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (1) Effectiveness and efficiency of operations;
- (2) Reliability of reporting; and
- (3) Compliance with applicable laws and regulations.

Internal Compliance Review (ICR) teams. The ICR teams are comprised of staff from the ICD branches covering their respective areas of expertise. These teams are comprised of a review lead and several team members depending on the size of the ICR. The ICR teams are responsible for conducting the ICR as further outlined in § 2006.608 of this Instruction.

Internal Control Evaluation. An evaluation of laws, policies and procedures to ensure alignment with internal controls and compliance objectives. This is the process performed by the ICR team when updating the ICR guides, and the process performed by the ICD team when documenting and flowcharting business process key controls for the OMB Circular A-123.

Management Report on Internal Control Results. A critical report that outlines the effectiveness of internal control(s) over financial reporting and enterprise risk ensuring compliance with regulations, laws, policies and procedures.

Pre-Exit Discussion. An informal discussion conducted by the review team members and the review office at the conclusion of the review week. Status of the files reviewed, due dates of missing items, and when we anticipate completing the review of documents is discussed. The Program Director is the only required attendee. SD, DSD, APD or MPA attendance is not mandatory. The pre-exit discussion does not take the place of the formal exit conference, where detailed findings are discussed.

OMB Circular A-123 Review. The OMB Circular A-123 defines management's responsibilities for internal control in Federal agencies. It provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. The circular emphasizes the need for agencies to integrate and coordinate internal control assessments with other internal control-related activities. The OMB Circular A-123 review is described in more detail in § 2006.610 of this Instruction.

Operations Assessment Branch (OAB). The United States Department of Agriculture's (USDA) OAB program is subject to various internal control measures to ensure compliance and effectiveness. Key aspects include:

(1) **Monitoring compliance:** The Program is responsible for monitoring recipient compliance with civil rights laws and ensuring equal access to RD programs and services.

(2) **Audit Requirements:** The USDA's Rural Housing Service (RHS) has updated audit and financial statement requirements for its Multi-Family Housing and Community Facilities programs, aligning with recent OMB revisions.

(3) **Financial Reporting:** Organizations below certain thresholds must comply with specific financial reporting requirements, while those above may submit alternative reports.

(4) **OIG Oversight:** The Office of Inspector General (OIG) provides independent oversight to promote the economy, efficiency, and integrity of USDA programs, including audits and inspections.

Risk-based Assessment. The annual risk-based assessment is a process of identifying and analyzing the risk that might affect the achievement of the organization's objectives. The risk-based assessment will calculate a risk rating for each state based on the Risk Assessment Questionnaire. ICD will complete annual Risk Assessments with each organization to determine the organization's risk for all programs.

Risk Assessment Questionnaire. A questionnaire is used as the basis for determining the risk assessments for each state. The Risk Assessment Questionnaire is evaluated each year to ensure appropriate risks are considered for inclusion.

Risk-based Levels of Control Deficiencies: Are classifications that help in assessing the severity of control deficiencies and their potential impact on financial reporting and compliance. The levels are classified into three categories:

(1) Control Deficiency. Minor control issues; limited impact on objectives.

(2) Significant Deficiency. A control weakness or combination of weaknesses that is less severe than a material weakness but important enough to merit attention by those responsible for oversight of the internal control system.

(3) Material weakness. A significant deficiency, or combination of deficiencies, within an organization's internal controls that presents a more than remote likelihood of a material misstatement in financial reporting, requiring disclosure and corrective action due to its potential impact on the reliability of financial information; essentially, it's a major control flaw that

could lead to significant financial errors if not addressed (i.e., included in the Department's annual FMFIA Report to Congress).

Scoping and Planning. The initial phase of an internal control review or risk assessment. It involves identifying the objectives, key processes, applicable laws and policies, control areas, and risk factors relevant to the review. It sets the foundation for the evaluation by determining the scope of work, selecting the business units or processes to be assessed, defining testing criteria, and establishing timelines and resource needs. It ensures that the review is risk-focused, well-organized, and aligned with OMB Circular A-123, FMFIA and the GAO Green book standards.

Senior Management Control Council (SMCC). An advisory council comprised of senior management, as appointed by the Deputy Under Secretary for RD or their acting, to assess, evaluate and monitor deficiencies in internal controls.

Single Family Housing Assessment Branch (SFHAB). Conducts ICRs and manages CAPs for Single Family Housing Direct and Guaranteed programs.

Summary Reports, OMB Circular A-123. An OMB Circular A-123 summary report is prepared and issued for each Branch/Organization tested for the current fiscal year. The OMB Circular A-123 Summary Report is considered an "Exit" for the OMB Circular A-123 assessment. The report summarizes the scope and results of the business process review. The summary report provides:

- (1) Business Process Reviewed;
- (2) Test Period;
- (3) Highlights from the OMB Circular A-123 review;
- (4) Test Results; and
- (5) Observations and Recommendations.

Summary Reports, ICR. An ICR summary report reports on the final results and findings after reviewing final documentation received after the Exit Conference if applicable. The summary report includes the due date of the first CAP status report. The summary report along with the CAP report are sent to the State Director and Program Director. State Director signature is required, and the signed report is returned to the review lead.

Surveys. Multiple types of surveys are conducted by ICD to assess how management is managing their staff and programs. Customer surveys are conducted to assess the level of customer service provided to the customers. These surveys offer an opportunity to identify areas of improvement throughout the relevant processes.

Test Plan. A standardized set of test questions to evaluate the design, implementation, and operational effectiveness of an organization's internal control system. The OMB Circular A-123 test plan is designed to align with the objectives of OMB Circular A-123 and GAO Green Book, supporting compliance with applicable laws, policies, and procedures. It helps identify control gaps, assess risk mitigation strategies, and inform corrective actions.

Utilities Assessment Branch (UAB). Conducts ICRs and manages CAPs for Community Facilities, Electric, Telecom and Water and Environmental Program programs.

Validation testing. The act of confirming that a corrective action has been implemented and finding(s) eliminated by testing a sampling of files processed since the implementation of the CAP(s). Testing must score 100% compliance.

#### **§ 2006.604 Purposes.**

The internal control system is an integrated, continuous process effected by management and staff at all levels. It is designed to provide reasonable, **not absolute**, assurance, that RD's objectives are being achieved in accordance with applicable laws, regulations and policies. The purposes of this system include:

- (a) Ensuring that policies and procedures for operations, financials, loan and grant origination, servicing, and liquidation are properly developed, issued, and consistently implemented;
- (b) Supporting the efficient and cost-effective execution of administrative functions, including Human Resources, budgeting, contracting, acquisition, space management and equipment maintenance;
- (c) Providing sufficient training and development to maintain a skilled, knowledgeable, and competent workforce;
- (d) Ensuring that resources are properly monitored, reported, and safeguarded against waste, loss, unauthorized use, or misappropriation;

(e) Identifying functions and programs vulnerable to fraud, waste, abuse or misuse, and implementing or strengthening internal controls to mitigate those risks;

(f) Promoting the timely identification and correction of internal control deficiencies, including implementation of appropriate remedial actions; and

(g) Ensuring that officials comply with RD policies, procedures, and regulations, and actively participate in developing solutions to remediate findings timely.

**§ 2006.605 Responsibilities.**

(a) Deputy Under Secretary for RD. The Senior RD position responsible for:

(1) Assuring that RD maintains an effective and efficient management internal control system; and

(2) Reporting annually to the Under Secretary for RD, who then reports annually to the Secretary of Agriculture, whether there is reasonable assurance to believe that RD's management internal control system satisfies the requirements of the FMFIA and OMB Circular A-123.

(b) RD Administrators. The Administrators for RD: Rural Business Service (RBS), Rural Housing Service (RHS), and Rural Utilities Service (RUS) are the Senior Agency positions responsible for:

(1) Assuring that there is an effective and efficient internal control system in their area of responsibility.

(2) Assuring clear and concise guidance is developed, implemented, and published.

(3) Assuring regulations are up-to-date and align with their program goals and objectives.

(2) Supporting the internal review process by:

(i) Assigning experienced personnel to serve as coordinators with ICD for state and national level reviews of their programs;

(ii) Assuring that corrective actions are implemented in a timely manner to improve overall operations.

(3) Participating in the SMCC committee and providing recommendations to the Under Secretary on reportable conditions that are deemed to be material weaknesses.

(c) Senior Management Control Council (SMCC). The SMCC is chaired by the Deputy Under Secretary for RD and consists of senior level management to assess and monitor deficiencies in internal controls within RD.

(1) The SMCC duties are to:

(i) Identify and ensure correction of systemic material weakness relating to their respective programs.

(ii) Recommend to the Agency Head which significant deficiencies are deemed to be material weaknesses to the Agency as a whole.

(iii) Oversee the timely implementation of corrective actions related to material weaknesses.

(iv) Determine when sufficient action has been taken to declare a significant deficiency or material weakness has been corrected.

(v) Vote on the approval of the annual Certification Statement and Bridge Memo.

(vi) Meet twice yearly, to approve the annual Certification Statement and Bridge Memo.

(2) Membership. All senior level management will remain as SMCC members indefinitely to maintain continuity.

(d) Internal Compliance Division (ICD). The ICD provides oversight of the RD Internal Control Framework and serves as the designated officials responsible for its implementation and compliance. ICD's core responsibilities include:

(1) Attesting to the effectiveness and efficiency of RD's internal control and compliance across all RD organizations.

(2) Ensuring compliance with the OMB Circular A-123 and the Federal Manger's Financial integrity across all RD organizations.

(3) Providing support and guidance to RD organizations with developing and implementing internal control policies and procedures that align with laws, and regulatory requirements.

(4) Promoting RD-wide awareness and of internal control systems, including relevant laws, policies, and regulations to achieve compliance and reduce risks. Including management and assessment of five integral components to internal control; control environment, risk assessment, control activities, information and communication, and monitoring.

(5) Reporting on the results and findings from the OMB Circular A-123 and ICR reviews. Briefings are held semi-annually with each Administrator and Director of State Operations.

(6) Providing timely support with developing and monitoring corrective action plans for deficiencies identified during the OMB Circular A-123 and ICR reviews.

(7) Maintaining primary responsibility for the direction of the internal control process under the overall supervision of the Deputy Under Secretary for RD. This direction includes the following:

(i) Collaborating with SMCC to establish and maintain the annual internal control risk-based assessment. Overseeing the Senior Management Control Council (SMCC), discussing the results of material weaknesses identified by ICD, Technology Office, and the Chief Risk Office, and reporting on the effectiveness of RD's internal control and enterprise risk programs in the annual RD Assurance Statement.

(ii) Analyzing financial, programmatic and operations activities to plan, assess and determine scope of work.

(iii) Planning for each OMB Circular A-123 and ICR, to include notifying Business Process Owners and any State Offices that will be affected by the OMB Circular A-123 or ICR and providing guidance regarding the organization and preparation of the OMB Circular A-123 or ICR team.

(8) Other responsibilities include Assessing, coordinating, and supporting RD's compliance with laws and regulations affecting RD's programs and operations such as:

(i) Do Not Pay (DNP) Program;

(ii) Payment Integrity (Improper Payments) Program;

- (iii) OIG Fraud Questionnaire ;
- (iv) System for Award Management (SAM);
- (v) System for Award Management (SAM);
- (vi) Title 2 Code of Federal Regulation (CFR), Part 200 Grants Management.

(e) State Operations. RD State Office staff are responsible for working with ICD throughout the lifecycle of the ICR process and assuring the implementation of the CAP process throughout their respective states. As well as working with NO on any related training or other required CAP remediation.

- (1) State staff will support and participate in the ICR process in their states by:
  - (i) Assuring that the State Office and field office personnel are available and cooperative during the on-site and/or remote portion of the ICR process;
  - (ii) Being receptive to recommendations for improved operations throughout the state resulting from the ICR Summary report;
  - (iii) Implementing the required corrective actions by the scheduled dates for completion; and
  - (iv) Making files available for ICD to conduct validation testing to close CAPs.
- (2) Program Director(s) are designated as the primary Point(s) of Contact (POCs) throughout the ICR lifecycle. Actively participates in the ICR process, from the time of issuance of initial notification letter of the ICR through closing out all CAPs. Actively works with staff to provide timely responses to all ICD staff inquiries during the ICR period. The PD shall participate in the CAP process including implementation, training, monitoring, and close out. The PD is required to be on all correspondence for ICR reviews.
- (3) Other staff involved include:
  - (i) State Director. Participates in the ICR process by providing leadership to state staff at the time of issuance of initial notification

letter of the ICR through closing out all CAPs. SD is required to be on all correspondence for ICR reviews,

(ii) Deputy State Director. Participates and actively involved in the ICR process and takes role of SD when delegated. DSD is required to be on all correspondence for ICR reviews,

(iii) Administrative Program Director. Participates and actively involved in the ICR process, and

(iv) Management & Program Analyst. Participation is optional. MPA is courtesy copied for state's ICR reporting responsibilities.

(4) State staff are encouraged to participate in the ICR entrance and exit conferences either by attending in person when ICRs are held onsite or teleconference when held remote. If the State Director is unable to participate in the entrance and exit conferences, the State Director should designate someone to serve as his/her representative.

(5) State staff are encouraged to determine actions required to satisfy findings identified through the internal review process, even if the findings aren't given a CAP.

(f) Internal Compliance Division (ICD) Branches. The ICD branches are responsible for implementing ICDs functions as outlined in this instruction. The branches are comprised of the CAB, COB, FAB, OAB, SFHAB, and UAB. Further detailed in § 2006.003 of this Instruction.

**§ 2006.606 [Reserved]**

**§ 2006.607 [Reserved]**

**§ 2006.608 Internal Compliance Reviews (ICRs).**

The ICRs are in-depth evaluations of the internal control systems and processes for the delivery of both program functions in the field offices and centralized program functions within the National Office. These reviews assess the effectiveness of internal controls over program execution and compliance with federal regulations and program instructions, consistent with both OMB Circular A-123's requirement for agencies to establish and monitor internal controls that provide reasonable assurance of program integrity, operational efficiency, and compliance with applicable laws and regulations. As well as the Standards for Internal Control in the Federal Government, commonly referred to as the "Green Book," issued by GAO. The ICRs include programs administered at both the State Office and National Office level.

(a) Purpose of ICRs. The ICR purpose is to review the internal controls and systems used for the delivery of program functions to:

(1) Determine if policies and procedures for making and servicing loans/grants are being implemented according to RD regulations, policies, procedures, Title 2 CFR, and other applicable laws consistent with OMB Circular A-123's requirement that agencies establish and maintain internal controls to ensure consistent application of federal policies and compliance with statutory requirements. Effective internal controls reduce the risk of non-compliance and improve program execution;

(2) Identify weaknesses or deficiencies in program operations with specific corrective actions for their elimination or reduction, consistent with OMB Circular A-123's requirement for agencies to implement corrective action plans (CAPs) to resolve identified internal control deficiencies. Agencies are responsible for tracking CAP implementation and ensuring that material weaknesses or control deficiencies are addressed within established timeframes;

(3) Assess the effectiveness of management internal controls to minimize the potential for waste, loss, unauthorized use, or misappropriation in operations, consistent with OMB Circular A-123's requirement for agencies to establish safeguards that prevent and detect fraud, waste, and abuse;

(4) Report to the State Director the status of operations and controls in all field offices, to assist with the facilitation of OMB Circular A-123's requirement for agency heads to provide high-level oversight and accountability over internal control effectiveness. Timely reporting supports executive oversight and strategic decision-making.

(5) Report to the Deputy Under Secretary for RD and Agency Administrators of the effectiveness of the states and national office oversight responsibilities through the Certification Statement, to assist with the facilitation of OMB Circular A-123's requirement for agency heads to provide high-level oversight and accountability over internal control effectiveness. Timely reporting supports executive oversight and strategic decision-making.

(b) ICR Selection.

(1) The ICD utilizes a risk-based methodology to plan and schedule ICRs. Risk assessments are conducted with all states annually, by program.

(2) Programs administered at the State Operations Office level will be evaluated based on an Internal Control risk-based methodology. These programs include Community Facilities (CF), Rural Business-Cooperative Service (RBCS), Single Family Housing Direct (SFHD), Water and Environmental Programs (WEP), and Environmental Policies (ENV).

(i) A state's risk level is determined by a risk-based assessment. The risk-based assessment is evaluated annually and updated to ensure appropriate risks are considered and included.

(ii) Branch Chiefs will administer the questionnaire to the States, and results will be entered into the Risk Assessment Questionnaire template to determine a state's risk score and risk rating.

(iii) ICD will brief program leaderships on the results before finalizing the plan. Program leaders may recommend adjustments to the schedule or recommend additional state(s) be added based on risk identification maintained at the program level.

(3) Programs administered at the National Office level will be evaluated on an A-123 risk-based methodology. These programs include Multifamily housing (MFH), RBCS and SFH Guaranteed. High-risk programs will be considered for review.

(c) ICR Planning.

(1) A review schedule will be developed from the states identified by the risk assessment as High-Risk. The states with the greatest risk will be required to have an ICR. The review schedule will include review dates of each review and is approved by the ICD Director. The following will be determined by ICD:

(i) The ICR team size, scope, type of review, and review lead.

(ii) Review size. Determining the size of the review specific to the program area is based on the state's approximate caseload.

(iii) Scope of Review. Determining programs to review based on caseload/activity for a specified period.

(iv) Review Type: Onsite or Remote. Onsite reviews should occur when possible if requested by the state, if a review team has not been to the state, if there is new staff, if there are other concerns requiring onsite presence, or if the state has a large number of paper files and

an onsite review will reduce the burden on the state to convert paper files to electronic files.

(2) The ICD Director will hold two separate kick off meetings in the first week of October. One with the states requiring an ICR and another with the states requiring to participate in the ICR training.

(3) A review schedule will be developed for programs administered at the National Office level. In developing the review schedule, the following should be considered:

- (i) Time elapsed since the last review,
- (ii) Budget and staff resources.

(4) The review schedule will include review dates of each review and is approved by the ICD Director. The Team Lead will determine the Review Lead for each review, for approval by the Branch Chief. Kickoff meetings are held with National Office leaders.

(5) Once states have approved their review dates, the review schedule is finalized.

(6) Reviews vary in size and program complexity and as such may require different timelines to meet set deadlines. ICD has determined a sizing of reviews which includes consideration of file selection numbers in that determination.

(7) ICD will determine sampling size and file selection based on degree of risk for the review. Under the Risk Based Assessment Plan:

- (i) States scheduled for an ICR are ranked high risk and must follow the A-123 High risk minimum sampling size for testing as outlined in the Business Process Controls for OMB Circular A-123, Appendix A - Quick Reference Guide provided by the OCFO, unless the process risk is otherwise identified.

- (ii) National programs selected for an ICR follow a Moderate risk rating plan unless the Branch Chief and Director determine other Risk Rating such as low risk or high risk is merited.

- (iii) Once required reports are analyzed, ICD will complete the file selection. Time periods for the file selections are based on the program being reviewed.

(8) In preparing for the review, the Review Lead is responsible for the continued communication between the review team and State or National Office staff. As well as overseeing all tasks related to the preparation for the ICRs they are assigned.

(d) Conducting ICRs.

(1) The Review Lead will conduct the Entrance Conference with the review team and respective state or national office staff responsible for the program to discuss the purpose and scope of the ICR and formally commence the review period. The Review Lead will serve as liaison between the state/national office staff and the ICR reviewers. They will coordinate the process for the reviewers to communicate questions or missing documentation.

(2) The review of files selected will be assessed and documented using the appropriate program Review Guide and ICD tools. The review team will compile a list of questions and/or missing documents as needed throughout the ICR process. The Review Lead will communicate with the ICD management as appropriate.

(3) The Reviewers will use various repository systems for documents and information.

(4) At the conclusion of the on-site review, the ICR team will conduct a pre-exit conference. The Program Director is required to attend and may invite others as applicable.

(5) The Review Lead will complete a draft Summary Report.

(7) The Review Lead will schedule the Exit Conference via Microsoft Teams no later than 30 workdays from the last day of the review.

(i) The review team will present a summary of the findings resulting from the review, explanation of the Corrective Action Plans (CAPs) process, and the results of the Surveys.

(ii) Action items will include due date for CAPs, Summary Report issued by ICD, and status report due date.

(9) Immediately following the Exit Conference, the Review Lead will provide the state/national office with CAP Examples for all findings requiring a CAP. The CAP examples can either be adopted or used as a guide when

developing corrective actions. The CAP examples will include both Program and Environmental CAP examples.

(e) Report of ICR Findings and Recommendations.

(1) The Program Director and/or National Office will have 15 working days from the Exit Conference, to either develop or accept the CAP examples and submit final CAPs to the Review Lead. The Final Summary Report will be developed upon receipt of the final CAPs.

(2) Within 30 working days of the date of the Exit Conference the Final Summary Report is sent to the state/national office staff with the outcome of the Internal Compliance Review.

(i) Findings that have not been resolved by the end of the review are included in the Final Summary Report in the Findings section.

(ii) If no response is received, the CAP Examples will be accepted as written.

(iii) Deficient Processing of Loans/Grants that have not been resolved are included in the Final Summary Report in the Deficient Processes section.

(5) A questioned cost means an amount, expended or received from a federal award, that in the reviewer's judgment is noncompliant or suspected noncompliant with federal statutes, regulations or the federal award's terms and conditions.

(i) Findings that have been identified as potential improper payments are referred to as Questioned Cost and are included in the Final Summary Report table titled, "QUESTIONED COST."

(ii) The Review Lead should elevate projects that are questionable. State/National Office should be aware during the initial review and prioritize these costs and take appropriate action to remove them prior to the report. However, if these costs cannot be resolved/verified by the time of the report they will be included as a separate item in a table within the Final Summary Report.

(f) Corrective Action Plan Development/Implementation.

(1) A CAP in relation to the ICR process, is a plan detailing the corrective actions to remediate identified deficiencies. Overall program scores of 70%

or greater are only required to develop CAPs for Deficient Process and Key Control findings. If the overall program score is less than 70%, CAPs are also required for a Non-Key finding.

(2) Findings may be combined and grouped into a single Corrective Action Plan for multiple program types reviewed. State and National programs are required to finalize a CAP for all deficient processes and key control findings. If the overall program score falls below 70% a CAP is required for all the non-key control findings as well.

(3) The ICR Team will review each CAP to ensure the solutions documented in each phase addresses the finding(s) and each phase/task of the CAP is complete and accurate.

(4) The Review Lead will clearly state the due date when sending Draft CAPs. If the Program Director/National Office does not respond by the due date with revisions, the Review Lead will send relevant points of contact an email which states that the due date has passed, and ICD is moving forward with finalizing the CAPs and Final Summary Report.

(g) ICR Tracking and Monitoring.

(1) CAP Status Meetings will be held 90 days from the month the final report is issued, then every 180 days until all CAPs are closed. If the final report is not received, then quarterly reporting will be required.

(2) The meetings are held to ensure that the organization is making progress with correcting the deficiencies noted during the ICR.

(3) The CAP form updates submitted by the state/program will be reviewed. If corrective actions have not been fully implemented, the Review Lead will confirm the percent(%) complete and update the "Last Update" section as appropriate until corrective action is closed. The Review Lead will confirm the recommendations that remain open and the due date of the next status report. The Review Lead will continue this process until all corrective actions have been implemented. If timeframes identified in the CAP Attachment of the Summary Report will not be met, new timeframes should be requested by the State/National Office and agreed to by the ICD. If the submitted report is not acceptable, notify the State/National Office of additional information needed.

(4) If the State/National Office does not respond or provide a subsequent status update then a notification will be sent to responsible parties that they will be required to report quarterly. If the State/National Office does not

respond or provide subsequent status updates and does not have an extension, the Review Lead will elevate to ICD management. Review Lead and the ICD management may work together to ensure communication is acknowledged by the State/National Office. If the PD requests an extension, the Team Lead will notify the Branch Chief to determine if the justification warrants an extension.

(5) Validation Testing will be initiated once monitoring is complete. The Program Director/National Office will notify the Review Lead when monitoring is complete, and ready for validation testing. The date monitoring was completed will be provided to the ICD Review Lead.

(h) Maintenance of ICR records.

(1) All records pertaining to an ICR will be kept on the CFO/OC/ICD Shared Drive. This includes all memorandums to the State, review guides and supporting documentation, documentation to support changes from the draft to the Summary Report, records of formal entrance/exit and planning conferences, CAP(s), status reports, correspondence between review team and state, etc. Special attention must be paid to documentation with (Personally Identifiable Information) PII.

(2) Team Members are responsible for saving all documentation relating to their file review. The Review Lead is responsible for ensuring all documentation is saved to the state's shared drive folder.

(3) ICD will retain documentation of each review. A copy of the most recent Summary Report will be available on ICD's shared drive. Records will be retained according to the Records Retention Schedule in [RD Instruction 2033-A, Exhibit B](#).

(i) Administrator's Summary Report.

(1) Briefing for Administrators on FY Results. The Team Lead is responsible for ensuring the summary scoresheets and other relevant results can be tracked by September 30<sup>th</sup> of each year to assist with briefings. The Team Lead will work with the Branch Chief to prepare results. Briefing for Administrators for FY results occur mid-October.

**§ 2006.609 [Reserved]**

**§ 2006.610 OMB Circular A-123 Review Lifecycle.**

The following lifecycle outlines the integrated process for conducting internal controls assessments under OMB Circular A-123. Key Components of the OMB Circular A-123:

(a) Kickoff:

- (1) Initiates the FY assessment for USDA agencies.
- (2) Includes deliverable schedules, training timelines, and risk assessment questionnaires.
- (3) Establishes organization-specific points of contact (POC) and addresses IT system changes and program updates.

(b) Scoping:

- (1) Identifies financial statement (FS) line items and the corresponding business processes.
- (2) Collaborates between OAB and FAB to determine in-scope processes.
- (3) Utilizes qualitative factors like exposure to fraud, operational changes, and automation levels.
- (4) Results are recorded in a scoping template and Scoping Memo is drafted, signed by RD's CFO and submitted to OCFO.

(c) Risk Assessment and Design Effectiveness:

- (1) Conducted for each scoped process to evaluate inherent risks, prior deficiencies, and system changes.
- (2) Considers prior assessments, fraud susceptibility, and transaction complexity.
- (3) Assigns risk ratings (High, Moderate, Low) that dictate control testing frequency.
- (4) High-risk processes require annual testing.
- (5) Unless scoped in by the Department, Moderate-risk is every two years, low-risk is every three years.

(d) Developing Key Controls:

(1) Control objectives, developed by the OCFO, address specific risks and must be met through corresponding key controls. Each key control is designed to ensure its assigned control objective is satisfied.

(2) Identified through walkthroughs and meetings with business owners.

(3) Documented in narratives and flowcharts .

(e) Business Process Narrative and Flowcharts:

(1) Narratives. A process to document and detail each process step, from initiation to reporting, with supporting documents like policies, completed forms, recorded transactions.

(2) Flowcharts. A type of diagram that visually explains a process or workflow. Represents activities, decisions, systems, and controls using cross-functional horizontal swim lanes in Visio.

(3) Ensures alignment with narratives and provides clarity for unfamiliar users.

(f) Control Procedures:

(1) Mechanisms to prevent or detect misstatements and/or errors.

(2) Documented in a spreadsheet with information such as risk assessment details, compliance ratings, and test plans.

(3) Includes classification of controls as key or non-key, along with their operational frequency and ownership.

(4) Control testing gives management support needed to make an accurate decision on assurance.

(g) Test Plan Development:

(1) A test plan is a set of procedures or test steps used to evaluate the operating effectiveness of a control.

(2) Developed based on control objectives and key controls identified during the scoping and risk assessment phase.

(3) Defines the test methodology (e.g., inspection, observation, re-performance), frequency, sample size, and required source documents (reports, vouchers, etc.).

(h) Coordination and Documentation Requests:

(1) Coordination is initiated with the State Operations Office and relevant program offices prior to starting the OMB Circular A-123 process or responding to an OIG audit.

(2) Source documents (e.g., reports, vouchers) are identified and requested to support execution.

(i) Testing and Results Compilation:

(1) Testing is conducted according to the plan, using the selected test methods to assess control effectiveness

(2) Results are recorded in standardized templates, indicating pass, fail, or exception outcomes.

(3) Failures are addressed through CAPs.

(4) Findings are communicated to program and operational offices, with follow-up engagement to clarify results and support remediation efforts.

(j) Findings: A finding is an evaluation to determine the severity of a deficiency. A finding is required for new and existing deficiency. Findings are identified during the documentation phase or testing phase.

(1) Findings are categorized as Control Deficiency (CD), Significant Deficiency (SD), or Material Weakness (MW) based on its severity.

(i) CD is a deficiency that is unlikely to cause a misstatement in the financial statements that is more than inconsequential.

(ii) SD is a deficiency that is likely to cause a misstatement in the financial statements that is consequential but less than material.

(iii) MW is a deficiency that is likely to cause material misstatement in the financial statements.

(2) Findings are documented with details such as the process, amount at risk, and sample failures to assess and determine the amount at risk.

(3) A Summary of Assessment Document (SAD) may be created to consolidate related findings.

(k) Corrective Action Plans (CAPs): The organization is responsible for ensuring that its programs, processes, and operations comply with applicable laws, regulations, and internal policies. If a control fails, this means the control designed to prevent or detect an issue has failed, and the risk remains unmitigated. At that point, the plan must be reassessed and either revised or escalated. The process of revising the control is to create a CAP. The steps would include:

(l) Development Phase. The steps required to remediate deficiencies identified

(m) Implement Phase. The steps required to administered actions completed in the development solution stage

(n) Monitoring Phase. The branch/organization and OAB are required to monitor to ensure processes and procedures developed are working effectively. If issues are identified during the monitoring phase, branch/organization must adjust procedures and processes to correct issues identified during the monitoring phase.

(o) Validation Phase. All phases must achieve 100% completion before controls are tested to confirm that they are effective.

(p) CAP Closure. A CAP is only closed when RD can demonstrate that the deficiency is fully resolved.

(q) OMB Circular A-123 Summary Report: A Summary Report is prepared and issued for each Branch/Organization tested for the current fiscal year.

(1) Summarizes the scope, results, and recommendations of the annual assessment.

(2) Serves as an "exit" report for each branch or organization.

(3) A Consolidated Summary Report is presented to the CFO detailing all OMB Circular A-123 testing results.

(r) Entity Level Controls (ELC): Entity Level Controls require coordination among multiple layers of responsibility:

(1) Senior Leadership. RD's Agency Head establish tone at the top, approve policies, set risk, and oversee compliance.

(2) Program Managers. Implement controls within their programs. Monitor staff compliance with policies and report deficiencies.

(3) Administrative Staff. Ensure financial reporting integrity, procurement compliance, and proper stewardship of resources.

**§ 2006.611 Annual Report to the Secretary.**

RD is required to provide assertions to support the Secretary's annual assurances in the United States Department of Agriculture, Fiscal Year, AFR. Assertions included in RD's annual Certification Statement cover RD's assessment of the FMFIA and FFMIA. RD reports on the effectiveness of Internal Control over Reporting, the effectiveness of Internal Control over Operations, compliance with Laws and Regulations, conformance with Federal Financial Management System Requirements, and compliance with Sections 803(a) of the FFMIA.

(a) During the 3<sup>rd</sup> Quarter, the Certification Statement is prepared by ICD based upon information received from the SMCC members for internal control activities and reviews that occurred during the first three quarters of the year. During the 1<sup>st</sup> quarter, a Bridge Memo is prepared by ICD for any additional activity or reviews that were completed in the preceding 4<sup>th</sup> quarter. These assurance statements are based on the current fiscal year's activities and are due to the Department's Office of the Chief Financial Officer (OCFO).

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

(c) The Assurance Statement and Bridge Memo are discussed by ICD to the members of the SMCC twice a year; July for the Assurance Statement and October for the Bridge memo (facilitated by the Financial Assessment Branch) and vote to approve the Assurance Statement.

(d) Upon approval from the SMCC, the Certification Statement and Bridge Memo are sent to RD CFO and USEC for signatures.

(e) The Certification Statement is submitted to OCFO and combined into a USDA-wide report.

**§ 2006.612 [Reserved]**

**§ 2006.613 Inquiries about the internal control system.**

Inquiries concerning this Instruction or any part of RD's management control system should be directed to ICD Director.

**§ 2006.614 - 2006.650 [Reserved]**

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