

Office of Inspector General

Semiannual Report
to the Congress

April 1, 1998
through
September 30, 1998



October 27, 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 nineteenth report on the activities of the Farm Credit Administration's (Agency) 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.

Management's acceptance and implementation of OIG recommendations continued to be constructive and Agency programs have benefited. Your support has been instrumental in maintaining this relationship.

Respectfully,

Eldon W. Stoehr
Inspector General

REPORT HIGHLIGHTS

Four final reports were issued.

- Two program audits and two inspection reports. We made 15 recommendations and identified \$31,892 in questionable costs.

Management has acted on recommendations in a timely manner.

- Management decisions have been made for all but three recommendations.
- Final action was taken on eleven recommendations.
- The seven recommendations awaiting final action are all from reports issued this period.

OIG's budget request was approved by the FCA Board without change.

The IG led a group of 22 designated federal entity Inspectors General in preparing a common response to S 2167, a bill to amend the IG Act.

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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” (DFE) 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.

FCA's Use of Enforcement Actions

The objectives of this audit were to; evaluate FCA’s use of enforcement actions in obtaining corrective actions in Farm Credit System (FCS) institutions, and document and evaluate FCA’s current organizational structure and process as it pertains to achieving enforcement objectives.

We concluded that the Agency’s enforcement actions have, for the most part, been effective. Our review identified opportunities to enhance the timeliness and efficiency of enforcement actions. The Agency transferred the enforcement function during the course of audit fieldwork, from the former Office of Policy Development and Risk Control to the Office of Examination. This action streamlined the organization of enforcement activities and made it similar to other financial regulators. Recommendations focused on means to improve the Agency’s process in this area with an emphasis on more timely and efficient use of enforcement actions. The report presented a total of three recommendations, management agreed with all and corrective actions have been implemented.

FCA's IMPAC Program

The objectives of this audit were to evaluate the effectiveness of the IMPAC (International Merchant Purchase Authorization Card) program and review the policies and procedures for efficiency of operations.

Our review found that FCA's IMPAC program has greatly streamlined the procurement process and, as a result, goods and services are now acquired more quickly. In addition, Agency employees have generally received the program enthusiastically. Recommendations centered on opportunities to make the process more efficient and decrease some of the administrative burden on Office of Resources Management staff. The report presented a total of five recommendations, all of which have been agreed to by management with corrective actions having been implemented on two of the five recommendations.

INSPECTION REPORTS ISSUED

This reporting period OIG expanded the use of inspection reports in an effort to provide a quick turnaround on issues important to management. The OIG issued the final report on the Bloomington Field Office inspection and completed the fieldwork for a second field office inspection, although the final report will not be issued until the next reporting period. Additionally, the OIG conducted an inspection of the Agency's workmen's compensation program. The two inspection reports issued are summarized below.

Bloomington Field Office

The field office inspection involved the review of various administrative and examination areas to assess compliance with Federal regulations and internal guidance. Our review disclosed that the majority of areas reviewed showed no material weaknesses. However, three administrative areas were noted as needing improvement as well as one examination area. Recommendations were focused on improving operations and obtaining additional security over Agency personnel and property. The report presented four recommendations, all of which have been agreed to by management.

Workmen's Compensation

The inspection was focused on data analysis of the Agency's workmen's compensation program administered by the Department of Labor (DOL). Our analysis disclosed several aspects of the program's administration within the Agency that could be improved. The report presented a total of three recommendations. In addition, the report identified "Questioned Costs" in the amount of \$31,891 due to weaknesses in the administration of the program in dealing with the claim of a former employee.

STATUS OF UNIMPLEMENTED RECOMMENDATIONS

Management continued to implement most recommendations in a timely manner. The two audit recommendations reported in our last semiannual report that had exceeded the 12-month criteria for completion of final action established by section 5 of the Inspector General Act of 1978 were also closed during this period.

Audits

Management took final action on eight recommendations during this period: two from the report on Agency Time Tracking System (ATTS) issued on January 16, 1997; one from the report on Audit of FCA's FY 1997 Financial Statements issued on November 14, 1997; three from the audit report on FCA's Use of Enforcement Actions issued on May 27, 1998; and two from the audit report on FCA's IMPAC Program. Three recommendations remain open at the close of this period, all from the report on FCA's IMPAC Program issued on August 11, 1998, although management has expressed its agreement with them.

Inspections:

Final action was taken on three recommendations made in the report on the Inspection of the Bloomington Field Office issued May 7, 1998; however, a management decision has been made for the one open recommendation. No management decision has been made yet on the three recommendations from the Inspection of FCA's Workmen's Compensation Program issued on September 30, 1998.

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 ran the new software in parallel with the present software during the third quarter of this fiscal year.

INVESTIGATIONS

There were two open investigations at the beginning of this reporting period. One additional investigation was opened during this period. One of the three open investigations was closed during this six-month period.

The investigation closed during this period concerned allegations of violations of mismanagement and waste of funds in the closure of two FCA field offices and certain staffing actions that resulted after the closure of the field offices. The investigation evidenced that management's decision to close the field offices were not indiscriminate, but rather were a result of ongoing analysis of examination workload and FCS changes over a period of time. The allegation concerning personnel actions was general in nature, but our review found no evidence that those actions violated personnel laws. At the close of this reporting period, two investigations remain open.

The OIG Hotline received few calls or walk-ins requiring action by this office. Three calls were received that dealt with FCS borrower complaints. These calls were either referred to the FCA division responsible for investigating such matters or we are awaiting further information from the complainant. One call pertained to an internal violation, which is currently being investigated. The remainder of the Hotline calls required no investigative action by the OIG.

This office provided assistance to two other Federal investigative units. One instance involved the Federal Bureau of Investigation to whom we provided jurisdictional information. However, no action by this office was required. The second instance involved the US Postal Service (USPS). We obtained information from one of the FCS institutions to assist USPS in pursuit of criminal prosecution of an employee. With the cooperation of the FCS institution, we were able to provide helpful information to the Postal Inspector to further the case. The FCS institution was not implicated in the violations.

LEGISLATION AND REGULATIONS

During this reporting period, OIG continued to track legislation of interest to the Inspectors General community, the Agency and the Federal government. Two bills proposing amendments to the Inspector General Act of 1978 have been introduced: S. 2167 and S. 2521. The IG led a group of 22 designated federal entity Inspectors General in preparing a common response to S. 2167, a bill to amend the IG Act.

The purpose of S. 2521 is to provide that offices of inspectors general shall be treated as independent agencies in the preparation of the United States Budget. We would welcome that opportunity.

During this period the IG joined several other DFE inspectors general in protesting a proposed American Institute of Certified Public Accountants rule change which could be read as a challenge to the existing independence of the DFE inspectors general.

OTHER ACTIVITIES

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, 58 surveys were mailed out and 46 responses were received from institutions, a 79% 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.

**AUDIT/INSPECTION REPORTS
ISSUED BY FCA OIG**

AUDIT/INSPECTION REPORTS	Number of Recommendations	Questioned Costs	Recommendations That Funds Be Put to Better Use
FCA's Use of Enforcement Actions	3	\$ 0	\$ 0
IMPAC Program	5	\$ 0	\$ 0
Bloomington Field Office Inspection	4	\$ 0	\$ 0
Workmen's Compensation Inspection	3	\$31,892	\$ 0
Total	15	\$31,892	\$ 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	1	1	\$ 31,892	0
Subtotals (A+B)	1	1	\$ 31,892	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	1	1	\$ 31,892	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