

Office of Inspector General

Semiannual Report
to the Congress

April 1, 1996
to
September 30, 1996



Farm Credit Administration

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



October 22, 1996

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 fifteenth report on the activities of the Farm Credit Administration's (FCA) Office of Inspector General (OIG) since the office was created on January 22, 1989. Section 5(b) of the Act requires that this report be submitted to the appropriate Congressional committees and subcommittees within 30 days ~~of the end of the reporting period~~, together with management's report on the status of audit recommendations and any comments to be made.

This period has been marked by significant improvement in management's action to correct deficiencies reported in audit reports. The chronic backlog of open recommendations has been essentially eliminated; specifically, the 29 unimplemented recommendations that existed at the end of the preceding period have been reduced to only one. There are only four other recommendations still open and those were included in a report issued only four days before the reporting period closed. The management officials responsible for this great improvement should be congratulated.

I appreciate your continued support for OIG's role in improving Agency operations.

Respectfully,

A handwritten signature in dark ink, appearing to read 'Eldon W. Stoehr', is written over a light-colored background.

Eldon W. Stoehr
Inspector General

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REPORTING REQUIREMENTS

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BACKGROUND

The Farm Credit Administration (FCA) 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. FCA is a non-appropriated agency with a fiscal year (FY) 1996 budget of \$37,700,000 for administrative costs of the Agency. The FY 1996 budget for the Office of Inspector General (OIG) was \$800,438.

FCA currently has 384 established positions, about half of which are examiners located at seven field offices throughout the country. Also included in the established Agency positions are the seven approved positions for the OIG. Appendix II displays the current organizational structure of FCA and Appendix III displays the OIG within that structure.

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

AUDIT REPORTS ISSUED

Audits are conducted in accordance with audit standards established by the Comptroller General of the United States for audits of Federal organizations, programs, activities and functions. Three audit reports were issued during this reporting period and are summarized below.

OIG STAFF AUDITS

The following audits were conducted by OIG staff.

Loan Participation Requirements Bookletter.

The objective of this audit was to review the specific activities of the Agency's development of the Office of Examination (OE) Bookletter on Loan Participation Requirements and to identify the reason(s) for the unacceptable delay in the issuance of this bookletter. We concluded the following factors were principally the cause of the untimely development and issuance of OE Bookletter Number 438: lack of a clearly defined scope and format; the review process was extensive, time consuming, and inefficient; a formal priority level and/or project deadline for development was never established; and ineffective communication, both within and between Agency offices.

FCA Practices versus FCA's Expectations of Farm Credit System Institutions.

The objectives of this audit were to: select functions common to both FCA and Farm Credit System (FCS) institutions; document FCA's expectations of FCS institutions for those common functions; document FCA's internal operating policies and practices for those same functions;

and, for each common area, compare FCA's internal policies and practices with the Agency's expectations of the FCS institutions it regulates.

We found some disparities between FCA's internal policies and procedures and the Agency's requirements for FCS institutions imposed through regulations and other guidance. Several of these disparities are unavoidable because of fundamental differences in the character of FCA (a Federal agency subject to the same regulation and oversight as all other Federal agencies) and FCS institutions (financial institutions with fiduciary responsibilities to shareholders and investors). However, we also found instances in which FCA simply holds the FCS institutions to a more stringent standard than it applies to its own internal operations. Our review of cash and investment management indicated that FCA should improve its investment practices and we conservatively estimated a \$53,400 increase in investment earnings (funds put to better use) over a three year period by doing so.

CONTRACTED AUDIT

FCA's EDP Systems Migration Strategy

The OIG contracted with the independent accounting firm of Urbach Kahn & Werlin PC (UKW) to audit FCA's EDP systems migration strategy. The purpose of the audit was to provide an independent assessment of the planning and in-process execution of the strategy. Overall, UKW found FCA's development and implementation of the strategy to be well structured and deployment of resources to date to be efficiently and effectively accomplished. However, they believe the timetable for completing the migration of remaining business applications to be optimistic and that the original cost analysis supporting the migration was incomplete. Findings and recommendations focused on presenting the circumstances surrounding the evolution of the strategy and how best to move the strategy forward in FCA's systems environment.

SPECIAL AUDIT PROJECT

Survey of Farm Credit System 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 surveys the chairman of the board and the chief executive officer of each FCS institution following their receipt of the report of examination to solicit their voluntary feedback on the quality and consistency of the examination/enforcement process. The program was designed with input from management; however, the OIG administers and reports the results of the survey to assure the confidential treatment of individual responses from FCS institutions. During this reporting period, two quarterly status reports were provided to the FCA Board.

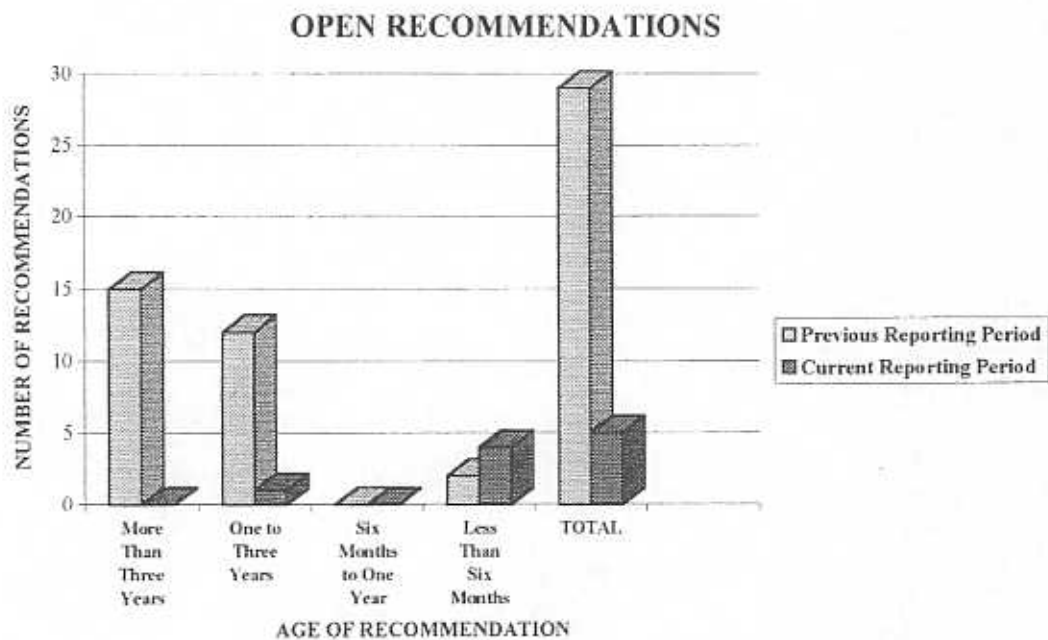
STATUS OF UNIMPLEMENTED AUDIT RECOMMENDATIONS

Management made significant progress during this period to reduce the backlog of unimplemented audit recommendations that have existed for many years. In sharp contrast to prior reporting periods, only one management decision lacked final action at the end of the period. This single recommendation is from the Conformance Review of the Financial Management System issued March 30, 1995. More than one year has elapsed since the date of that report issuance.

The remaining four open recommendations are all from the report on FCA's Practices versus FCA's Expectations of Farm Credit System Institutions issued on September 26, 1996, only four days before the end of this reporting period.

A new audit followup official was recently appointed and he has taken aggressive action to reduce the chronic backlog of outstanding audit recommendations described in prior semiannual reports. Management took final action on 37 audit recommendations, nine of which were on recommendations less than six months old, but 15 of the 37 final actions were on recommendations made more than three years ago, nine of which were more than five years ago. Illustration I demonstrates the improvement in management's action on recommendations.

ILLUSTRATION I



INVESTIGATIONS

At the beginning of this reporting period there were three open investigations. Four additional investigations were opened during this period. Of those seven investigations, two were closed during this six-month period for the following reasons:

- An allegation was made that a Schedule C employee received payments beyond what is allowable upon his/her departure from FCA. Although the employee received two extensions beyond his/her original departure date that ultimately allowed the employee to achieve five years of Federal service and thereby become vested for receiving benefits, there was no evidence that the extensions were unjustified or inappropriate. No other payments or benefits were received by the employee upon departure.
- Two private tenant vehicles were broken into and cellular phones stolen from them at the Farm Credit Building in McLean, Virginia. A review of garage access and FCA employee telephone number usage found no evidence to indicate that an FCA employee was involved. The matter was reported to local authorities for investigation.

At the close of this reporting period four open investigations remain active.

The OIG Hotline received 77 calls or walk-ins during this period. Four of the calls concerned fraud in programs other than those under FCA's jurisdiction and were referred to the appropriate agency. Five calls dealt with Farm Credit System borrower complaints and were either referred to the FCA division responsible for investigating such matters or are awaiting further information from the complainant. Four allegations were internal to FCA and resulted in the opening of investigations. The remainder of the Hotline calls required no investigative action by the OIG.

LEGISLATION AND REGULATIONS

During this period there were three bills which became law and are applicable throughout the Federal government. The Antiterrorism and Effective Death Penalty Act (Pub. L. 104-132) aims at preventing and punishing acts of terrorism. As the 104th Congress came to closure, the Freedom of Information Act was amended by Public Law 104-231 which will, in general, provide for public access to information in electronic form.

The Federal Financial Management Improvement Act of 1996 was enacted on September 30, 1996, as part of the Department of Defense Appropriations Act of 1997 (Pub. L. 104-208). This Act requires agencies to maintain financial management systems that substantially comply with Federal financial management requirements, government accounting standards, and the U.S. Government Standard General Ledger. The Act requires that whoever audits the agency's financial statements must file a report as to whether there has been compliance.

OIG reviewed and furnished comments on three FCA regulations as well as various Agency policies and directives.

OTHER ACTIVITIES

OIG staff are encouraged to participate in organizations which contribute to the mission of the Inspector General community. 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 (ECIE/PCIE) including:

Counsel to the Inspector General chairs the Legislative Committee of the ECIE/PCIE Council of Counsels to Inspectors General.

The Assistant Inspector General for Audit serves as the Small Agency Council representative on the CFO Council Financial Systems Committee, is a member of the Core Group for IGSNet/FinanceNet, serves as a guest instructor at the Inspector General Auditor Training Institute (IGATI), and is a member of the USDA Graduate School Financial Management Advisory Board.

A senior auditor is detailed to the IGATI to serve as an instructor for one year.

The Administrative Officer served on the subcommittee of the PCIE Federal Training Network.

APPENDIX I

AUDIT REPORTS ISSUED BY FCA OIG

April 1, 1996 to September 30, 1996

AUDIT REPORTS	Number of Recommendations	Questioned Costs	Recommendations That Funds Be Put to Better Use
FCA Practices versus FCA's Expectations of FCS Institutions	4	\$ 0	\$53,400
FCA's EDP Systems Migration Strategy	8	0	0
Loan Participation Requirements Bookletter	1	0	0
Total	13	\$ 0	\$53,400

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	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 Ib

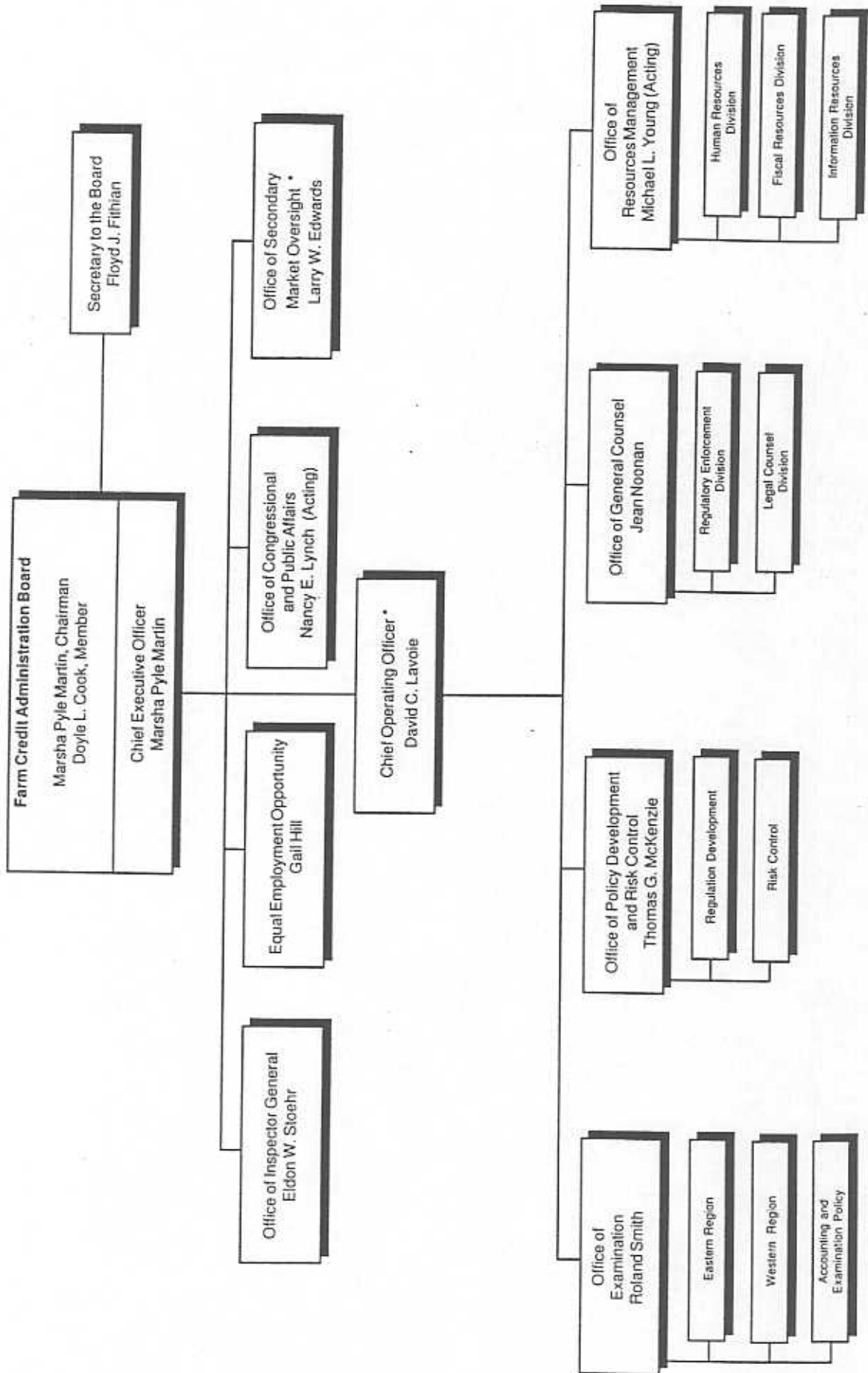
**INSPECTOR GENERAL ISSUED REPORTS WITH
RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	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	4	53,400
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	1	4	53,400
E. Reports for which no management decision was made within six months of issuance	0	0	0

X

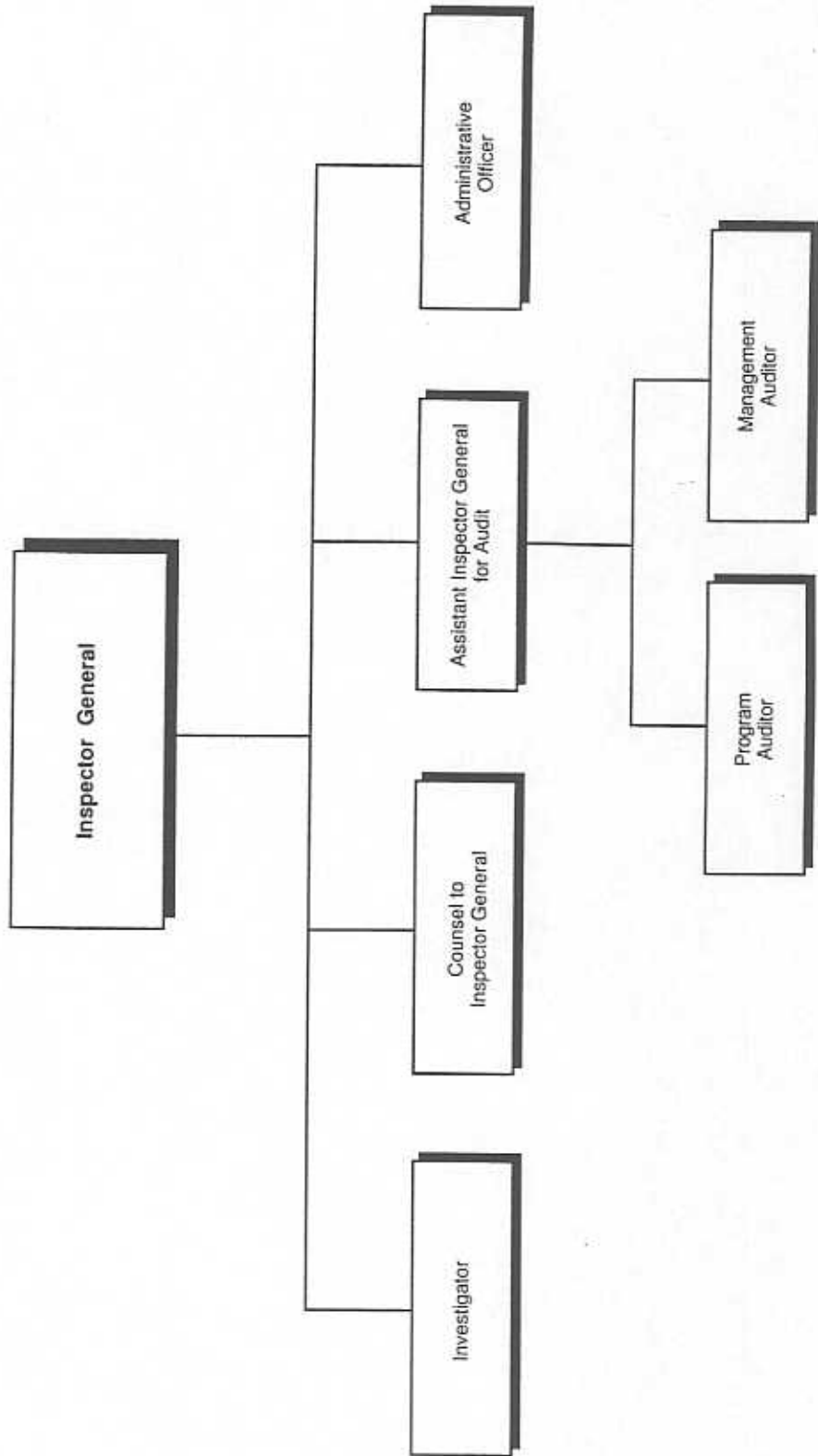
Farm Credit Administration

[Signature]
Chairman
October 1, 1996



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

Office of Inspector General



Kellen O'Brien

Inspector General
October 1, 1996

HOTLINE

800/437-7322

Toll Free 24 Hour Answering Service
703/883-4316 Washington, DC Area

or write

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

INFORMATION IS CONFIDENTIAL

REPORT: FRAUD, WASTE, ABUSE, MISMANAGEMENT

CALLER CAN BE ANONYMOUS

However, each caller is encouraged to assist the Inspector General by supplying information as to how they may be contacted for additional information.