

Farm Credit Administration

Office of Inspector General
1501 Farm Credit Drive
McLean, Virginia 22102-5090



February 11, 2008

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

Dear Chairman 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) during fiscal years 2006 and 2007.

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 in achieving 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, please call me.

Respectfully,

A handwritten signature in cursive script that reads 'Carl A. Clinefelter'.

Carl A. Clinefelter
Inspector General

Enclosure

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**Farm Credit Administration
Office of Inspector General
Fiscal Years 2006 & 2007 Performance Report**

EXECUTIVE SUMMARY

The Office of Inspector General (OIG) of the Farm Credit Administration (FCA or Agency) met or exceeded most goals for performance in fiscal years (FY) 2006 and 2007. 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 Inspector General (IG) community, and
- outreach.

During the reporting period the OIG issued four program audits:

- ***Records Management and Preservation of Institutional Knowledge***
- ***Committees Established by the FCA Board***
- ***Audit of the FCA's FY 2005 Financial Statement***
- ***Audit of the FCA's FY 2006 Financial Statement***

Two evaluations were issued:

- ***The Federal Information Security Management Act Review for FY 2006***
- ***The Federal Information Security Management Act Review for FY 2007***

One inspection was issued:

- ***FCA's Enforcement Program***

The OIG also 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: Computer Banners; the results of a consultation with the Office of Management and Budget regarding the applicability of legislation mandating third-party review of information and data protection; and re-advising employees of the proper use of Agency computers, as well as the establishment of proper internal reporting guidelines related to misuse of Agency computers.

OIG products were timely and constructive while accommodating the priorities of the Agency. Most products addressed risk to the Agency. Most of the products contained recommendations to improve Agency operations.

Since 1995, the OIG has developed, administered, and collected survey data on the quality and effectiveness of the Agency's examination function from the Farm Credit System (FCS or

System) for use by the Chief Examiner and FCA Chairman as a feedback mechanism. During FY 2006, the survey was discontinued while the survey was being substantially revamped by the OIG, aided by consultation with the Office of Examination and an outside professional. Beginning with FY 2007, the survey was reinstated and continues to provide useful and positive feedback.

A measure of the OIG's success is contributing to the Agency's continuous utilization of sound business practices and basic integrity. We are confident the Agency will continue to show firm commitment to follow-up on OIG report findings, conclusions, and recommendations to improve operations and programs.

The OIG welcomes comments and suggestions related to performance measurement.

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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 1—Deliver quality audit and inspection products and services that are useful to the Board. | |
| PERFORMANCE MEASURES | OUTCOME/IMPACT |
| <p>Audits and inspections are relevant. Audit coverage includes all mandated audits and at least 75 percent of those suggested by the Board and management. Risk is addressed. One hundred percent 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 conducted an audit and an inspection of two mission critical operational areas. • OIG contracted with two Certified Public Accountant (CPA) firms to review FCA’s mission critical systems under the Federal Information Security Management Act (FISMA) and by auditing FCA’s financial statements. <p>Products are timely, i.e., average time to complete audits and issue draft reports will not exceed 6 months.</p> <ul style="list-style-type: none"> • Audits were performed within 6 months (average). <p>Audits are constructive. At least 75 percent of audit products contain recommendations to improve Agency operations. The Agency accepts at least 80 percent of the OIG audit recommendations.</p> <ul style="list-style-type: none"> • 100 percent of audit products have contained recommendations to improve Agency operations. • The Agency accepted 100 percent of audit recommendations. • 7 agreed-upon actions remain open: 23 were closed. <p><i>See Appendix (page 11) for details of audits and inspections.</i></p> | <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 opinions for Agency financial statements have continued. Security of information has been validated through FISMA reviews. • OIG found an opportunity to save contracting funds by utilizing the Department of the Treasury’s Bureau of the Public Debt contract for financial statement auditing services. <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. Management has made changes. Financial management services have been outsourced and a 5-year Human Capital Plan has been issued. • Management’s attention to resolving open OIG recommendations and agreed-upon actions has improved. |
| Performance Goal 2—Provide technical advice and assistance to Agency officials in developing sound management | |

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AUDITS AND INSPECTIONS

Objective—Audit and evaluate the Agency’s programs and operations to promote economy, efficiency and effectiveness.

information and financial reporting systems and in streamlining programs and organizations.

| PERFORMANCE MEASURES | OUTCOME/IMPACT |
|--|---|
| <p>The IG advises the Chairman concerning policy direction or administrative priorities.</p> <ul style="list-style-type: none"> • The OIG, through its audit and inspection reports, provides the Chairman with recommendations to strengthen Agency operations. • The IG identifies management’s top challenges in the semiannual reports and the Agency’s Performance and Accountability Report. • The OIG conducts an ongoing survey of FCS institutions as to the effectiveness of the examination function. The survey of FCS institutions has been revamped and is electronic. The OIG preserves the anonymity of respondents and the 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 OIG’s contract auditing firm assesses the Agency’s accounting and financial reporting annually, including controls and compliance with laws and regulations. Any recommendations are conveyed to the Chairman and CEO, and to the Chief Financial Officer. • The OIG’s contract FISMA auditing firm assesses the Agency’s compliance with Federal information security guidelines. Any recommendations are conveyed to the Chairman and CEO, and to the Chief Information Officer. | <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"> • The OIG advised the Agency on the need for more rigorous attention to the enforcement authorities and processes. Staff is updating the program. • The Office of the Board sought technical perspective on certain aspects of Agency operations. • The Office of Examination participated with OIG in revamping the survey of FCS institutions to ensure the revised instrument remained relevant as a feedback mechanism on the quality and effectiveness of the Agency’s examination function. <p>Increase in management requests for advice, audit work or technical assistance.</p> <ul style="list-style-type: none"> • The OIG is always receptive to management’s requests for audit work or for OIG’s perspective on FCA operations, whether technical or non-technical in nature. |

Performance Goal 3—Continuous improvement of the OIG staff, products and internal administration. Quality is highly valued.

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| AUDITS AND INSPECTIONS | |
|--|---|
| Objective—Audit and evaluate the Agency’s programs and operations to promote economy, efficiency and effectiveness. | |
| PERFORMANCE MEASURES | OUTCOME/IMPACT |
| <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. Courses attended include: <u><i>OIG Leadership courses, A-123 course, Yellow Book Auditing (Government Accountability Office), Professionalism, Substance Abuse & Legal Ethics, Federal Audit Executive Council Conference, MIS Training Institute Conference on IT Audit and Controls, ISACA seminars, Ethics for Virginia CPAs, BASEL Accord II Seminar, Problem Solving, Symposium on Emerging Banking Issues, IIA Auditing in Government, IIA Audit Project Management, National Intergovernmental Audit Forum, and President’s Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency (PCIE/ECIE) Retreat, Mediation, Business Writing.</i></u> <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> <ul style="list-style-type: none"> • OIG website is improved. Most OIG products are made available on line. A direct link to the OIG pages is provided on the Agency homepage. | <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 peer review of the audit function was performed by the National Archives and Records Administration in April of 2007 and we were found to be in full compliance with auditing standards. <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"> • Management seeks and listens to the OIG’s perspective on issues. • OIG staff members receive recognition through awards from the PCIE/ECIE community. • The IG is a sounding board for the Office of the Board on aspects of Agency operations. • The quarterly reports on the OIG’s survey of FCS institutions relative to the Agency’s examination function provide Agency management with quantitative and narrative feedback that assists in facilitating positive change. |

**Farm Credit Administration
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Fiscal Years 2006 & 2007 Performance Measures**

| INVESTIGATIONS | |
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| 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, the Attorney General (when appropriate) and Congress. | |
| PERFORMANCE MEASURES | 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"> • Counsel to the IG has taken over the OIG's investigative function since the OIG's investigator left in early FY 2006. • However, there were no investigations with substantiated findings during FYs 2006 and 2007. | <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> <ul style="list-style-type: none"> • Policies and procedures involving lost laptops were strengthened to protect personally identifiable information. • The Office of Examination heightened awareness of risk and vulnerability of national shared credits and adjusted examination and monitoring policies accordingly. <p>Public confidence in the integrity of FCA programs and internal operations is heightened.</p> |

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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. | |
| PERFORMANCE MEASURES | 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"> • The OIG has a secure email hotline, fca-ig-hotline@rcn.com and phone numbers 703-883-4316 and toll free 800-437-7322. • Follow-up by OIG and appropriate forwarding to other Agency offices. | <p>Investigations are more successful because they are initiated in a timely manner and have better information.</p> <ul style="list-style-type: none"> • One allegation of pornography was handled expeditiously and found to be unsubstantiated. • Several hotline complaints were referred to the Office of Congressional and Public Affairs and Office of Examination for review and follow-up. In one potential criminal case, OIG acted as a liaison with the U.S. Attorney's office. • The IG led an attempt to retrieve a lost laptop through coordination with airline officials at Dulles Airport. <p>FCA employees are more willing to report real or suspected wrongdoing because they trust the competence and fairness of OIG's investigations.</p> |

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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. | |
| PERFORMANCE MEASURES | OUTCOME/IMPACT |
| <p>Processes are established and documented for identifying and circulating (as appropriate) relevant documents.</p> <ul style="list-style-type: none"> • Legislation and proposed rules are tracked on a regular 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> | <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 on regulations and briefings 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. • Several bills were introduced to update the Inspector General Act. Comments were collected and briefings with Congressional staff were held. • Legislative update and reform is continually considered as a future remedy to outdated provisions in the Farm Credit Act. • Review of several regulations including: Proposed and Final Rule on Priority of Claims; Proposed Rule on Processing and Marketing; Final Rule on Farmer Mac Risk-Based Capital Stress Test Revisions; and Proposed Rule on Liquidity and Investment. |

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| OUTREACH | |
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| 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. | |
| PERFORMANCE MEASURES | OUTCOME/IMPACT |
| <p>Develop and maintain educational brochures or pamphlets describing OIG roles and activities.</p> <ul style="list-style-type: none"> • Examples include Strategic Planning brochure, The IG at FCA pamphlet, FCA Orientation PowerPoint presentation, and the PCIE/ECIE Annual Report. <p>Facilitate feedback from Agency employees and refine products and practices based on the feedback to OIG products and educational materials.</p> <ul style="list-style-type: none"> • The OIG would be receptive to any and all feedback received from Agency management and staff regarding OIG practices and products. | <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 several Directives. • Developed PowerPoint presentation on the OIG at FCA for web use and for new employee training. • IG led an attempt to retrieve a lost laptop through coordination with airline officials at Dulles Airport. • Reaction to OIG Observations has been positive. <p>Audit follow-up is improved.</p> <ul style="list-style-type: none"> • Agreed-upon actions are taken more expeditiously. Rarely does an action take more than a year to clear. |

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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.

| PERFORMANCE MEASURES | 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 PCIE/ECIE, Association of Government Accountants (AGA), Council of Counsels (CCIG), PCIE/ECIE Federal Audit Executive Committee, Instructor at the Inspectors General Auditor Training Institute (IGATI), FCA Employees' Council, Council for Excellence in Government, Accountability Report Workgroup, Federal Women's Program Committee, Blacks In Government, Administrative Burden Reduction Workgroup, and the Combined Federal Campaign. • 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, the Institute of Internal Auditors, PCIE/ECIE, CCIG, FLETC, and IGATI are improved by OIG staff contributions and participation.</p> <ul style="list-style-type: none"> • IG participates in the PCIE working group on inspections and evaluations. The group collaborates and shares common areas for inspection and evaluation work. • IG was asked to participate on a panel discussion at the IG Training Institute. • IG participates in monthly Financial Regulatory Coordinating Committee meetings. • Counsel was on several workgroups with other counsels, including investigation curriculum and awards workgroups. • OIG Auditor performed a peer review of the audit program of the Office of Inspector General, National Labor Relations Board. <p>FCA programs and operations are more effective and efficient.</p> <ul style="list-style-type: none"> • OIG made presentations about the OIG at FCA at New Employee Orientation. • OIG employee led a successful Combined Federal Campaign as co-chair during FY 2006. |

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APPENDIX

AUDITS

| AUDIT NAME | AUDITS ARE RELEVANT | RISK ADDRESSED | PRODUCTS ARE TIMELY | AUDITS ARE CONSTRUCTIVE | AGENCY ACCEPTS ≥ 80% |
|--|-------------------------------------|-----------------------|----------------------------|--------------------------------|--|
| Records Management and Preservation of Institutional Knowledge | OIG Initiated | Strategic Plan | 6 Months | 4 Agreed-Upon Actions | Management Accepted All; 4 Implemented |
| FY 2005 and 2006 Financial Statements | Legislatively Mandated Annual Audit | Strategic Plan | 6 Months | No Findings | N/A |
| FCA Board Committees | OIG Initiated | Strategic Plan | | 2 Agreed-Upon Actions | Management Accepted All: 1 Implemented 1 Outstanding |

REVIEWS

| | | | | | |
|---|------------------------|----------------|----------|--|-----|
| Federal Information Security Management Act Review for FY 2006 and 2007 | Legislatively Mandated | Strategic Plan | 2 Months | No Findings OMB Receives Report and Follow-up | N/A |
|---|------------------------|----------------|----------|--|-----|

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APPENDIX (CONTINUED)

INSPECTIONS

| INSPECTION NAME | INSPECTIONS ARE RELEVANT | RISK ADDRESSED | PRODUCTS ARE TIMELY | INSPECTIONS ARE CONSTRUCTIVE | AGENCY ACCEPTS ≥ 80% |
|---------------------------|--------------------------|----------------|---------------------|------------------------------|---|
| FCA's Enforcement Program | OIG Initiated | Strategic Plan | 11.5 months | 6 Agreed-Upon Actions | Management Accepted All; 0 Implemented |