

Office of Inspector General

Semiannual Report
to the Congress

October 1, 2005
to
March 31, 2006



*Number 34
April 2006*



April 20, 2006

The Honorable Nancy C. Pellett
Chairman of the Board
Farm Credit Administration
McLean, Virginia 22102

Dear Chairman Pellett:

Enclosed is the semiannual report on the activities of the Farm Credit Administration's (FCA or Agency) Office of Inspector General (OIG) for the period October 1, 2005 through March 31, 2006. I am filing this report in accordance with the Inspector General Act of 1978, as amended (IG Act). Section 5(b) of the IG Act requires that you send this report to the appropriate Congressional committees and subcommittees within 30 days after the date of this transmittal along with management's report on the status of audit recommendations.

I am confident that the Agency will continue its commitment to address the management challenges delineated in this report and to implement open action items. During this reporting period, eight previously open action items were closed. Three closures resulted from FCA Board revisions to its operational policy. Two resulted from actions to strengthen project management for the implementation of financial systems. One closed due to management actions to review the job classification system. Two closed based on management's revisions to the call report review process.

This is the thirty-fourth report since creation of the OIG on January 22, 1989. I look forward to continuing to work with you, the FCA Board and FCA managers in the furtherance of these positive trends. I view the relationship between the OIG and your office as a partnership to strive to continually strengthen Agency operations.

Respectfully,

Carl A. Clinefelter

Carl A. Clinefelter
Inspector General

Enclosure

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EXECUTIVE SUMMARY

This Semiannual Report to the Congress summarizes the activities and accomplishments of the Farm Credit Administration's (FCA or Agency) Office of Inspector General (OIG) and covers the period October 1, 2005 through March 31, 2006. Our efforts were directed toward performing audits, inspections, and evaluations of FCA programs and operations; conducting investigations, as necessary; and providing technical assistance and advice on FCA programs.

FCA Chairman and Chief Executive Officer, Nancy C. Pellett, continued the implementation of changes in the Agency's senior management and organizational structure. These changes were based on extensive studies of FCA operations and structure concluded in 2005. As a result, many Agency operations and processes have undergone reengineering, all designed to improve Agency performance. The OIG's audit plan for 2006-2007 includes a review of the more significant of these reengineered operations and processes.

The Chairman continues to demonstrate a commitment to resolve open OIG recommendations and agreed upon actions and to address the management challenges delineated in this report. The Agency remains in a cycle of change that is creating the opportunity for the further strengthening of Agency performance and effectiveness as a Federal financial regulator. However, additional time will be required before the results of these major organizational, personnel, and process changes may be fully measured.

BACKGROUND

FCA is an independent Federal agency of the United States government responsible for the regulation and examination of Farm Credit System (FCS or System) institutions chartered under the Farm Credit Act of 1971, as amended (Farm Credit Act). FCA is also a “designated Federal entity” within the meaning of the Inspector General Act of 1978, as amended (IG Act).

As a non-appropriated agency, FCA funds its expenses primarily through assessments to the institutions it regulates. The Agency’s fiscal year (FY) 2006 budget is \$45.5 million. Assessments by FCA to FCS institutions for FY 2006 totaled \$40.5 million with other sources of funding totaling \$5.0 million. The OIG’s FY 2006 budget is \$998,248.

At the end of the semiannual period, FCA had 247 employees, about half of which are examiners located in five field offices. This is a 5.4 percent decrease in staffing during this reporting period and an 11.2 percent decrease from the same reporting period last year.

The OIG maintains five positions. During this reporting period, the OIG’s investigator took another position in the Agency. As a result, the OIG restructured the investigator position into an audit/inspection position. Counsel to the FCA Inspector General (IG) has assumed the added responsibilities of investigative matters. Appendix E and Appendix F display the organizational structure of FCA and the OIG, respectively.

MANAGEMENT CHALLENGES

This part of the semiannual report highlights major challenges confronting the Agency as it works to fulfill its mission. While many of these challenges have remained for several years, new challenges have arisen with recent restructuring within the Agency and with new initiatives within the FCS. While some are outside the Agency’s control, most can be addressed through concerted action by Agency management.

Over the past year, the OIG has observed progress by FCA management in addressing many challenges. A major facilitator in addressing challenges were the strategic studies completed in 2005. The results of these studies enabled significant organizational change.

For example, the completion of these studies, combined with the prior (2004) transition to a new Chief Examiner, has resulted in a substantive transformation in the Office of Examination’s organization and operating methodology. These changes are ongoing and will take some time to become fully institutionalized and reach full efficiency.

Another substantive change was to reconsolidate into a single office, the Office of Management Services (OMS), the Agency's personnel, financial, and information technology functions under the umbrella of a new manager who will also serve as the Chief Financial Officer. This was also a proactive FCA Board action that is already evidencing positive results. Strategic improvement for the Agency in the human capital and financial areas, in particular, should be enhanced by this transition.

Comprehensive changes have also occurred over the past year in the Office of Regulatory Policy in terms of leadership, organization, staffing and processes. Several other offices have also experienced leadership and organizational changes.

The FCA Board's goal in catalyzing these changes is to improve the operating efficiency of the Agency and ensure its mission achievement.

Human Capital

In March 2001, the OIG recommended FCA develop a human capital plan. FCA management agreed to this recommendation. Under Chairman Pellett's leadership, senior managers have focused on the challenge of marshalling, managing, and maintaining human capital to assure accountability and maximize FCA performance. While FCA still does not have a human capital plan, the Agency has made a significant investment in strategic studies that can serve as the plan's foundation. The objective of the strategic studies was to create a picture of the System and the credit needs of rural America in 5 to 7 years and identify organizational and human capital opportunities for the Agency to ensure FCA remains an effective regulator into the future.

While FCA has made substantive strides in transforming the strategic studies into management actions (organizational changes and process improvements) to achieve better efficiency and organizational results, the challenge remains to complete the transformation. How FCA completes this macro-Agency transformation to increase efficiency and ensure continued mission accomplishment will be driven by human capital.

Thus, the capstone to this Agencywide evolution should be a long-term human capital plan that incorporates the elements recommended in the OIG's Audit A00-04, Performance Budgeting, issued in March 2001. A critical component of managing human capital is providing for management succession. Individuals with the potential to become managers should be identified, provided developmental opportunities and, when appropriate, promoted to higher positions. This, as part of a human capital plan, should be linked to the Agency's Strategic Plan for long-term achievement of the Agency's mission.

Financial Management

Timely, accurate, and useful financial information is essential for:

- making day-to-day decisions;
- managing the Agency's operations more efficiently, effectively, and economically;
- supporting results-oriented management approaches; and
- ensuring accountability on an ongoing basis.

During FY 2001, FCA successfully implemented a financial management system using the services of the Department of Interior's National Business Center. During September 2003, the Agency decided to reprogram funds and purchase a new financial system. Management originally scheduled implementation of the new system during FY 2004. In September 2004, the OIG issued an inspection report that showed significant improvements were needed in the project management of this new financial management system to successfully complete implementation. In July 2005, the new director of OMS put this project on hold until a reevaluation of this new system could be made.

In subsequent months, culminating in November 2005, a decision was reached to not move forward with the implementation of the new financial management system but to enter into an agreement with the Bureau of the Public Debt for financial services. Such services include financial, travel, and procurement. The contractual time period of the agreement is April 1 through September 30, 2006.

Management's challenge with this outsourcing is to manage the agreement with the service provider to ensure that needed services are provided timely and efficiently and that the financial services provided enable Agency managers to better manage resources. Additionally, management must ensure Agency employees are properly trained with respect to new procedures regarding travel, procurement, and contracting. Efforts in this regard have already been initiated.

In concert with this transition, OMS should develop measures of financial management success such as delivering financial information that managers can use for day-to-day operations, and developing reports that capture the full cost of programs and projects.

Leveraging Technology

Information technology (IT) is a key element of management reform efforts that can help dramatically reshape government to improve performance and reduce costs. The Agency has recognized that in order to meet the constraints of its budget, it must be able to maximize its return on investment in technology. FCA's challenge is to establish effective mechanisms to ensure that current and future members of staff have the skills to use technology to operate in an efficient and effective manner.

Internally, there is an opportunity for IT to complement human capital initiatives to reformulate the work processes of FCA. Several IT initiatives to promote efficiency in work processes have already been implemented by OMS management, including electronic leave requests and automated supervisor approval of time and attendance reporting. The use of IT to complement human capital initiatives also includes an opportunity to capture knowledge of employees who are terminating employment, for any reason. Recognizing this, the OIG conducted an audit and issued a report in February 2006 on opportunities in this matter titled Records Management and Preservation of Institutional Knowledge. The report included several action items geared to enhance the Agency's efforts in this regard. In order to take advantage of these opportunities, FCA will need to invest in training and reward employees who are able to develop innovative approaches to accomplish Agency goals using technology.

Externally, E-Government offers many opportunities to better serve the public, make FCA more efficient and effective, and reduce costs. FCA has begun to implement some E-Government applications, including the use of the Internet to collect and disseminate information and forms. FCA's challenge is to develop additional E-Government strategies, including partnering with other agencies in this endeavor.

Agency Governance

The Farm Credit Act provides for a full-time three-member FCA Board. The members are appointed by the President and confirmed by the Senate. A full-time three-member FCA Board for this relatively small Agency presents a challenge in defining the roles and responsibilities of the members relative to the governance of the Agency. The FCA Board must be able to engage in professional policy debate and set a sound course for the Agency. Its rules of operation are a foundation for trust and shared expectations among FCA Board members. A collegial FCA Board, founded on mutual trust and respect, is essential to FCA's ultimate effectiveness.

The Chairman took action to address this challenge by sharing authority and tasking a member with the responsibility to lead the FCA Board in its efforts on governance issues as they apply to System institutions. This resulted in a final rule on governance approved by the FCA Board on January 6, 2006. Also, the FCA Board's operational policy has been revised and captures current rules and processes related to its transaction of business.

FCA Board Committee Structure

A key revision to the FCA Board's operational policy was the establishment of three committees intended to assist the FCA Board in its oversight and approval of the Strategic Plan, formulation of regulations and policy, and monitoring and assessment of risk. The committees are Strategic Planning, Regulation and Policy Development, and Risk. The committees are to be comprised of FCA Board staff and Agency staff, and organizationally report to the FCA Board. The challenge to the FCA Board will

be to ensure the committees become fully operational and yield the desired intent, i.e., provide assistance to the FCA Board in the fulfillment of its duties.

Strategic Planning

The FCA Board adopted its 2004-2009 Strategic Plan in December 2003. Since adoption, the Agency has a new Chairman and a new FCA Board member. These changes in leadership provide an opportunity to revise the plan to ensure the FCA Board's vision is incorporated. The establishment of the Strategic Planning Committee provides the FCA Board a clear avenue to periodically review and update, as appropriate, its strategic plan.

The FCA Board refined the performance measures in January 2005. FCA should evaluate its performance measures on an ongoing basis to ensure that they challenge and stretch the organization. Performance measures can be a powerful tool to continue the push into a results-oriented organization. An effective performance management system fosters performance and accountability at the individual, organizational, and ultimately overall Agency levels.

A Changing Environment

The System is a single industry lender and is vulnerable to economic swings. However, the FCS remains sound in all material respects. Earnings and capital levels have continued to strengthen and asset quality remains high. Nevertheless, there are many challenges facing agriculture and rural America today that raise the question of whether there should be modifications to the Farm Credit Act in order to enhance agricultural and rural economies of the future.

In the early 1990s, the Government Accountability Office (GAO) conducted a comprehensive study of the cost and availability of credit in rural America.¹ The GAO concluded that the System did not need new statutory authorities in the near term, but that ongoing structural changes in agriculture and rural America could justify such changes in the longer term. GAO noted that over time, as agriculture and rural America continue to change, the System's charter may need to be updated to ensure the System is not hampered by outdated legislation. In its ongoing effort to provide a fair regulatory environment within which the FCS may achieve its mission, the FCA Board has encouraged the full utilization of the Farm Credit Act by System institutions through, for example, their use of existing authority to make investments in enterprises that benefit rural America. Additionally, the FCA Board commissioned a comprehensive study by staff to determine whether the Agency's current guidelines on System institutions' involvement in loan syndications should be revised.

The FCA must balance the often competing demands of ensuring the FCS fulfills its public policy purpose, proactively examining risk in the regulated institutions both

¹ GAO/GGD-94-39 Farm Credit System Repayment of Federal Assistance and Competitive Position, March 1994.

individually and systemically, and controlling the cost of the regulator. FCA's challenge is complex because it has become increasingly difficult to reconcile significant provisions of the Farm Credit Act with the realities of the agricultural industry, the business environment, and financial markets in the 21ST Century.

AUDIT AND INSPECTION REPORTS ISSUED

We conduct all audits in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States for audits of Federal organizations, programs, activities, and functions. Inspections are in accordance with the *President's Council on Integrity and Efficiency's Quality Standards for Inspections*. Copies of most OIG reports are available on FCA OIG Web site (www.fca.gov/oig), or by contacting the OIG at (703) 883-4030, (703) 883-4359 for TTY, or by e-mail at ig_information@fca.gov.

Records Management and Preservation of Institutional Knowledge

In February 2006, the OIG issued an audit report on Records Management and Preservation of Institutional Knowledge. We found the Agency has policies, procedures, and controls for capturing information; however, policies and procedures need to be continually reexamined to ensure that approaches for capturing information, particularly electronic applications, are kept current and that the information maintained is relevant and useful. With the ever-changing business environment, the Agency needs to continually reassess its range of strategies for capturing, maintaining and sharing information internally.

Independent Financial Audit for FY 2005

The Accountability of Tax Dollars Act of 2002 extended to FCA and certain other agencies a requirement to submit to the Congress and the Office of Management and Budget (OMB) an audited financial statement each fiscal year. Also, the President's Management Agenda states agencies must continue to improve their financial performance by improving timeliness, enhancing usefulness, and ensuring reliability by obtaining and sustaining a clean audit opinion.

In continuing to assist the Agency in meeting these requirements, the OIG contracted with Harper, Rains, Knight & Company, P.A. (HRK) to perform the audit of FCA's financial statements for the FY 2005. The audit delivered a clean opinion and was issued November 4, 2005, meeting OMB's reporting guideline.

Independent Federal Information Security Management Act (FISMA) Review for FY 2005

The OIG contracted with HRK to also perform a review of the Agency's information security program's compliance with FISMA for FY 2005. The evaluation was performed using guidelines established by FISMA, OMB Circular

A-130, GAO's Federal Information System Controls Audit Manual, and the National Institute of Standards and Technology. HRK found no exceptions during the evaluation of FCA's compliance with FISMA.

AUDIT AND INSPECTION REPORTS IN PROGRESS

Independent Financial Audit and FISMA Review for FY 2006

The OIG has begun planning discussions with HRK relating to the FY 2006 audit of the Agency's financial statements and FISMA review. The Bureau of the Public Debt in Parkersburg, WV, will be handling most of the financial services for the Agency.

STATUS OF UNIMPLEMENTED RECOMMENDATIONS

At the beginning of the period, there were 13 unimplemented agreed upon actions or recommendations from audits. During this period, four agreed upon actions were issued. Three agreed upon actions were closed by management. At the end of this reporting period, 12 agreed upon actions and 2 recommendations remain unimplemented from audits.

Audits

The following table summarizes the final actions management took on open audit items.

Audit Agreed-Upon Actions and Recommendations				
Audit Report	Issued	Open during this 6-month period	Final Management Actions during this period	Open on 04/01/2006
Performance Budgeting	03/23/01	2	0	2
Office of Chief Financial Officer	01/24/02	2	0	2
Loan Account Reporting System	08/28/03	4	0	4
Human Capital: Job Classification	06/29/04	1	1	0
Call Report Data Verification	02/03/05	2	2	0
Performance Measures and Internal Controls	07/01/05	2	0	2
Records Management & Preservation of Institutional Knowledge	02/21/06	4	0	4
Total		17	3	14

The OIG issued audit reports on Performance Budgeting over 5 years ago and on the Office of Chief Financial Officer more than 4 years ago. Two of the original agreed upon actions from each of these reports remain open.

The OIG issued an audit report on the quarterly collection of detailed borrower data (Loan Account Reporting Data) 2½ years ago that included nine action items. Since the report's issuance, five action items have been closed and four remain open.

The audit report on Human Capital: Job Classification had one remaining action item open at the beginning of the period. Management implemented corrective steps and this was closed.

The audit report on Call Report Data Verification had two remaining action items open at the beginning of this reporting period. Management provided documentation to successfully close these action items.

The audit report on Performance Measures and Internal Controls has two action items that remain open.

The audit report issued in February 2006 on Records Management and Preservation of Institutional Knowledge has four agreed upon actions, all of which remain open at the end of this reporting period.

Inspections

At the beginning of the period, there were 5 unimplemented recommendations from inspections. Management took action to close all 5 recommendations. There are no unimplemented recommendations open at the end of the period.

Inspection Agreed-Upon Actions and Recommendations				
Inspection Report	Issued	Open during this 6-month period	Final Management Actions during this period	Open on 04/01/2006
FCA Board Policies	09/15/03	3	3	0
Project Management	09/09/04	2	2	0
Total		5	5	0

INVESTIGATIONS

OIG Hotline calls and e-mails dealing with borrower complaints concerning FCS institutions and other FCS issues were referred to the FCA office or other Federal agency responsible for reviewing such matters.

No investigations were open at the beginning of this reporting period and none were opened during the reporting period.

LEGISLATION AND REGULATIONS

In the furtherance of the OIG's mandate to review existing and proposed legislation and regulations, the IG or Counsel to the IG attends joint briefings of the Board on regulations at the proposed and final stages. The Counsel attended joint briefings on governance (final rule), disclosure and reporting requirements (proposed rule), and regulatory burden (proposed rule and *Federal Register* notice).

OTHER ACTIVITIES

Audit Follow-Up Official

FCA's recent reorganization efforts resulted in the reassignment of the responsibilities of Audit Follow-up Official to the Secretary to the Board.

Observations

During this reporting period, the OIG continued the use of Observations to provide feedback to management on issues that come to our attention during while performing other OIG work. In this regard, we issued an Observation to the OMS regarding computer banners. In this 6-month period, we consulted with OMB on privacy legislation and the need for a third party review of Agency use of information and data protection procedures but did not issue an Observation on the matter.

Survey of Farm Credit System Institutions

OIG administers an ongoing survey of the regulated institutions of the FCS. The survey measures the quality and consistency of the Agency's examination and enforcement functions. During this 6-month period, we sent 38 surveys and received 17 responses, a 45 percent response rate. During this reporting period there were no enforcement actions. Overall, Farm Credit institutions continued to provide favorable ratings. The OIG issues a report at the end of the FY to Agency management on the results of all surveys returned. We are working with OE management to reengineer the survey process based on new examination methodologies.

Peer Review

We completed a peer review of the National Labor Relations Board's Office of Inspector General's (NLRB/OIG) audit function in accordance with guidelines issued by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). The review determined that the NLRB/OIG's audit function was in compliance with its internal policies,

procedures, and quality control guidelines for the FY ending September 30, 2005. We issued the peer review report to the NLRB/OIG on March 1, 2006.

Internal OIG Processes

During this reporting period we continued the review and updating of OIG operating procedures.

OIG Performance Measures

This is the tenth year this office has been using performance measures. Each year we assess the validity of the measures, update our benchmarks, as appropriate, and use the performance results to review and/or improve our effectiveness. We issued our report on our performance in January 2006. It is available on the FCA OIG Web page at www.fca.gov/oig and is included in this report.

Staff Participation in Activities of the Professional Community

OIG staff members are encouraged to take part in organizations that contribute to the mission of the Inspector General community, as well as their individual professional development. Most staff is actively involved in one or more professional organizations as well as ad hoc activities of the PCIE/ECIE.

Three staff members from the OIG were honored with awards from the PCIE/ECIE at the annual awards ceremony in October 2005.

The IG continues to meet monthly with Inspectors General from the other Federal financial regulatory agencies and participates as a member of the PCIE/ECIE Inspection and Evaluation Committee.

Staff Participation in Agency Organizations

Staff is active on several Agency workgroups and task forces. During this reporting period, the OIG was represented in Blacks in Government, Administrative Burden Reduction Workgroup, the Federal Women's Program, and the Combined Federal Campaign.

Staff Development

OIG employees continually seek ways to improve skills and become knowledgeable in Inspector General community efforts. The auditor received the designation, Certified Government Auditing Professional. In addition, the Counsel to the IG received a Training Award from the Council of Counsels to Inspectors General for instructing at the Office of Government Ethics conference.

Also, OIG staff received three Awards for Excellence at the 8th Annual PCIE/ECIE Awards Ceremony held October 26, 2005.

APPENDIX A

INDEX OF REPORTING REQUIREMENTS

INSPECTOR GENERAL ACT CITATION AND REQUIREMENT	PAGE
Section 4(a)(2) Review of Legislation and Regulations.....	10
Section 5(a)(1) Significant Problems, Abuses and Deficiencies.....	none
Section 5(a)(2) Recommendations for Corrective Action.....	none
Section 5(a)(3) Prior Recommendations Not Yet Implemented	8-9
Section 5(a)(4) Matters Referred to Prosecutive Authorities.....	none
Section 5(a)(5) Summary of Instances Where Information..... Was Unreasonably Refused or Not Provided	none
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Section 5(a)(7) Summary of Significant Reports Issued During the Period	7
Section 5(a)(8) Statistical Table on Management Decisions	13
with Questioned Costs	
Section 5(a)(9) Statistical Table on Management Decisions on	14
Recommendations that Funds be Put to Better Use	
Section 5(a)(10) Summary of Each Audit Over Six Months Old for	8
Which No Management Decision Has Been Made	
Section 5(a)(11) Significant Revised Management Decisions	none
Section 5(a)(12) Significant Management Decisions with Which	none
the Inspector General Disagreed	
Section 5(a)(13) Compliance of Agency Financial Management System	7

APPENDIX B

Audit / Inspection Reports Issued			
Title of Report	Number of Agreed Upon Actions/ Recommendations	Questioned Costs	Recommendations That Funds Be Put to Better Use
Records Management and Preservation of Institutional Knowledge	4	\$ 0	\$ 0
Total	4	\$ 0	\$ 0

APPENDIX C

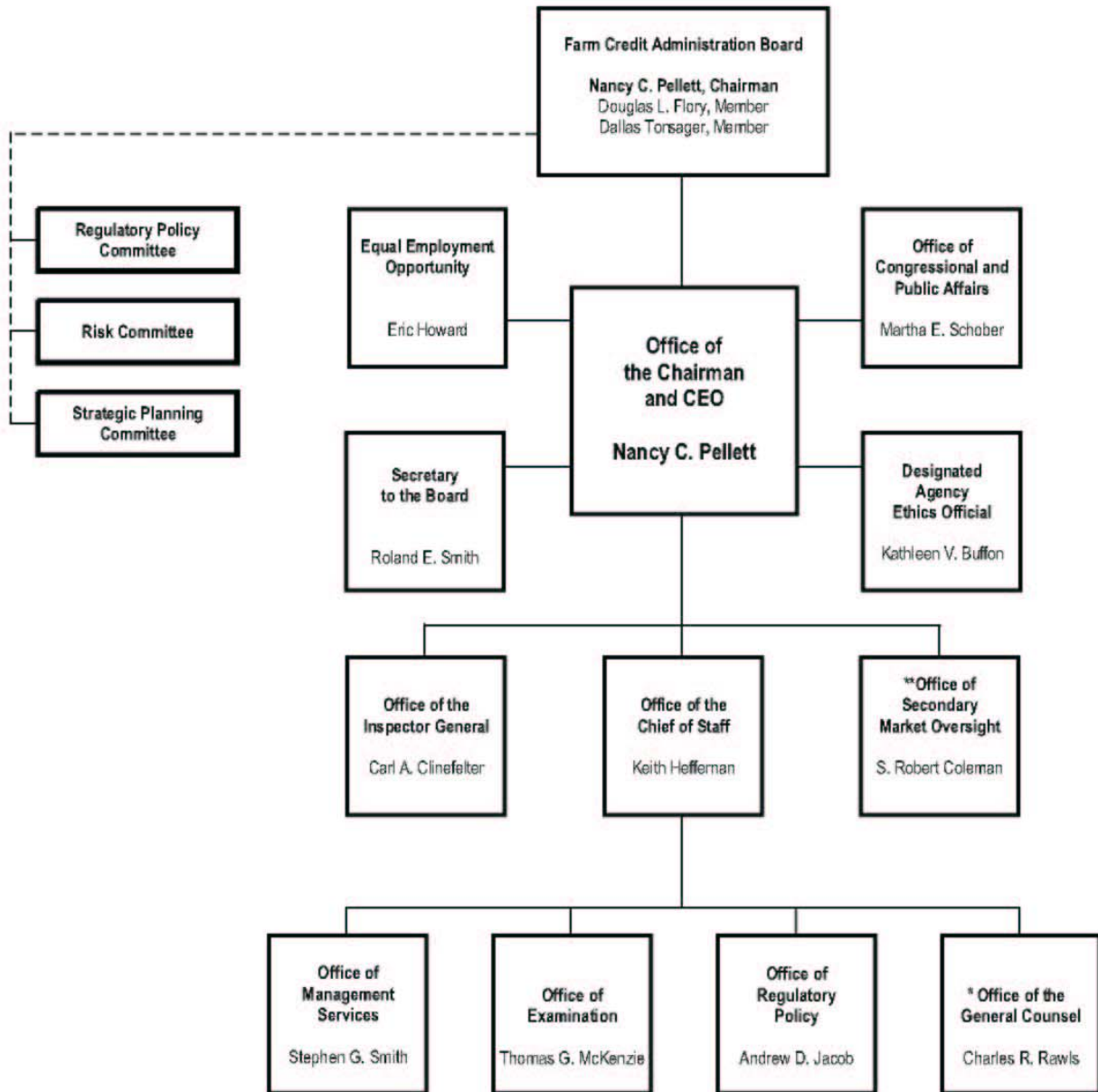
Reports with Questioned Costs				
	Number		Dollar Value	
	Reports	Recs.	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period	0	0	\$ 0	\$ 0
B. Which were issued during the reporting period	0	0	\$ 0	\$ 0
<i>Subtotals (A+B)</i>	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

APPENDIX D

Reports with Recommendations that Funds be Put to Better Use			
	Number of Reports	Number of Recs.	Dollar Value
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
<i>Subtotals (A + B)</i>	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

APPENDIX E

Farm Credit Administration Organization Chart

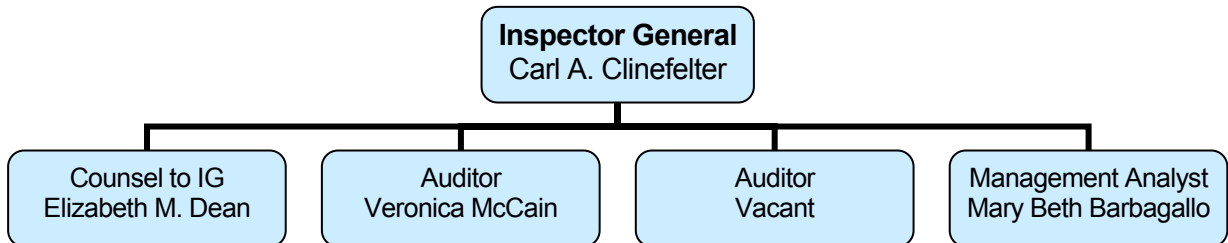


*Maintains a confidential advisory relationship with each of the Board members.

** Reports to the Board for policy and to the CEO for administration.

APPENDIX F

Office of Inspector General Organization Chart



Office of Inspector General

FISCAL YEAR 2005 PERFORMANCE REPORT



January 2006

Farm Credit Administration

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



January 10, 2006

The Honorable Nancy C. Pellett
Chairman
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102

Dear Ms. Pellett:

The Government Performance and Results Act of 1993 encourages organizations to manage for results and hold managers accountable for executing programs to achieve desired outcomes. The enclosed report documents the outcomes or impact of the products, services and leadership of the Office of Inspector General (OIG).

The OIG has been successful in its role as an agent for positive change within the Farm Credit Administration (FCA or Agency). The results reflect the commitment that OIG staff has to assisting you, the FCA Board, and FCA employees achieve the Agency's mission of ensuring a safe and sound Farm Credit System that provides a dependable source of credit to farmers and ranchers.

We look forward to continuing to work with you to ensure FCA remains vigilant in its efforts to accomplish its mission. I welcome your comments on ways the OIG can continue to improve our services that help you achieve your goals for FCA operations.

If you have any questions, or concerns, please call me.

Respectfully,

Carl A. Clinefelter

Carl A. Clinefelter
Inspector General

Enclosure

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Farm Credit Administration Office of Inspector General FY 2005 Performance Measures

EXECUTIVE SUMMARY

The Office of Inspector General (OIG) of the Farm Credit Administration (FCA or Agency) met or exceeded most targets or goals for performance in Fiscal Year (FY) 2005. Goals pertained to:

- audits and inspections,
- technical assistance to Agency officials and management,
- continuous improvement of the OIG staff,
- investigation of administrative and criminal violations,
- reviewing and commenting on legislation and regulations affecting the Agency and the IG community, and
- outreach.

During FY 2005 the OIG issued two program audits: 1) the *Call Report Data Verification* and 2) *Performance Measures and Internal Controls*. The *FY 2004 Audit of the FCA's Financial Statement* was also issued without material findings.

An inspection of *Protection of Credit Card Numbers* was issued, as well as a review of the *Federal Information Security Management Act (FISMA)*. The OIG continued the practice of issuing IG Observations. The purpose of issuing an Observation is to alert Agency officials and managers to new issues, problems or information to aid in decision making. The OIG issued observations on the following topics: Identity Theft, Building Security, Position Evaluation Program, Adherence to Board Policy 64, Suggestions concerning the Proposed Rule on Waiver of Borrower Rights—Syndications, Work-Life Benefits, Notification of impact of legislation concerning privacy of confidential information, and Opt-out provisions for consumers of a rule set forth by the Federal Trade Commission.

OIG products were timely and constructive. Most products addressed risk to the Agency. Over 80% of the products contained recommendations to improve Agency operations. Feedback showed management's satisfaction with OIG products.

Since 1995, the OIG has developed, administered, and collected survey data from the Farm Credit System (FCS or System), following a System institution's examination, for use by the Agency as a feedback mechanism on the quality and effectiveness of the examination function.

A measure of our success is contributing to the Agency's continuous adaptation of sound business practices and basic integrity. We are hopeful that the Agency will continue to show firm commitment to decision making and follow-up to improve operations and programs.

The OIG welcomes comments and suggestions related to performance measurement.

Farm Credit Administration Office of Inspector General FY 2005 Performance Measures

AUDITS AND INSPECTIONS	
Objective—Audit and evaluate the Agency’s programs and operations to promote economy, efficiency and effectiveness.	
Performance Goal 1—Deliver quality audit and inspection products and services that are useful to the Board.	
OUTPUT/CRITERIA	OUTCOME/IMPACT
<p>Audits and inspections are relevant. Audit coverage includes all mandated audits and at least 75% of those suggested by the Board and management. Risk is addressed. 100% of the OIG audits are performed in high risk/high dollar programs and activities and/or are tied to the Agency strategic planning goals.</p> <ul style="list-style-type: none"> ▪ OIG contracted with a CPA firm to review FCA’s mission critical systems under the Federal Information Security Management Act (FISMA) and by auditing FCA’s financial statements. <p>Findings made during audit fieldwork are recognized and corrected by management prior to drafting of the audit or inspection report.</p> <ul style="list-style-type: none"> ▪ 8 recommendations and 11 agreed-upon actions remain open: 15 were closed. <p>Products are timely, i.e., average time to complete audits and issue draft reports will not exceed six months.</p> <p>Audits are constructive. At least 75% of audit products contain recommendations to improve agency operations. The Agency accepts at least 80% of the OIG audit recommendations. The Agency actually implements all corrective actions prescribed by management decisions.</p> <ul style="list-style-type: none"> ▪ 100% of audit products contain recommendations to improve agency operations. ▪ The Agency accepted 75% of audit recommendations. ▪ Audits were performed within 6 months (average). 	<p>FCA programs and operations are more effective. Waste in Agency programs and operations is reduced. Better business practices are initiated.</p> <ul style="list-style-type: none"> ▪ FCA continues to improve and develop mechanisms to streamline budget data to products and services. ▪ Unqualified opinion for Agency financial statements. Security of information validated through FISMA review. ▪ FCA has a redesign project underway to improve the Loan Account Reporting System. FCA is more inclined to explore E-Government initiatives. These changes are due in part to OIG findings from audit and inspection reports. <p>FCA is more effective in carrying out its mission.</p> <ul style="list-style-type: none"> ▪ The Chairman has taken a broad approach in seeking opportunities to streamline and gain efficiencies. As a result of studies under contract, management has made extensive changes. It is contemplated that this will also eventually result in a comprehensive staffing plan and a solid approach to succession planning. ▪ FCA is faced with evaluating the cost effectiveness of the financial management system as well as the adequacy of planning for upgrades and integrated programs.

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AUDITS AND INSPECTIONS	
Objective—Audit and evaluate the Agency’s programs and operations to promote economy, efficiency and effectiveness.	
<i>See Appendix for details of audits and inspections.</i>	
Performance Goal 2—Provide technical advice and assistance to agency official in developing sound management information and financial reporting systems and in streamlining programs and organizations.	
OUTPUT/CRITERIA	OUTCOME/IMPACT
<p>Assist the Agency in building continuous, meaningful measures with outcomes important to their stakeholders.</p> <p>The IG advises the Chairman concerning policy direction or administrative priorities.</p> <ul style="list-style-type: none"> ▪ The OIG conducts an ongoing survey as to the effectiveness of the examination function. The survey is electronic. Results are benchmarked from year to year. The OIG preserves anonymity and integrity of the survey. <p>The OIG performs analysis and provides technical advice to management concerning accounting, management systems and controls, and performance measures.</p> <ul style="list-style-type: none"> ▪ The IG identifies management’s top challenges in the semiannual reports and the Agency’s Performance and Accountability Report. 	<p>OIG input and advice contributes to Agency decisions and actions that are more complete and valid at their inception.</p> <ul style="list-style-type: none"> ▪ Advice on governance issues was sought by Board members and senior staff. An OIG Observation resulted in clarification of a Board Policy concerning operations. <p>Increase in management request for advice, audit work or technical assistance.</p> <ul style="list-style-type: none"> ▪ Regularly, management requests the OIG to validate changes in business practices. The OIG is a laboratory of change, a model for best practices. The OIG’s budget preparation, with linkage to performance measures was used as a model for the Agency. ▪ The OIG advised the Agency on need for more rigorous controls during project management. It is imperative that management has the appropriate information to make informed decisions. ▪ OIG frequently serves as a sounding board and the conscience of the Agency.

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AUDITS AND INSPECTIONS	
Objective—Audit and evaluate the Agency’s programs and operations to promote economy, efficiency and effectiveness.	
Performance Goal 3—Continuous improvement of the OIG staff, products and internal administration. Quality is highly valued.	
OUTPUT/CRITERIA	OUTCOME/IMPACT
<p>Customer survey feedback is used to improve products and services.</p> <ul style="list-style-type: none"> ▪ The OIG team is studying ways to develop more feedback for audits, inspections and other reviews as well. <p>OIG training ensures the technical proficiency of staff.</p> <ul style="list-style-type: none"> ▪ The OIG team has taken technical courses to gain proficiencies: A incoming IG took Kolbe assessment and OIG will continue to develop strategies to build a high performance team. Courses attended include: <i>Building High Performance Organizations, Professionalism, Substance Abuse & Legal Ethics, BASEL Accord II Seminar, Problem Solving, Practical Kinesic Interviewing & Interrogation, Managing Emotions Under Pressure, Presenting Data and Information, Oversight of Federal Financial Auditing, 14th Annual Government Ethics Conference, AGA 15th Annual Leadership Conference, IIA Auditing in Government, National Intergovernmental Audit Forum, and President’s Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency (PCIE/ECIE) Retreat.</i> <p>In addition, PCIE/ECIE training sessions and legal forums are attended. The OIG team also stays current in FCA operations training courses and strategic management initiatives.</p> <p>OIG implements administrative improvements identified through reviews of Agency programs and through staff involvement with the professional community.</p>	<p>Peer review reports provide an unqualified opinion that the OIG audit work meets or exceeds quality audit standards prescribed by GAO and the PCIE/ECIE.</p> <ul style="list-style-type: none"> ▪ OIG website is improved. Most products are made available on line. ▪ OIG audit follow-up database is revised and improved, making access and sharing of information much more accessible. <p>Customer survey feedback evidences satisfaction with report practices.</p> <ul style="list-style-type: none"> ▪ OIG seeks feedback on products. Office of Examination (OE) was particularly pleased with innovative PowerPoint presentation of the Call Report Verification audit. The Auditor-in-Charge gave a presentation and demonstration to OE. <p>The IG’s opportunity to facilitate positive change within the Agency is enhanced by the quality and credibility of OIG products and advice.</p> <ul style="list-style-type: none"> ▪ Solving a longstanding situation whereby an anonymous letter writer sought to undermine various management officials brought relief to those troubled by the behavior. ▪ PCIE/ECIE honored OIG staff with three Awards of Excellence for work performed during this period.

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INVESTIGATIONS Objective—Investigate observed, alleged or suspected wrongdoing to prevent and detect fraud, waste, abuse and mismanagement in agency programs and operations.	
Performance Goal 1—Effectively investigate and report administrative and criminal violations relating to FCA programs and personnel to agency officials and Congress.	
OUTPUT/CRITERIA	OUTCOME/IMPACT
<p>Investigative reports are timely and presented in an objective and factual manner. Memoranda are issued to management describing internal control weaknesses or program deficiencies found during the investigative process with suggestions to prevent and/or detect future wrongdoing.</p> <ul style="list-style-type: none"> ▪ One investigation was open at the beginning of FY 2005; five additional investigations were opened during the year. Three were unsubstantiated and closed. One investigation, involving allegations concerning abuse of power and mismanagement were substantiated and resolved. Investigations took from four to eleven months. Another involved a series of anonymous letters. Offenses included impersonating a Federal official and undermining authority. The offending employee was identified by the OIG. The case was substantiated and referred for prosecution; but it was declined. 	<p>Administrative action, convictions or pleas are obtained for employees and/or contractors found guilty of wrongdoing.</p> <p>Management actions taken against employees serve as deterrent to future wrongdoing.</p> <p>FCA internal policies, procedures, and controls are strengthened to prevent and/or detect future wrongdoing.</p> <p>Public confidence in the integrity of FCA programs and internal operations are heightened.</p> <ul style="list-style-type: none"> ▪ Investigations involving mismanagement and abuse of power by senior management were developed and forwarded to appropriate officials; subsequently, management changes occurred.

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INVESTIGATIONS Objective—Investigate observed, alleged or suspected wrongdoing to prevent and detect fraud, waste, abuse and mismanagement in agency programs and operations.	
Performance Goal 2—Cause FCA employees and managers to recognize their responsibility and report observed or suspected wrongdoing to the OIG.	
OUTPUT/CRITERIA	OUTCOME/IMPACT
<p>Allegations of wrongdoing are received in a timely manner and are supported by specific information.</p> <ul style="list-style-type: none"> ▪ Some anonymous complaints are vague, lacking sufficient information to pursue an investigation. As a result, the OIG is developing ways to obtain further information. 	<p>Investigations are more successful because they are initiated in a timely manner and have better information.</p> <ul style="list-style-type: none"> ▪ There was a high level of cooperation from senior officials who reported problems to OIG and assisted in pinpointing mismanagement and abuse of power. <p>FCA employees are more willing to report real or suspected wrongdoing because they trust the competence and fairness of OIG's investigations.</p> <ul style="list-style-type: none"> ▪ OIG receives allegations through the hotline mechanisms and through anonymous correspondence. Agency management notifies the OIG team when anonymous allegations are sent to them.

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LEGISLATIVE AND REGULATORY REVIEW	
Objective—Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations and the Inspectors General Community.	
Performance Goal 1—Maintain an effective program for reviewing and commenting on proposed and existing legislation and regulations affecting the Agency and the IG community.	
OUTPUT/CRITERIA	OUTCOME/IMPACT
<p>Processes are established and documented for identifying and circulating (as appropriate) relevant documents.</p> <ul style="list-style-type: none"> ▪ Legislation is tracked on a daily basis. The PCIE/ECIE legislation committee is active in forwarding interest items. <p>Constructive comments on relevant documents are submitted by the deadlines requested by the office, Agency, or staff circulating comments.</p> <ul style="list-style-type: none"> ▪ OIG updated its Privacy Act Routine Uses in order to participate in IG community quality assurance reviews of the investigation program. This new routine use became a model for the ECIE community. 	<p>OIG input is part of the decision making process in approving or amending legislation, regulations, circulars and other policy positions.</p> <ul style="list-style-type: none"> ▪ OIG collaborated with the Office of Regulatory Policy to designate points in time when information will be sent to the OIG. <p>Constructive criticism and creative alternatives offered in OIG comments improve the quality and usefulness of documents initiated by the Agency.</p> <p>FCA Board and management are informed about the status of new or pending legislation or regulations initiated externally.</p> <ul style="list-style-type: none"> ▪ ECIE IGs continue to support a legislative effort to have the Program Fraud Civil Remedies Act made applicable to a broader (more than cabinet level) range of agencies. ▪ Legislative update and reform is continually considered as a future remedy to outdated provisions in the Farm Credit Act. ▪ Review of several regulations: Proposed Rule on Governance; Proposed Rule on Loan Syndication; Proposed Rule on Waiver of Borrower Rights; and Proposed Rule on Liquidity and Investment.

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OUTREACH Objective—Work with our agency head and the Congress to improve program management; and work with the Inspectors General community and other related organizations to address government wide issues.	
Performance Goal 1—Promote OIG’s role within the FCA and the community at large.	
OUTPUT/CRITERIA	OUTCOME/IMPACT
<p>Develop and maintain educational brochures or pamphlets describing OIG roles and activities.</p> <p>Facilitate feedback from Agency employees and refine products and practices based on the feedback to OIG products and educational materials.</p>	<p>Agency employees’ acceptance of and cooperation with OIG activities is improved through better understanding. OIG programs and products are improved through feedback from Agency employees.</p> <ul style="list-style-type: none"> ▪ OIG updated Strategic Plan brochure form and several Directives. ▪ New PowerPoint format used for audit presentation and received well. ▪ Hosted event to honor outgoing IG; the three FCA IGs and the Vice Chairman of the ECIE attended. ▪ Reaction to OIG Observations is deliberate and quick. <p>Audit follow-up is improved. Compared to last reporting period, there are seven less open recommendations.</p>

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OUTREACH Objective—Work with our agency head and the Congress to improve program management; and work with the Inspectors General community and other related organizations to address government wide issues.	
Performance Goal 2—Provide leadership to organizations directly contributing to the IG community, the Agency and the Federal Government.	
OUTPUT/CRITERIA	OUTCOME/IMPACT
<p>Time and resources are provided to OIG staff members as an incentive to contribute to the Agency and outside organizations by serving on committees and holding offices.</p> <ul style="list-style-type: none"> ▪ OIG staff actively participated in the ECIE, the Inspection and Evaluation Committee of the ECIE, Association of Government Accountants (AGA), Council of Counsels (CCIG), International Association of Financial Crime, Instructor at the Inspectors General Auditor Training Institute (IGATI), GPRA Roundtable, Employee Council, Council for Excellence in Government, Senior Staff, Accountability Report Workgroup, and Federal Women’s Program Committee. ▪ OIG networking opportunities have resulted in an expanded consideration of FCA ideas and practices by community contacts and experts. OIG has shared telecommuting policies, hotline procedures, performance measures and performance contracts and evaluation methods. Likewise, FCA benefits from the opportunity to benchmark practices in other agencies. 	<p>Projects and activities of adjunct organizations such as the AGA, IIA, PCIE/ECIE, CCIG, FLETC, and IGATI are improved by OIG staff contributions and participation.</p> <ul style="list-style-type: none"> ▪ Participating in the PCIE working group on inspections and evaluations. ▪ Performed Quality Assurance Review on investigation operations of U.S. Government Printing Office. <p>FCA programs and operations are more effective and efficient.</p> <ul style="list-style-type: none"> ▪ OIG has a goal to help the Agency build continuous, better, concrete measures with outcomes important to its stakeholders. This was specifically stressed in the audit of Performance Measures. Implementation occurred immediately. ▪ Contractors performing studies for the Agency validate the evaluations by OIG and urge recommendations to be accomplished. ▪ OIG assisted the Agency in improving electronic communication by making suggestions to improve the web site and consider more electronic transactions with regulated entities and the public.

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APPENDIX

AUDITS

AUDIT NAME	AUDITS ARE RELEVANT	RISK IS ADDRESSED	PRODUCTS ARE TIMELY	AUDITS ARE CONSTRUCTIVE	AGENCY ACCEPTS 80%
Call Report Data Verification	OIG initiated	Strategic Plan	6 Months	2 Agree Upon Actions	Accepted all; 0 implemented
FY 2004 Financial Statements	Mandated Annual Audit	Strategic Plan	6 Months	No findings	n/a
Performance Measures and Internal Controls	OIG initiated		5 Months	1 Agreed Upon Action and 2 Recommendations	1 implemented 2 recommendations pending decision

INSPECTIONS

INSPECTION NAME	INSPECTIONS ARE RELEVANT	PRODUCTS ARE TIMELY	INSPECTIONS ARE CONSTRUCTIVE	AGENCY ACCEPTS 80%
Protection of Credit Card Numbers	OIG initiated	6 months	3 Agreed Upon Action	3 implemented

REVIEW

Federal Information Security Management Act Review—Legislatively mandated. Performed in 2 months. No material findings. Reports to OMB as a follow-up.

R E P O R T

Fraud ❖ Waste ❖ Abuse ❖ Mismanagement



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