

October 26, 2000

The Honorable Michael M. Reyna  
Chairman of the Board and  
Chief Executive Officer  
Farm Credit Administration  
McLean, Virginia

Dear Mr. Reyna:

We are filing this semiannual report in accordance with the Inspector General Act of 1978, as amended (Act). It is the twenty-third report on the activities of the Farm Credit Administration's (FCA or Agency) Office of Inspector General (OIG) since creation of the office on January 22, 1989. Section 5(b) of the Act requires that we send this report to the appropriate Congressional committees and subcommittees within 30 days after the date of this transmittal, with management's report on the status of audit recommendations.

The constructive working relationship between OIG and Agency management that I described in my last semiannual report has continued throughout this reporting period. Managers have usually taken appropriate and timely action to resolve issues reported by OIG. I appreciate your continued support.

Respectfully,

Eldon W. Stoehr  
Inspector General

## ***REPORT HIGHLIGHTS***

**We issued one audit and three inspection reports during this period. Based on recommendations and agreed upon actions made in these and earlier reports, as well as other OIG activity, management took the following actions:**

- Video conferencing facilities have been installed throughout the Agency to improve communication and reduce travel.**
- Service level agreements have been developed for the delivery of information management services to FCA users.**
- The Agency work/life environment has been improved through management's implementation of telecommuting and maxi-flex programs.**
- The Agency's internal organization was flattened by the elimination of the former Office of Resources Management and by the elevation of the chief information officer and chief financial officer to office head status.**
- Imprest fund policies and procedures have been streamlined.**

**A peer review of our audit operations was successfully completed by the National Archives and Records Administration OIG during this period.**

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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 nonappropriated agency with a fiscal year (FY) 2000 budget of \$35,800,000 for administrative costs. The FY 2000 budget for the Office of Inspector General (OIG) was \$805,814.

FCA currently has 310 established positions, about half of which are examiners located at five field offices. Also included in the Agency positions are five approved positions for the OIG. Appendix II displays the current organizational structure of FCA and Appendix III displays the OIG within that structure.

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

## AUDIT AND INSPECTION REPORTS ISSUED

We issued one audit report during this reporting period, which is summarized below. We conduct all audits in accordance with audit standards established by the Comptroller General of the United States for audits of Federal organizations, programs, activities, and functions. We also issued three inspection reports. Inspections are conducted in accordance with the Presidents’ Council on Integrity and Efficiency’s *Quality Standards for Inspections*. Copies of all reports are available on FCA’s website ([www.fca.gov/oig](http://www.fca.gov/oig)), by contacting the Inspector General’s (IG) office on 703/883-4030, or by e-mail at [BURRJ@FCA.GOV](mailto:BURRJ@FCA.GOV).

In the previous reporting period we began reporting actions required to correct audit or inspection findings as agreed upon actions whenever management and OIG agreed on a mutually acceptable way to resolve a problem identified during the review. When agreement is not reached prior to issuance of the final report, recommendations are made.

## OIG STAFF AUDITS

### **Office of Examination’s Early Warning System Stress Model**

We evaluated this model for its reliability in projecting which Farm Credit System institutions will develop weaknesses that threaten their safety and soundness and to review the effectiveness of special supervision in causing correction of such weaknesses. We found that the system was reliable in forecasting emerging risk and that special supervision was effective. The report does identify opportunities to improve the administration of the model. The report includes one agreed upon action and one recommendation.

## INSPECTION REPORTS

OIG continued to use inspection reports to provide a quick turnaround on issues important to management. We issued three inspection reports during this reporting period.

### **Imprest Fund**

The objectives of this inspection were to evaluate the practices and procedures used to reimburse employees from the imprest fund and measure customer satisfaction with this service. We identified a number of control weaknesses as well as opportunities to streamline the process to make it more efficient and user friendly. As a result of this review eight agreed upon actions were included in the report which will correct these issues.

### **Cash Management and Investment Practices**

This inspection evaluated the Agency's management and investment of funds, most of which are generated by the Agency's assessment of Farm Credit System institutions. The report describes a number of practices in need of improvement, including collection and deposit of funds, the process of making investment choices, and compliance with Agency policies. Eight agreed upon actions were developed with management to correct these deficiencies.

### **Denver Field Office Inspection**

This inspection reviewed the office's compliance with external and internal guidance regarding a variety of administrative functions, as well as validating the implementation of a new Agency policy. We found no serious weaknesses. We did note a concern about security over newly purchased video conferencing equipment. We developed one agreed upon action with management to address this issue. We also validated that the field office has implemented new family friendly workplace initiatives recently adopted by FCA.

## STATUS OF UNIMPLEMENTED RECOMMENDATIONS

During the reporting period, management took final action on 30 recommendations or agreed upon actions. Fifteen were from three audit reports and fifteen were from three inspection reports. At the end of this reporting period, 18 recommendations or agreed upon actions remain open, five for audits and 13 for inspections. Nine of the 18 were included in two reports issued just before the close of this reporting period. Of the remaining nine still open, five were included in the audit of FCA's Procurement and Supply Activities issued March 29, 2000; two from the inspection of Performance Measures issued March 24, 2000; one from the inspection of

the Imprest Fund issued May 4, 2000, and one from the inspection of Telecommunication Costs and Services issued March 28, 2000.

**Audits**

Management took final action on the following open recommendations: two from the audit of the Office of Examination’s Early Warning System Stress Model issued on June 9, 2000; nine from the audit of FCA’s Procurement and Supply Activities issued March 29, 2000; and four from the audit report on the Analysis of the FCA IT Infrastructure issued September 30, 1999.

The five open audit agreed upon actions at the end of this reporting period are all from the audit of Procurement and Supply Activities issued on March 29, 2000. Management closed the two recommendations in this report. They agreed with our recommendation to streamline the central purchasing function to make it more efficient but have not fully completed all of the necessary actions. They rejected our recommendation to eliminate the supply room, which we believe is expensive and adds little value.

**AUDIT RECOMMENDATIONS  
and AGREED UPON ACTIONS**

Open at Beginning of Reporting Period	18
Added This Reporting Period	2
Closed During This Period	15
Balance Remaining Open	5

**Inspections**

Management took final action on five agreed upon actions from the report on the inspection of Telecommunication Costs and Services issued March 28, 2000; three agreed upon actions from the inspection report of the McLean Field Office issued March 31, 2000; and seven agreed upon actions from the report on the inspection of the Imprest Fund issued on May 4, 2000.

The 13 open recommendations and agreed upon actions at the end of this reporting period are as follows: two recommendations from the inspection report on Performance Measures issued March 24, 2000; one agreed upon action from the inspection report on Telecommunication Costs and Services issued March 28, 2000; one agreed upon action from the inspection report on the Imprest Fund issued May 4, 2000; eight agreed upon actions from the report on Cash Management and Investment Practices issued September 28, 2000; and one agreed upon action from the inspection of the Denver Field Office issued September 29, 2000.

Three of these open recommendations and agreed upon actions are slightly over six months old.

### **INSPECTION RECOMMENDATIONS and AGREED UPON ACTIONS**

Open at Beginning of Reporting Period	11
Added This Reporting Period	17
Closed During This Period	15
Balance Remaining Open	13

### **AGENCY FINANCIAL MANAGEMENT SYSTEM**

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

Management installed new financial management software (FINASST) as of October 1, 1999, to correct systemic weaknesses that existed in the predecessor system. FINASST is the Agency's system of record for FY 2000 and will be for FY 2001. However, the implementation of FINASST was difficult and problems with this system caused FCA to enter into a cross-servicing arrangement with the Department of Interior's National Business Center. This service agreement will go into effect at the beginning of FY 2002. The system of record for FCA will



then be Federal Financial Systems (FFS) as managed by the Department of Interior, a system widely used by Federal agencies and one that substantially complies with the requirements described above.

## INVESTIGATIONS

There were three open investigations at the beginning of this reporting period, one of which we closed. No new investigations were opened during this period. The closed investigation concerned a breach of security. A suspect could not be identified but we offered suggestions for improving security.

Most OIG Hotline calls dealt with Farm Credit System borrower complaints and were referred to the FCA division responsible for researching such matters. One call merited a preliminary review by OIG but there was no support for the allegations.

## LEGISLATION AND REGULATIONS

We reviewed several FCA regulations in both proposed and final form. We also reviewed statutory and regulatory compliance issues as they arose in audits and investigations. We have reviewed and commented on proposed legislation affecting the Inspectors General community through the legislation committee of the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE).

## OTHER ACTIVITIES

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

OIG administers an ongoing Agency survey of the regulated institutions of the FCS. This survey program is designed to provide the FCA Board with independent feedback about how well FCA performs its examination and enforcement activities. OIG reports the results of the survey to assure the confidential treatment of individual responses from FCS institutions. We survey the chairman of the board and the chief executive officer of each FCS institution following their receipt of FCA's report of examination for their voluntary feedback on the quality and consistency of the examination and enforcement processes. We mailed out 114 surveys during this reporting period and received 79 responses, a 69% response rate (up from a 60% rate last period). Overall, the average rating for the questions answered this fiscal year was very good (1.44) [1=completely agree; 5=completely disagree] slightly better than the 1.51 average for fiscal year 1999.

### **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.

### **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 are actively involved in one or more professional organizations as well as ad hoc activities of the PCIE/ECIE.

### **Staff Participation in Agency Organizations**

Staff are active on several Agency workgroups and task forces. During this reporting period the OIG was represented on the Equal Employment Opportunity Advisory Committee (which developed the Agency's Affirmative Employment Program), Administrative Burden Reduction Workgroup, Federal Women's Program, Employee Council, Mentoring Program, and the Farm Credit Club.

### **Peer Reviews**

A peer review of our office was performed by the Office of Inspector General of the National Archives and Records Administration during this reporting period.

**APPENDIX I**

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

<b>AUDIT/INSPECTION REPORTS</b>	<b>Number of Recommendations/ Agreed Upon Actions</b>	<b>Questioned Costs</b>	<b>Recommendations That Funds Be Put to Better Use</b>
Early Warning System Stress Model	2		
Imprest Fund	8		
Cash Management and Investment Practices	8		\$25,100
Denver Field Office	1		
<b>Total</b>	<b>19</b>		<b>\$25,100</b>

## APPENDIX Ia

**INSPECTOR GENERAL ISSUED REPORTS  
WITH QUESTIONED COSTS**

	Number		Dollar Value	
	Reports	Recs.	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period	0	0	\$ 0	\$ 0
B. Which were issued during the reporting period	0	0	\$ 0	\$ 0
Subtotals (A+B)	0	0	\$ 0	\$ 0
C. For which a management decision was made during the reporting period				
(i) dollar value of disallowed costs	1	2	\$ 6,999	\$ 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 Ib

**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	1	8	\$ 25,100
Subtotals (A + B)	1	8	\$25,100
C. For which a management decision was made during the reporting period	1	2	\$198,385
(i) dollar value of recommendations that were agreed to by management	1	1	\$110,437
--based on proposed management action	1	1	\$110,437
--based on proposed legislative action	0	0	\$ 0
(ii) dollar value of recommendations that were not agreed to by management	1	1	\$87,948
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