

# Office of Inspector General

Semiannual Report  
to the Congress

October 1, 1996  
through  
March 31, 1997



# TABLE OF CONTENTS

<b>SECTION I</b>	<b>FCA Semiannual Report to Congress</b>	<u>Page</u>
Reporting Requirements.....		1
Background.....		2
Audit Reports Issued.....		2
Status of Unimplemented Recommendations .....		4
Investigations.....		5
Legislation and Regulations.....		5
Other Activities.....		6
APPENDICES:		
Appendix I -- Audit Reports Issued by FCA OIG .....		7
Appendix Ia -- Inspector General Issued Reports with Questioned Costs .....		8
Appendix Ib -- Inspector General Issued Reports with Recommendations That Funds Be Put to Better Use.....		9
Appendix II -- Farm Credit Administration Organization Chart.....		10
Appendix III -- FCA Office of Inspector General Organization Chart.....		11

## **SECTION II**                      **FY 1996 OIG Performance Measures**

## REPORTING REQUIREMENTS

<u>ACT CITATION AND REQUIREMENT</u>	<u>PAGE</u>
Section 4(a)(2)      Review of Legislation and Regulations .....	5-6
Section 5(a)(1)      Significant Problems, Abuses and Deficiencies .....	none
Section 5(a)(2)      Recommendations With Respect to Significant Problems, Abuses and Deficiencies.....	none
Section 5(a)(3)      Prior Recommendations Not Yet Implemented .....	4
Section 5(a)(4)      Matters Referred to Prosecutive Authorities .....	none
Section 5(a)(5) and 6(b)(2)      Summary of Instances Where Information Was Unreasonably Refused or Not Provided .....	none
Section 5(a)(6)      List of OIG Audit Reports.....	2-3
Section 5(a)(7)      Summary of Each Particularly Significant Report .....	2-4
Section 5(a)(8)      Statistical Table on Management Decisions on Questioned Costs.....	8
Section 5(a)(9)      Statistical Table on Management Decisions on Recommendations That Funds Be Put to Better Use.....	9
Section 5(a)(10)      Summary of Each Audit Over Six Months Old for Which No Management Decision Has Been Made .....	4
Section 5(a)(11)      Significant Revised Management Decisions .....	none
Section 5(a)(12)      Significant Management Decisions With Which the Inspector General Disagrees .....	3-4

## BACKGROUND

The Farm Credit Administration (FCA) is an independent Federal agency of the United States government responsible for the regulation, examination and supervision of institutions chartered under the Farm Credit Act of 1971. FCA is a non-appropriated agency with a fiscal year (FY) 1997 budget of \$36,200,000 for administrative costs of the Agency. The FY 1997 budget for the Office of Inspector General (OIG) is \$753,000.

FCA currently has 330 established positions, about half of which are examiners located at six field offices throughout the country. Also included in the established Agency positions are the seven approved positions for the OIG. Appendix II displays the current organizational structure of FCA and Appendix III displays the OIG within that structure.

FCA is a "designated Federal entity" within the meaning of the Inspector General Act of 1978, as amended. The Inspector General is appointed by and is under the general supervision of the Chairman of the FCA Board (Chairman).

## AUDIT REPORTS ISSUED

Audits are conducted in accordance with audit standards established by the Comptroller General of the United States for audits of Federal organizations, programs, activities and functions. Two audit reports were issued during this reporting period and are summarized below.

### ***OIG STAFF AUDIT***

#### **Agency Time Tracking System (ATTS).**

The objectives of the audit were to: document management's needs and expectations for time tracking and project management information; evaluate whether the information provided is accurate, complete and addresses management's needs and expectations; evaluate the process for collecting and recording information; perform benchmarking of other agencies and organizations; and determine how managerial cost accounting standards promulgated by the Federal Accounting Standards Advisory Board and the Office of Management and Budget will impact FCA's need for time tracking and cost accumulation data.

We concluded that ATTS, as currently configured, was unnecessarily complex and cumbersome and, as a result, has not fully met its intended purpose. Also, the related information is inaccurate. The cause of these weaknesses is largely due to the time tracking system being combined with the payroll system.

Factors contributing to the *complexity* and *user difficulties* at all levels include:

- ATTS is not organized in a logical scheme that would facilitate recording and reporting,
- data is collected in excessive detail, and
- reporting categories are established for efforts involving small amounts of time.

Factors contributing to the *inaccuracy* of the data include;

- constraints imposed by ATTS,
- human factors attendant to using a cumbersome system,
- unclear responsibility for the management and oversight of ATTS, and
- managers are not held accountable for the integrity of the data.

ATTS is scheduled to be migrated to the client/server computer architecture by September 30, 1997. The ATTS should not be migrated to a client/server environment until FCA makes a number of decisions concerning the current problems with the time tracking system and its associated applications and interfaces.

The report presented a total of six recommendations, all of which have been agreed to by management.

### ***CONTRACTED AUDIT***

#### **FCA's Financial Statements for Fiscal Years Ended 1996 and 1995.**

The OIG contracted with the independent accounting firm of Urbach Kahn & Werlin PC (UKW), Certified Public Accountants, to audit FCA's statements of financial position as of September 30, 1996, the related statements of operations and changes in net position, and cash flows for the years then ended. UKW expressed an unqualified opinion on these financial statements.

UKW also issued two reports dated November 7, 1996, on FCA's internal control structure and its compliance with laws and regulations. The report on internal control structure disclosed no material weaknesses in internal controls; however, it did disclose conditions existing during fiscal year 1996 which UKW considered to be reportable. Specifically, UKW reported that: 1) FCA's core financial management system does not comply with the requirements of OMB Circular A-127 or the JFMIP core financial management system requirements and lacks properly designed controls, and 2) the controls in property management need improvement.

The report on compliance with laws and regulations disclosed two instances of noncompliance with applicable laws and regulations that are required to be reported under Government Auditing Standards. Specifically, UKW reported that interest due under the Prompt Payment Act was not always paid by FCA (in approximately 500 out of 5,000 payments to FCA vendors), and that material nonconformances of FCA's core financial management system were not reported in

FCA's annual Federal Managers' Financial Integrity Act (FMFIA) report submitted in fiscal year 1996.

Management disagreed with UKW's conclusion that weaknesses in FCA's core financial management system (GLOWS) were significant enough to be a "reportable condition" although management did acknowledge the existence of "some problems." In addition, management stated "the Agency did not violate FMFIA and no material weaknesses of the GLOWS system existed either then or now." The OIG maintains that UKW's position is accurate.

The report presented a total of four formal recommendations, all of which have been agreed to by management.

### ***SPECIAL AUDIT PROJECT***

#### **Survey of Farm Credit System (FCS) Institutions.**

OIG administers an ongoing survey of the regulated institutions of the FCS. This survey program is designed to provide the FCA Board with independent feedback concerning how well FCA is performing its examination and enforcement activities. OIG administers and reports the results of the survey to assure the confidential treatment of individual responses from FCS institutions. The chairman of the board and the chief executive officer of each FCS institution is surveyed following their receipt of the report of examination to solicit their voluntary feedback on the quality and consistency of the examination/enforcement process. During this reporting period, two quarterly status reports and one annual report was provided to the FCA Board.

## **STATUS OF UNIMPLEMENTED AUDIT RECOMMENDATIONS**

During this reporting period, management completed efforts begun during the preceding reporting period to eliminate a long standing backlog of unimplemented audit recommendations. This was accomplished by final action being taken on an open recommendation from the report on Conformance Review of the Financial Management System, issued March 30, 1995. In addition, final action was taken on two of the four recommendations from the report on FCA's Practices versus FCA's Expectations of Farm Credit System Institutions, issued on September 26, 1996.

The remaining 12 unimplemented recommendations include the two remaining from the report on FCA's Practices versus FCA's Expectations of Farm Credit System Institutions, issued late in the previous reporting period. The other ten are from the current period: four from the November 27, 1996 report on FCA Financial Statements for Fiscal Years Ended 1996 and 1995 and six from the January 16, 1997 report on the Agency Time Tracking System (ATTS). It is expected that management will have a continued commitment to timely corrective action on all open recommendations.

## INVESTIGATIONS

At the beginning of this reporting period there were five open investigations. One additional investigation was opened during this period. Of those six investigations, two were closed during this six-month period as follows:

- An allegation was made that a former FCA employee received payments beyond what is allowable upon the employee's departure from the Government. A thorough review of the employee's personnel documentation revealed that no such inappropriate payments were made and no violations of law occurred when the employee was offered an early retirement option.
- A projector with an estimated value of \$4,000 was reported as missing during business hours from FCA Headquarters. The projector was subsequently returned from an unauthorized area by a person outside of FCA. We found no intentional wrongdoing; however, we did find weaknesses in FCA's controls over the storage and accountability of the projectors. The OIG reported those weaknesses to management along with recommendations to strengthen property controls over the projectors.

At the close of this reporting period three investigations remain active and one investigation remains open awaiting a response from management. The inactive investigation remains open because numerous infractions were found in a division which we believe would best be resolved through a comprehensive management solution rather than addressing each infraction individually. Management has stated their commitment to resolve the problems in this division through a comprehensive plan that will begin in May of this year and be completed before the end of this fiscal year.

The OIG Hotline received 73 calls or walk-ins during this period. Five of the calls concerned fraud in programs other than those under FCA's jurisdiction and were referred to the appropriate agency. Ten calls dealt with Farm Credit System borrower complaints and were either referred to the FCA division responsible for reviewing such matters or are awaiting further information from the complainant. Four calls alleged problems internal to FCA; one resulted in the opening of an investigation and a second is in the preliminary review stage. The remaining 54 Hotline calls warranted neither investigative action nor referral.

## LEGISLATION AND REGULATIONS

During this period, OIG filed a report with the Chairmen on the Senate Committee for Governmental Affairs and the House Committee on Governmental Reform and Oversight concerning the Agency's non-use of Administratively Uncontrollable Overtime. This report was required by Section 650 of the Treasury, Postal Service and General Government Appropriations Act of 1997.

OIG reviewed and furnished comments on four FCA regulations as well as various Agency policies and directives.

## **OTHER ACTIVITIES**

OIG staff are encouraged to participate in organizations which contribute to the mission of the Inspector General community. Most staff are actively involved in one or more professional organizations in addition to ad hoc activities of the Executive Council on Integrity and Efficiency/President's Council on Integrity and Efficiency (ECIE/PCIE) including:

Counsel to the Inspector General chairs the Legislative Committee of the ECIE/PCIE Council of Counsels to Inspectors General.

The Assistant Inspector General for Audit serves as the Small Agency Council representative on the CFO Council Financial Systems Committee, is a member of the Core Group for IGSNet/FinanceNet, serves as a guest instructor at the Inspector General Auditor Training Institute (IGATI), and is a member of the USDA Graduate School Financial Management Advisory Board.

A senior auditor is detailed to the IGATI to serve as an instructor for one year.

The Administrative Officer served on the subcommittee of the PCIE Federal Training Network.



**APPENDIX I**

**AUDIT REPORTS ISSUED BY FCA OIG**

October 1, 1996 to March 31, 1997

<b>AUDIT REPORTS</b>	<b>Number of Recommendations</b>	<b>Questioned Costs</b>	<b>Recommendations That Funds Be Put to Better Use</b>
Agency Time Tracking System	6	\$ 0	\$ 0
FY 1996 and 1995 Financial Statements	4	0	0
Total	10	\$ 0	\$ 0

**INSPECTOR GENERAL ISSUED REPORTS  
WITH QUESTIONED COSTS**

	Number		Dollar Value	
	Reports	Recs.	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period	0	0	\$ 0	\$ 0
B. Which were issued during the reporting period	0	0	0	0
Subtotals (A+B)	0	0	0	0
C. For which a management decision was made during the reporting period	0	0	0	0
(i) dollar value of disallowed costs	0	0	0	0
(ii) dollar value of costs not disallowed	0	0	0	0
D. For which no management decision has been made by the end of the reporting period	0	0	0	0
E. For which no management decision was made within six months of issuance	0	0	0	0

**INSPECTOR GENERAL ISSUED REPORTS WITH  
RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	Number		Dollar Value
	Reports	Recs.	
A. For which no management decision has been made by the commencement of the reporting period	1	1	\$53,400
B. Which were issued during the reporting period	0	0	0
Subtotals (A + B)	1	1	\$53,400
C. For which a management decision was made during the reporting period	0	0	0
(i) dollar value of recommendations that were agreed to by management	1	1	\$53,400
-- based on proposed management action	1	1	\$53,400
-- based on proposed legislative action	0	0	0
(ii) dollar value of recommendations that were not agreed to by management	0	0	0
D. For which no management decision has been made by the end of the reporting period	0	0	0
E. Reports for which no management decision was made within six months of issuance	0	0	0