FARM CREDIT ADMINISTRATION
OFFICE OF INSPECTOR GENERAL

REPORT OF INSPECTION

Telecommunications
A99-01

March 28, 2000

Farm Credit Administration

Office of Inspector General
1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4030

March 28, 2000

Michael M. Reyna, Chairman
and Chief Executive Officer
Farm Credit Administration
McLean, Virginia

Dear Mr. Reyna:

We have completed our inspection of the Farm Credit Administration's (FCA or Agency) Telecommunication Costs and Services. Our objectives were to evaluate the cost of telecommunication services provided to FCA through the FCS Building Association (FCSBA); identify alternative providers, if appropriate; test the accuracy and integrity of billings for these services; and review the Agency's oversight of this area.

After the entrance conference for this inspection, the FCSBA contracted with the General Services Administration's *Federal Technology Service (FTS) 2001 Program.* Upon its full implementation, FTS 2001 will reduce the future cost of telecommunication services. Implementation of our recommendation to buy videoconferencing services can significantly reduce travel expenses. We identified approximately $3,500 in billing errors by the provider that were passed on to FCA. FCSBA has credited FCA for this amount. We also found that FCSBA billed FCA for approximately $9,300 in costs that are not consistent with the Memorandum of Understanding (MOU). Some of this amount was applied against the amortized costs of system upgrades.

As a result of this inspection and discussions with management throughout this process, the Agency's arrangement with the FCSBA for telecommunication services will be improved in the following ways:

- FCA will update the MOU with FCSBA to clarify practices that are not consistent with the current MOU.
- FCA will ensure the accuracy and integrity of telecommunication charges to FCA and take an active part in making adjustments when necessary.
- FCA will have the Office of General Counsel opine on whether FCA is eligible for tax-exempt treatment when buying telecommunication services through FCSBA.
- FCA agrees to ask that FCSBA buy videoconferencing services for the Agency.

- FCA's Office of Resources Management agrees to develop and distribute guidance to educate staff about the most economical way to use the various telephone choices available to them.
- FCA will refine its review and control procedures for long-distance telephone calls and supervise their application to ensure compliance with internal policy.

We conducted this review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency. We conducted our fieldwork from April 1999 to October 1999 at FCA headquarters in McLean, Virginia. An entrance conference was held on March 4, 1999. Management and FCSBA were provided a draft of this report on October 15, 1999 and we have included their written responses.

Respectfully,

Eldon W. Stoehr
Inspector General

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FCA Response

FCSBA Response

BACKGROUND

FCA is a nonappropriated agency with regulatory, examination and supervisory responsibilities over the Farm Credit System (FCS or System) banks and associations and assesses System institutions for its administrative costs. The FCS Building Association (FCSBA) was formed by the banks of the System to provide a vehicle through which they could acquire, construct, develop, own, hold, improve, maintain, lease, and dispose of physical facilities and related properties to house the offices of the FCA. The FCA Board members serve as the board for FCSBA and are authorized to act as the agent of the banks.

FCA headquarters and the McLean field office occupy office space in the building owned by FCSBA. Four other field offices occupy office space leased by FCSBA. The Agency pays no rent for this office space. FCSBA also provides telecommunication equipment to FCA under a reimbursable operating lease that is renewable yearly. FCA's telecommunication expenses were $280,815 and $295,989 for FY 1998 and FY 1997, respectively.

The inspection was prompted in part by the well-publicized reduction in telecommunication costs available to Federal agencies through the FTS 2001 contract negotiated by the General Services Administration (GSA) and announced in January 1999.

OBJECTIVES, SCOPE, and METHODOLGY

The objectives of this inspection were to evaluate the cost of telecommunication services provided to FCA through the FCSBA; identify alternative providers, if appropriate; test the accuracy and integrity of FCSBA billings for these services; and review the Agency's monitoring activities over this area. We reviewed Agency billings for three months to identify: 1) how FCA staff used the telecommunications available to them; 2) how established controls were applied; and 3) any exceptions to the appropriate, authorized, efficient and effective use of telecommunication services. We also surveyed other Federal financial regulatory agencies about their use of videoconferencing and the GSA's Federal Technology Service 2000/2001. Finally, we compared the contract negotiated by FCSBA and FCA to the telecommunications contract negotiated by GSA for Federal agencies.

FINDINGS, CONCLUSIONS, and AGREED UPON ACTIONS

Substantial savings will be gained by using GSA's FTS 2001.

During the entrance conference for this evaluation, we noted that FCSBA had not asked for proposals from the FTS 2000 program (FTS 2001 predecessor) when negotiating the then-existing contract and asked whether they were considering the new FTS 2001 program for FCA. FCSBA stated that, historically, there were no significant price advantages to the FTS 2000 program over other providers of telecommunication services and that FCA management preferred other providers. Nevertheless, FCSBA stated GSA had been doing some "good things over there" and they would be keeping them in mind for future contracts. After the entrance conference, FCSBA contacted GSA about getting a bid for services from FTS 2001 and have told us that, on October 15, 1999, they committed to buy telecommunications services through GSA's FTS 2001. The favorable pricing available through FTS 2001 should provide substantial savings to the Agency as well as bolster the FCSBA's ability to generate income from other non-Agency tenants for whom the FCSBA provides telecommunication services.

The existing Memorandum of Understanding (MOU) between the Agency and FCSBA does not authorize some of the telecommunication costs billed to FCA by FCSBA.

The MOU between FCA and FCSBA for telecommunication services provides, in essence, that FCSBA's billings will "pass through" only actual costs unless FCA specifically allows otherwise. Specifically, Section V4(c) states that the FCSBA "will not charge the FCA and the FCA will not pay FCSBA a fee or profit for FCSBA's performing under the MOU." Furthermore, Section V4(d) of the MOU states that "The FCSBA will submit to the FCA's Fiscal Resources Division an invoice, on a monthly basis, that describes and itemizes the actual costs allocated and/or prorated to the FCA for the monthly billing period. The invoice will include any reasonable information and documentation deemed necessary by FCA to substantiate the costs allocated and/or prorated to the FCA and to authorize payment by the FCA." The following instances do not comply with the MOU. The estimated amounts shown were supplied by FCSBA and are conservative, based on our own analysis.

- Local calls were charged to FCA at 10 cents per call rather than the 7 cents per call charged by the provider (a 42 percent premium). This premium amounted to an estimated $2,600/year in additional charges to the Agency. FCSBA stated that they applied this excess against the amortized costs associated with the change in the provider of local service. However, this amortized amount was not identified on the invoice to the Agency as is prescribed by the MOU. This method of payment is not consistent with the treatment of similar fixed costs associated with switching providers.

- Local calls were charged to FCA for each dialing attempt even though the provider billed FCSBA only when a successful connection was made. This premium amounted to an estimated $700/year in additional billings to the Agency. FCSBA stated that this is a long-standing practice that was common knowledge to the Agency even though the MOU calls for pass through billing of costs. We were unable to identify FCA personnel who were familiar with this practice.

- Long-distance calls were billed to FCA at 8 cents per minute rather than the 6.5 cents per minute billed by the provider (a 23 percent premium). This premium amounted to an estimated $3,600 in additional charges to the Agency annually. FCSBA stated that they applied this excess against the amortized costs associated with the change in the provider of long-distance service. However, this amortized amount was not identified as such on FCSBA's invoice to the Agency as prescribed in the MOU. This method of payment is not consistent with the treatment of similar fixed costs associated with switching providers.

- Long-distance calls billed to FCA were "rounded up" to the next minute rather than the "rounding up" to next 1/10th of minute billed to FCSBA by the service provider. This practice amounted to an estimated $2,400 in additional charges to the Agency annually. FCSBA stated that this is a long-standing practice that was common knowledge to the Agency even though the MOU calls for pass through billing of costs. We were unable to identify any FCA personnel who were familiar with this practice.

Agreed Upon Action

1. FCA will update the MOU to clarify the basis for telecommunications billings and provide sufficient oversight to assure that future billings are consistent with the MOU.

FCSBA's internal call tracking software does not generate reliable billings to the FCA.

Various providers bill FCSBA for telecommunication services used by the FCSBA, FCA and some other tenants of the McLean Headquarters Building. FCSBA then bills the users for their share of these costs, some of which are direct and some of which are allocations. Appendix A shows that $3,445.08 (total of footnote #1) of the March 1999 telecommunications bill to the Agency was allocated costs calculated by FCSBA's internal call tracking software. The billings to FCA that result from this process are not reliable because they are difficult to understand, some charges are inconsistent with the MOU (as described in the previous section), and include errors and omissions.

Billings are difficult to understand because of the way the fixed costs of equipment upgrades are amortized. Rather than amortizing these fixed costs uniformly over a specified period of time, FCSBA has "rounded up" actual rates for some costs (see above section) and applied this overage against the retirement of the fixed cost. It is difficult to track the variable results of such rounding amounts and its credit against the original cost. Also, the problems we have identified in the allocation process further complicate this area.

FCA has not been requiring documentation to explain unusual components of billings from FCSBA. The following are more examples of items that should have been investigated. Individually, these examples may seem insignificant; however, collectively they signal that improvement is necessary.

We found the following items in our review of three month's calling data generated by this system:

- Individual long-distance calls lasting more than 550 minutes (over 9 hours) were billed to FCA. We identified three such calls totaling over $130 in our review of three months of data. The service provider had not billed FCSBA for these charges but they were generated by FCSBA's internal call tracking software. FCSBA initially stated that it had no knowledge of why these charges were occurring in its. Subsequently, FCSBA ran a software test to identify all calls in 1999 of this nature. That test identified three such calls; however, only one of the calls documented by us was noted in the FCSBA test.

- Part of the allocation of indirect telecommunication costs to FCA is based on the total number of handsets installed by FCSBA, including those installed for other tenants. As of August 25, 1999, FCA had 328 individuals on staff (including seasonal help) but was being billed by FCSBA for the use and maintenance of 425 handsets. Currently, the Agency does not have a process to ensure that all handsets currently installed are necessary. To the extent that FCA has more handsets assigned than in actual use, the allocation results in a higher cost to FCA than necessary.

- Some local and long-distance calls were not billed to FCA at all. This deficiency amounted to an estimated $1,500/year in non-charges to the Agency.

We also identified errors in billing data for February 1999 - April 1999 unrelated to the FCSBA internal call tracking software. These included:

- FCA was billed over $3,250 from September of 1998 to June of 1999 for toll calls by the Denver field office that were actually local calls.

- Charges for the Agency's 800 numbers for its Remote Access System (RAS) were overcharged by $309.50

- FCA was overcharged $101.98 in March 1999 for calling card use.

- The Agency was billed for calling card rates in excess of the contracted 17 cents per minute that resulted in $156.31 in overcharges.

- Incorrect rates were assessed on some Agency 800 numbers resulting in $82.14 of excess charges.

After we notified FCSBA of these errors during our review, FCSBA credited the FCA for all the overcharges except for the $309.50 that FCSBA contends is a valid charge.

FCSBA's billings to FCA "passed through" various state and local taxes, surcharges, and user charges. As an example, one month's invoice for 800 numbers to access the Agency's computer network included $241 in taxes on the $4,658 bill. Since FCSBA is FCA's agent for buying telecommunication services, the Agency's tax-exempt status may be applicable to some of these telecommunication service costs.

Agreed Upon Actions

2. *FCA will set up a more effective process for monitoring the accuracy and integrity of telecommunication charges and for making adjustments when necessary.*

3. *FCA will have the Office of General Counsel opine on whether the Agency is eligible for tax-exempt treatment when buying telecommunication services through the FCSBA.*

Videoconferencing should be included in the range of services provided to FCA.

Videoconferencing offers a significant opportunity to reduce staff time and travel expenses for various communications among Agency staff and between Agency staff and external parties. The Office of Examination (OE) could particularly benefit from this service because of the geographic dispersion of its own staff and the System institutions OE meets with regularly. OE expects to significantly reduce FY 2000 travel through the use of videoconferencing. Less travel would also have a positive effect on examiner morale. Additionally, some internal Agency meetings may be suited for using videoconferencing.

The Agency has used videoconferencing occasionally but representatives from the Agency's Information Resources Division (IRD) expressed concerns during our entrance conference that the technology was not of sufficient quality and historically too expensive. However, during the inspection, IRD added the costs for installing videoconferencing capabilities for all field offices in the FY 2000 budget.

Other Federal financial regulators (the Federal Reserve Board and the Federal Deposit Insurance Corporation) have in-house videoconferencing services that they use regularly and expressed satisfaction with them. The Agency's limited use has also produced satisfactory results. The FTS 2001 program contracted for by FCSBA in October 1999 offers videoconferencing services in various formats.

Agreed Upon Action

4. *FCA will ask FCSBA to buy videoconferencing services for the Agency.*

There are opportunities to reduce Agency telecommunication costs by educating FCA staff about the most cost-efficient uses of available options.

Our review of telecommunication billings suggests that Agency staff do not always use the most cost-efficient options when choosing from existing telecommunication services. Since it is probable that staff are unaware of the cost implications of the various options, it is likely that FCA could reduce its telecommunication costs if staff followed these guidelines:

- Use local Agency numbers rather than 800 numbers whenever possible. (Local calls are free but 800 numbers carry added charges based on time usage.)
- In-office or local phone number dial-in network accesses are the most cost-effective ways to access, download, or upload databases on the FCA network.
- It is less expensive (32%) for field offices to call McLean on an 800 number than to dial McLean direct.
- It is less expensive for McLean to dial field offices direct than to dial their 800 numbers.
- Use the Agency's 800 numbers rather than calling cards. This results in a minimum saving of 62% for calls to McLean and 44% for calls to the field offices.
- Use cellular phones with unlimited calling plans rather than calling cards or the Agency's 800 numbers.

Agreed Upon Action

5. *FCA's Office of Resources Management will develop and disseminate guidance to educate staff about the most economical way to use the various telephone choices available to them.*

The Agency has not followed the review and control procedures established in FCA policies and procedures (PPMs) 700 and 707.

FCA PPMs 700 and 707 establish the Agency's review and control procedures and require certification that long-distance telephone calls were made for official business purposes. While these procedures are adequate, they are not followed. Further, these PPMs exclude 800 numbers, even though most 800 number calls are long-distance and therefore should be certified as official business. Finally, the statistical sampling method developed for use with the certification process does not produce a valid random statistical sampling of the Agency's long-distance phone calls.

Agreed Upon Action

6. *FCA will refine its review and control procedures for long-distance telephone calls and supervise the application of them to ensure compliance with internal policy.*

Appendix A

Telecommunication
Costs Incurred by FCSBA and
Billed to FCA
March 1999

Services	MCI/ World Com.	Cable & Wireless	Fairchild	Bell Atlantic	AT&T	Others*	Totals	Billed to Agency	Questioned Costs Figures
Long Distance	$7,270.15						$ 7,270.15	$ 3,325.62	$1,886.06 (1)
Conference Calls	$ 230.17						$ 230.17	$ 230.17	
Data Lines	$5,841.68						$ 5,841.68	$ 5,841.68	
Data Line Change	$2,467.47						$ 2,467.47	$ 2,467.47	
Internet	$1,101.06						$ 1,101.06	$ 1,101.06	
Calling Cards	$ 623.02						$ 623.02	$ 725.00	$101.98 (2)
Local Service	$1,379.15			$1,147.08		$3,132.43	$ 5,658.66	$ 4,671.12	$1,559.02 (1)
ISDN Lines				$ 565.78			$ 565.78	$ 565.78	
Modems & Faxes	$ 23.28	$ 637.59		$1,336.00			$ 1,996.87	$ 1,022.19	$ 22.00 (2)
800# s for RAS	$ 422.95	$4,021.19					$ 4,444.14	$ 4,754.04	$309.50 (2)
Cell Phones					$ 560.01		$ 560.01	$ 545.74	
Teleset and PBX			$1,984.50				$ 1,984.50	$ 1,604.69	$1,604.69 (3)
Switch Maintenance									
Repair Voice Mail			$ 160.00				$ 160.00	$160.00	
Taxes & Surcharges	$1,292.54						$ 1,292.54		
Total Billings							$34,196.05	$27,014.56	
Prior Costs per MOU							========	$2,164.82(4)	$ 1,147.82 (3)
								$29,179.38	
								=========	

Key

Others*

$	1,606.48	US West
$	197.53	Bell South
$	40.88	Citizen Comm.
$	339.93	Pacific Bell
$	947.61	Southwestern Bell
$	3,132.43	

(1) Unrealiable
(2) Billing Error
(3) Prorated Portion Affected by Agency Teleset Excess
(4) These amortized costs in place since 3/31/95 will cease 2/28/00.

FCA Response

Memorandum

Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

FARM CREDIT ADMINISTRATION

March 24, 2000

To: Eldon W. Stoehr
Inspector General

From: James R. Ritter *James Ritter*
Audit Follow-up Official

Subject: Final Draft of Inspection Report 99-01: FCA's Telecommunication Costs and Services

Attached is management's response to the subject inspection report. Management agrees with five of the six recommendations and proposes that the remaining recommendation (number four) be amended to provide that the Farm Credit Administration, rather than the FCS Building Association, acquire videoconferencing services.

Suggested technical and editorial revisions are noted in pencil on the attached copy of the report. Should you have any questions or wish to discuss the response or suggested revisions, please contact me at your earliest convenience.

Attachment

Copy to: Michael M. Reyna
Donald Clark

Memorandum

Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

FCA
FARM CREDIT ADMINISTRATION

March 15, 2000

To: James R. Ritter
Audit Follow-up Official

From: Donald P. Clark, Director
Office of Resources Management

Donald P. Clark

Subject: Management Responses to OIG Inspection of FCA's Telecommunications Costs and Services (Final Draft of February 17, 2000)

I am providing our responses to the six recommendations of subject inspection, based on your March 1 e-mail. We have also provided comments on the text of the inspection report where we believe clarification is necessary.

Responses to Recommendations

1. FCA will update the Memorandum of Understanding (MOU) to provide improved clarification for FCSBA practices that are not consistent with the current MOU.

Agree. The Chief of the Administrative Services Branch will lead an effort to review the current MOU and its supporting exhibits, with assistance of the Senior Accounting Officer, the Assistant to the Director of the Office of Resources Management (ORM), and the President of the FCS Building Association (FCSBA). Where necessary, the MOU will be amended to incorporate FCSBA billing practices and FCA expectations for details of the charges. An amended MOU will be completed by September 30, 2000.

2. FCA will set up a more effective process for monitoring the accuracy and integrity of telecommunication charges and for making adjustments when necessary.

Agree. FRD will begin to monitor the accuracy of FCSBA's telecommunications charges with the requirements of the amended MOU on October 1, 2000. FRD staff will examine vouchers for adequacy and accuracy before payment. FRD staff will periodically coordinate with the FCSBA and FCA managers to validate details for bills and confirm the bill is in accordance with the MOU.

3. FCA will have the General Counsel research whether the Agency is eligible for tax-exempt treatment when buying telecommunication services through the FCSBA.

Agree. The Director of ORM requested and received the OGC opinion. We are now evaluating management's options. There are some taxes for which FCA is obligated to pay, and others that FCA can claim tax-exempt status. Those that can be exempted come with other cost implications. The Office of the Director, ORM will provide questions and expectations to the President, FCSBA, by April 30, 2000. Resolution to the impact of FCA's possible tax-exempt status will be decided by September 30, 2000.

4. FCA will request that FCSBA acquire videoconferencing services for the Agency. (The Director of the Information Resources Division (IRD) previously recommended that this recommendation be amended to read: "FCA will acquire videoconferencing services." He thought that FCA might acquire the equipment and ask the FCSBA to acquire the telecommunication portion.)

Agree (with proposed alternative recommendation). IRD is leading the Agency's efforts to evaluate the benefits and costs of videoconferencing services. IRD budgeted in FY 2000 for such services. Recommendations to acquire the services through the best means for the Agency's business needs based on the evaluation will be forwarded to the FCA Board by August 31, 2000.

5. FCA's Office of Resources Management will develop and disseminate guidance to educate staff about the most economical way to use the various telephone choices available to them.

Agree. The Assistant to the Director of ORM will work with the FCSBA to develop a list of available telephone services and recommendations for the most economical use of those services. An *FCA This Week* article will be published by June 30, 2000 and a wallet-sized guide will be delivered to each staff member.

6. FCA will refine its review and control procedures for long-distance telephone calls and supervise the application of them to ensure compliance with internal policy.

Agree. FRD will amend PPMs 700 and 707 about long-distance telephone calls by June 30, 2000. The amendments will strengthen the review of, and control over, long-distance telephone charges. They will also include a program that will, two months of each fiscal year, require 100 percent verification by offices that long-distance charges were for official business.

FCSBA Response

Farm Credit Administration

Office of Inspector General
1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4030

Inspector General comments on the written response from the President of the FCSBA

We take strong exception to Mr. Fletcher's written comments. We provided a draft report to him on October 15, 1999 (over five months ago) for his review. Subsequently, we met with him on numerous occasions to explain our positions and to hear his concerns and we made some changes to the draft report based on those exchanges. Information furnished by Mr. Fletcher during this time was slow in delivery, often inaccurate or incomplete, and sometimes contradicted other information he had previously supplied. He admitted that he had not taken our requests seriously and had given them low priority because of other demands on his time, notably Year 2000 issues.

His response challenges the accuracy and relevance of information we have used to support our findings but has not provided any credible information to support his challenges. In fact, since Mr. Fletcher contested the dollar values our draft report attached to potential savings, effect of errors, etc., this final report generally uses the figures supplied by FCSBA. Our conclusion is the same regardless of which values are used.

This final report does not include our estimate of dollars accruing from (1) the decision to switch to FTS 2001 as the provider for telecommunications services and (2) reductions in travel accompanying the acquisition of videoconferencing services for the Agency. These projections are incidental because FCSBA has already subscribed to FTS 2001 and FCA management agrees that videoconferencing services should be acquired.

Eldon W. Stoehr
Inspector General

FCS Building Association

To: Eldon Stoehr

From: Tim Fletcher TF

Subject: IG Draft Report dated March 20, 2000

Date: March 21, 2000

cc: Don Clark
Mike Pickell

Eldon:

As discussed, enclosed are copies of all the correspondence we have provided your office regarding this report. In reading through this material, it confirms that we have responded to every draft in a timely manner and that the information has been factual and comprehensive. We have also gone to great lengths to insure that we have been "objective" at all times. It has been our intent to cooperate with your investigation completely throughout the 12 months it has taken. We felt that by cooperating with you the final report would be factual and would become a basis for improving the telecommunications services we provide FCA. At some point however, the cooperation has broken down and we are now on the 4th draft of this report and are still no closer to reaching a consensus on it than we were on October 15th when the initial draft was issued.

At this point the easiest thing for both of us is to ask the Board to resolve this. This would be unfortunate, as there is nothing of a "material" nature in your findings and it would be a waste of their time. I think the Board expects us as senior staff members to resolve such matters. As an organization, the FCSBA is very respectful of the Board's time and would hope that your office would be sensitive to it as well. Consequently, I would like to reiterate our comments and suggestions for you one last time in an attempt to produce a report that is factual. Hopefully, the March 20th draft is not your "final answer" and you will take the time to read and consider the points we have raised which are as follows:

<u>Page 1 - 2nd Paragraph</u>

1. The way the first sentence is written it sounds as if we left the entrance conference and immediately called GSA which is far from what happened. We have been tracking the FTS program for over 2 years and decided to change some of our service over to it several months after the entrance conference.

2. FTS 2001 Estimated Savings - Per my earlier correspondence, your estimate of $65,000 a year in savings is very aggressive in comparison to our estimate. Evidently, you have some basis for your number and I would appreciate it if you would share it with us. Even though

you say you are "estimating" savings of $65,000 a year, I think it would be irresponsible to cite a number in a report to the Board that we know is not achievable.

3. In the sentences concerning the savings from video conferencing the report says video conferencing "might" save $80,000 a year. In our opinion, using "might" in this context implies that the estimate is a guess and not based on any factual analysis.

4. The last two sentences of this paragraph are written to distort your findings. The billing exceptions you noted totaled only $3,715.79. The reoccurring problem with the PBX in Denver of $3,253.96 and one time set up errors totaling $461.83.

Background

Your last paragraph in this section is new and appears to be an attempt to create a headline where there was none before. That the FTS contract prompted your investigation has never been mentioned in either your initial memorandum regarding the investigation or in the entrance conference.

Existing Memorandum of Understanding

1. Once again, I take exception with the opening sentence of the first paragraph as you are implying that we have profited from the services we provide the FCA. In no instance has the FCSBA profited in any way from this relationship. Since the FCA and the FCSBA obtain their operating funds from the Farm Credit System what basis would we have to profit from our relationship? You cannot substantiate this statement and are intentionally distorting this issue.

   You may disagree with how we billed a particular item but there is no reason or anything to gain by distorting an issue. As we have discussed before, the equipment charges being amortized would have been better handled if they had been billed to FCA on a lump sum basis when they were incurred. By amortizing these costs, we will save FCA $1,500 to $2,000. However in doing so, all we did was open ourselves up to criticism.

2. In the last sentence you state that the amounts shown are "conservative based on your offices analysis." We provided your office these numbers several months ago and it is inappropriate at this time to say you disagree with them. We have always been available to answer any questions your office had or explain things that you did not understand. If you have analyzed these costs I would appreciate it if you would send us a copy as we would be happy to reconcile the difference.

3. Under this section you are again making the claim that the charges for every dialing attempt and the rounding of the long distance calls are not authorized by the MOU. As before, this was the practice in effect at the time the MOU was signed. Your claim that the agency was not informed or did not know this was the practice when the MOU was signed does not hold

up. Under contract law, the parties executing a contract are presumed to have full knowledge and understanding of the agreement they are entering into. It would be more accurate to discuss these two items under a separate section of the report.

FCSBA's Internal Call Tracking Software

This title is misleading in that you make a blanket statement regarding the call accounting system that it is unreliable. Your only basis for this was the two missing long distance calls in the over 500 minute category. We have solved this mystery. On February 17th, the call accounting system was moved to our offices and one of the backup disks for February was not loaded into the computer the system was moved to. Until this disk was loaded, the system did not have the complete chronological history for February. New reports have been run and they do include all the calls we previously identified as well as the ones you had found. Other than this to my knowledge you had no other basis for claiming that the system was unreliable.

In your first paragraph of this section, you reference an Appendix "A" citing $3,445.08 in costs which are generated by the internal call tracking software. This appendix is confusing, as it is not clear what you are trying to show and I would recommend that it be revised. To begin with it is not clear what numbers add up to $3,445.08 nor does it show what your basis is for claiming these numbers are "unreliable." We have requested an explanation on a number of occasions but have not received a response. I also question whether it is appropriate to state that the billings are not reliable because they are in part, difficult to understand. There were two other numbers that were also incorrect.

* Under the category titled 800#s for RAS, it states that there was a billing error of $309.50 for this item, which is incorrect. Previously, we have explained and provided you proof that these calls were to be billed at the "switched" rate and not the cheaper "dedicated" rate.

* Under the Telset and PBX heading, you show two amounts, $1,604.69 and $1,147.82, which you are evidently questioning. Some explanation should be made explaining your questions or if there is no explanation the numbers should be removed from the summary.

In the second paragraph you again refer to the equipment amortization costs referred to earlier in the report. This time however you use a different terminology to describe them. In order to make the report consistent, the same description of an item should be used throughout the report to avoid confusing the reader. In this explanation, you state that "the rates have been rounded up" and it makes this sound like an entirely new issue and not just the additional mention of an item discussed earlier in the report. You also mention that these costs are difficult to track, however you have been provided detailed schedules that are used to track these costs.

The last sentence of the second paragraph of this section also states that "the problem identified in the allocation process further complicate this area." In the previous 4 drafts of this report, you have never mentioned that you had concerns with the allocation process. Could you please clarify this for us.

The bullet items noted on page 4 of the report are inaccurate as the information provided is incomplete and should be revised as follows:

* 550 Minute Calls - As noted earlier, we have figured out why we could not locate the same calls that Dave had found. This was due to human error and has been corrected. New reports have been run and they show all the calls, the three we found and two Dave found. As we previously noted on this issue, all five calls were made from FCA phones and there were no such calls like these recorded to any of the other user's accounts. There were also the result of an equipment problem at Bell Atlantic or user error. Since this only occurred 5 times during 1999 and on FCA's phones and no one else's phones, I am inclined to attribute it to user error.

* Indirect Telecommunication Costs - You have elected to include the verbiage on the telephone equipment and are again implying that this cost is based the number of staff which is incorrect. It is based on the phone sets in "place" and you continue to ignore the fact that there has to be telephones in the conference rooms, workrooms, file rooms, computer room and other such areas for FCA to function correctly. If you feel compelled to mention the equipment costs then I would suggest that you say something to the order of:

  That 8% or $24,000 of FCA's annual telephone costs is for equipment maintenance charges that are based on counts taken by the FCSBA. Currently, the Agency does not have a process to ensure that the FCSBA's counts are accurate or that all telsets currently installed are necessary. To that extent that the FCA has more telsets assigned to them than in actual use, could result in a higher cost to FCA than necessary.

* Local and Long Distance Calls Not Billed - Once again you are reporting only a portion of the facts on an issue. We have explained on a number of occasions that these calls do not register because they are being made to newly introduced area codes that have not been added to the Call Accounting system. This system is updated on a monthly basis at this time. We could go to weekly updates and that would eliminate the missed calls. However, this would increase FCA's cost an additional $1,200 to $1,500 a year.

* Billing Errors - I think it should be noted that other than the Denver trunk error, these were all one-time errors and not reoccurring practices. You have also again mentioned the charges for the Remote Access System. We have previously shown you that these charges are correct and they should be removed from the report.

* On page 5 in the second paragraph, I think it is more appropriate to say that the FCSBA is not tax exempt and that the bills include all federal state and local taxes and surcharges instead of using "passed through" verbiage. The use of "passed through" in this context denotes a negative connotation, which is not the case.