

Office of Inspector General

Semiannual Report
to the Congress

October 1, 1997
through
March 31, 1998



April 28, 1998

The Honorable Marsha Pyle Martin
Chairman of the Board and
Chief Executive Officer
Farm Credit Administration
McLean, Virginia

Dear Ms. Martin:

This semiannual report is submitted in accordance with the Inspector General Act of 1978, as amended (Act), and is the eighteenth report on the activities of the Farm Credit Administration's (FCA) Office of Inspector General (OIG) since the office was created on January 22, 1989. Section 5(b) of the Act requires that this report be submitted to the appropriate Congressional committees and subcommittees within 30 days after the date of this transmittal, together with management's report on the status of audit recommendations.

The program management of FCA continues to benefit by your positive response to and support for improvements offered through various OIG products. Your leadership also enhances the productive working relationship between OIG and management.

Respectfully,

Eldon W. Stoehr
Inspector General

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BACKGROUND

The Farm Credit Administration (FCA or Agency) 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, as amended. FCA is a non-appropriated agency with a fiscal year (FY) 1998 budget of \$34,423,000 for administrative costs of the Agency. The FY 1998 budget for the Office of Inspector General (OIG) is \$710,433.

FCA currently has 310.5 established positions, about half of which are examiners located at five field offices. Also included in the established Agency positions are the five 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. Copies of these reports are available by contacting the OIG on 703/883-4030 or via email at BURRJ@FCA.GOV.

OIG STAFF AUDIT

FCA’s Regulation Development Process

The objective of this audit was to identify ways in which the current process could be improved to make it more efficient and effective. The audit documented FCA’s current regulation development practices and benchmarked them against those of other financial regulators, particularly in the use of innovative rulemaking techniques. We also interviewed FCA staff involved in the process to obtain their views about how well the current practices work and their suggestions for how they might be improved.

We found that FCA’s regulation development activities compared very favorably with the other Federal financial regulators. The process and organization of FCA’s regulation development activities have evolved over the past two years as Agency leadership has taken action to streamline and better define areas of responsibility in developing regulations. Participating Agency staff provided favorable feedback about the process and their role in it. There was also evidence of improved communication between the staff members involved in these activities, particularly between those individuals involved in the review and approval of draft regulations.

Recent revisions to policy and procedures are directed at early identification of issues and managing the editing process.

No recommendations were presented in the report; however, we suggested that the FCA Board consider: 1) enhancing the outreach program to become more “user friendly,” 2) endorsing the use of clear and plain language in the writing of regulations, and 3) increasing the use of technology as a means of achieving FCA Strategic Plan initiatives to improve the Agency’s regulatory programs.

CONTRACTED AUDIT

Audit of FCA’s FY 1997 Financial Statements

The OIG contracted with the independent accounting firm of Tichenor & Associates, Certified Public Accountants and Management Consultants (Tichenor & Associates), to audit FCA’s FY 1997 financial statements. Tichenor & Associates opined that the Agency’s financial statements “...present fairly, in all material respects, the financial position of Farm Credit Administration as of September 30, 1997, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.”

In accordance with Government Auditing Standards, Tichenor & Associates also issued reports on: 1) FCA’s internal control structure, and 2) the Agency’s compliance with laws and regulations. The report on internal control structure disclosed no material weaknesses; however, it did disclose two reportable conditions. The reportable conditions Tichenor & Associates found were: 1) inadequate procedures for recording asset acquisition and disposal in the financial management system, and 2) inadequate segregation of duties over payroll processing and personnel actions. The report on compliance disclosed no instances of noncompliance with applicable laws and regulations.

Two recommendations were made to address the reportable conditions identified. Management agreed with both recommendations.

STATUS OF UNIMPLEMENTED AUDIT RECOMMENDATIONS

Audit recommendations were addressed through management decisions in a timely manner and the number of open recommendations was substantially reduced. Nevertheless, at the end of this reporting period, two open recommendations still exceed the 12-month criteria for completion of final corrective action established by section 5 of the Inspector General Act of 1978, as amended.

Final action was taken on the following recommendations: one from the report on FCA’s Practices versus FCA’s Expectations of Farm Credit System Institutions issued September 26, 1996; one from the report on FCA Financial Statements for Fiscal Years Ended 1996 and 1995 issued November 27, 1996; four from the report on the Agency Time Tracking System (ATTS)

issued January 16, 1997; five from the report on FCA's Use of Task Forces which was issued September 15, 1997; and one from the report on Audit of FCA's FY 1997 Financial Statements issued November 14, 1997.

The three recommendations still open at the close of the reporting period are as follows: two remaining from the report on Agency Time Tracking System (ATTS) and one from the report on Audit of FCA's FY 1997 Financial Statements. Management has agreed with each of these recommendations.

AGENCY FINANCIAL MANAGEMENT SYSTEMS

The Federal Financial Management Improvement Act of 1996 requires agencies to implement and maintain financial management systems that substantially comply with Federal financial management requirements, government accounting standards, and the U.S. Government standard general ledger. This Act also requires the OIG to report on the Agency's compliance.

FCA implemented off-the-shelf software in FY 1994, which was sufficient to support unqualified opinions on the financial statements for fiscal years 1994, 1995, 1996, and 1997. However, the auditors did identify some systemic weaknesses in that software, which were deemed a reportable condition in FY 1996. During FY 1997, management selected new, highly advanced replacement software, which is designed to satisfy all of the above mentioned Federal systems requirements. The configuration, data conversion, testing, and implementation process began in early FY 1998 and management expects to run the new software in parallel with the present software for final acceptance evaluation during the third quarter of this fiscal year.

INVESTIGATIONS

There were three open investigations at the beginning of this reporting period. No additional investigations were opened during this reporting period. One of the three investigations open at the beginning of this period was closed during this six-month period.

The investigation closed during this period concerned allegations of violations of Federal personnel law and administrative weaknesses reported in an earlier period. Management took the final actions required to resolve the problems that led to the allegations of wrongdoing. At the close of this reporting period, two investigations remain open.

The OIG Hotline received twelve calls or walk-ins during this period which required action by this office. Three of the calls dealt with Farm Credit System borrower complaints and were either referred to the FCA division responsible for investigating such matters or we are awaiting further information from the complainant.

Three hotline calls concerned fraud in programs other than those under FCA's jurisdiction and were referred to the appropriate agency. Two calls concerned complaints/allegations internal to FCA. One concern was successfully resolved without necessitating a formal investigation. The second was reviewed but did not contain sufficient information to pursue or warrant opening a case. The remainder of the Hotline calls required no investigative action by the OIG.

LEGISLATION AND REGULATIONS

During this reporting period, OIG continued to track legislation of interest to the Inspector General community, the Agency and the Federal government. We are closely tracking the proposed amendments to the Government Performance and Results Act (H.R. 2883). OIG reviewed one proposed Agency regulation.

OTHER ACTIVITIES

Initiatives to Prevent Fraud, Waste, Abuse, and Mismanagement

We have begun an inspection program of FCA's five field offices designed to review the operations of field offices and provide feedback to field office directors and Agency management. These inspections will report on weaknesses found and provide recommendations for preventing fraud and waste in field offices as well as the Agency as a whole.

Our first inspection disclosed a few areas common to all FCA offices where improved controls could help prevent and/or deter wrongdoing. Our findings and related recommendations will be forwarded to Agency management for action. In the specific field office, we found a few instances of noncompliance in the administrative areas; however, none posed a risk to their operations and no inappropriate payments/actions were taken as a result of the noncompliance. Our inspection included a review of administrative processes but focused on controls and procedures, which ensure the physical safety of our field office employees. The security of equipment and information located away from headquarters was also reviewed.

We also reviewed various operational processes of the examination function. We identified a few opportunities for improvement in our first inspection. Future inspection results will assess whether these areas are isolated in one office or more widespread and what actions, if any, need to be taken.

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 are surveyed following their receipt of FCA's report of examination to solicit their voluntary feedback on the quality and consistency of the examination/enforcement processes. During this reporting period, 84 surveys were mailed out and 64 responses were received from institutions, a 76% response rate.

OIG Performance Measures

OIG developed performance measures during FY 1995 and implemented them in FY 1996. We have refined the measures in each subsequent year and have issued performance reports for both FY 1996 and 1997. We have revised OIG's time reporting system for FY 1998 to accumulate better data to support the measures.

Staff Participation in Activities of the Professional Community

OIG staff are encouraged to participate in organizations which contribute to the mission of the Inspector General community as well as their individual professional development. 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.

APPENDIX I

AUDIT REPORTS ISSUED BY FCA OIG

AUDIT REPORTS	Number of Recommendations	Questioned Costs	Recommendations That Funds Be Put to Better Use
FCA's Regulation Development Process	0	\$ 0	\$ 0
Audit of FCA's FY 1997 Financial Statements	2	0	0
Total	2	\$ 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	0	0	\$0
B. Which were issued during the reporting period	0	0	0
Subtotals (A + B)	0	0	0
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	0	0	0
-- based on proposed management action	0	0	0
-- 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. For which no management decision was made within six months of issuance	0	0	0