Office of Inspector General

Committees Established by the
Farm Credit Administration Board

06-01

Veronica McCain
Auditor-in-Charge

January 26, 2007

Farm Credit Administration

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

January 26, 2007

The Honorable Nancy C. Pellett
Chairman of the Board and
Chief Executive Officer
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Chairman Pellett:

The Office of Inspector General completed an audit of the Regulation and Policy Development, Risk, and Strategic Planning committees established by the Farm Credit Administration Board. The objectives of the audit were to evaluate whether the committees' operations reflect sound business practices and determine if the work of the committees is helping FCA Board members with their oversight responsibilities.

We found that the establishment of the committees by the FCA Board has improved communication between FCA Board members and Agency staff. Also, the committees have assisted FCA Board members in their oversight responsibilities. To ensure the committees continue to be an integral part of the Agency's structure and functioning, and to refine and strengthen their operations, steps should be taken to fully incorporate or institutionalize the committees within the Agency. Further, the committees should adhere to Federal and Agency guidance on recordkeeping.

We conducted the audit in accordance with *Government Auditing Standards* issued by the Comptroller General for audits of Federal organizations, programs, activities, and functions. We conducted fieldwork from June to December 2006. The OIG held an exit conference and discussed the draft report with you, your Executive Assistant, and the Chief of Staff on December 13, 2006. Based on that meeting, we provided a final draft report to you on January 9, 2007. Subsequently, your office presented planned actions to the OIG to address the report's recommendations. As a result, all recommendations have been changed to agreed upon actions.

If you have any questions about this report, I would be pleased to meet with you at your convenience.

Respectfully,

Carl A. Clinefelter

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Inspector General

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BACKGROUND

The Farm Credit Administration (FCA or Agency) completed phased strategic studies on the Agency's operations in early 2005. The studies resulted in numerous recommendations regarding the Agency's structure and processes. One substantive recommendation was to establish a communications group that would meet regularly and serve as a conduit between FCA Board members and Agency staff with respect to regulation and policy development. Group members would include the executive assistant of each FCA Board member and individuals representing the Offices of Regulatory Policy, General Counsel, Examination, and Secondary Market Oversight. According to the recommendation, the communications group's purpose would be to facilitate communication and information flow between the FCA Board and Agency staff, but would have no decision-making authority.

Another strategic study recommendation was that FCA comply with the concepts of the Sarbanes-Oxley Act of 2002 to improve FCA Board governance by forming a collaborative, but non-directive group, to:

- Periodically scan for potential emerging risks,
- Study their likelihood and impact,
- Plan the appropriate regulatory response, and
- Provide input to the policy process.

In response to these recommendations, the FCA Board revised its major operational policy, Policy Statement 64, effective June 27, 2005, and established three committees: Regulation and Policy Development, Risk, and Strategic Planning. The committees became a part of the Agency's published organization structure in January 2006. [See Appendix A for the Agency's Organizational Chart.]

The committees are intended to assist the FCA Board in exercising its responsibility for Agency oversight, approval of regulations and policy, the monitoring and assessment of risk, and the formulation of the Strategic Plan. Each committee is comprised of the FCA Board members' executive assistants and such other Agency staff as determined by the chair of each committee. Each committee chair is designated by the FCA Board Chairman. Each committee chair is to designate a coordinator with expertise in, or significant accountability for, the activities of the committee.

OBJECTIVE AND SCOPE

The objectives of this audit were to evaluate whether the committees' operations reflect sound business practices and determine if the committees' work is helping FCA Board members with their oversight responsibilities.

The scope of our audit work included the following:

1. Interviews with FCA Board members and their executive assistants,
2. Interviews with each committee chair and coordinator,

3. The review of products generated by the committees,

4. The review of the strategic studies entitled Organizational Needs for the Office of Examination, Office of Policy and Analysis, and Office of Secondary Market Oversight dated March 31, 2005.

5. The review of Policy Statement 64 as it pertains to the committees' objectives,

6. The review of law and internal guidance on records management and how committees should function, and

7. The review of best practice documents and external guidance on how committees should function.

FINDINGS AND RECOMMENDATIONS

The establishment of the committees by the FCA Board has improved communication between FCA Board members and Agency staff. The committees are seen as a valuable mechanism to assist FCA Board members in their oversight responsibilities. To ensure the committees continue to be an integral part of the Agency's structure and functioning, and to refine and strengthen their contributions, steps should be taken to fully incorporate or institutionalize the committees within the Agency. Further, the committees should adhere to Federal and Agency guidance on recordkeeping.

Communication Improvements

Based on our discussions with FCA Board members and Agency staff, the committees have been an effective conduit for two-way communication between the FCA Board and staff. FCA Board members see the committees as a focal point where issues may be surfaced and discussed, and consensus achieved. According to FCA Board members, since the establishment of the committees, particularly Regulation and Policy Development, FCA Board members are learning about rule-making issues in the developmental stages and, with the opportunity to provide FCA Board comment early on, avoiding or reducing delays in the rule-making process. In addition, FCA Board members indicated they are now more involved in the rule-making process and are able to make better decisions based on their more comprehensive involvement. FCA Board members have been pleased with the work of the Regulation and Policy Development Committee and were able to cite specific regulations where this committee's output has directly and positively impacted the FCA Board's ability to better carryout its responsibilities. Two FCA Board members also expressed their desire that all the committees remain as a permanent part of the Agency's organizational structure.

Committee Functioning

Considering the significant role the Regulation and Policy Development Committee has played in assisting FCA Board members' decisions on regulation and policy development, and the potential the other committees have to assist the FCA Board in the areas of risk management and strategic planning, steps should be taken to ensure the committees' intended functions and operations are fully delineated and documented.

The objectives for each committee outlined in Policy Statement 64 are as follows:

- Regulation and Policy Development Committee - To provide a forum to (1) obtain FCA Board input throughout the entire process of developing, modifying, or eliminating individual regulations, (2) discuss changes in processes and procedures that will improve the Agency's regulation and policy development process, and (3) foster open discussion during the development and periodic update of the Agency's regulatory agenda.

- Risk Committee - To provide a forum to (1) facilitate FCA Board awareness of risks to the ongoing mission fulfillment and safety and soundness of the System and Farmer Mac, (2) ensure an integrated and coordinated Agency risk analysis process that effectively uses information from a wide variety of internal and external sources, and (3) foster open discussion about risks to the System and Farmer Mac and the implications of such risks for future Agency operations.

- Strategic Planning Committee - To provide a forum for FCA Board input on (1) the development of, and periodic updates to, the Strategic Plan, and (2) changes in processes and procedures that will improve the quality of this key Agency document.

These objectives are the only reference point for understanding the purpose of the committees. However, given the major role intended by the FCA Board for the committees and the envisioned permanence of the committees, documentation on the role and functioning of the committees should be further developed.

According to the FCA Examination Manual, Farm Credit System institutions' board committees should have clear written statements of their mission, authorities, responsibilities, and duration. While the structure of the committees established by the FCA Board is not directly parallel to committees of System institutions' boards, the former are Agency committees and should adhere to the same standards of committee establishment and operations to which System institution board committees are held.

Additionally, our audit did not find evidence of FCA Board expectations by which committee performance could be measured. To ensure that the committees function as envisioned by the FCA Board, performance expectations should be developed for each committee. Performance expectations would enable the performance of the committees to be assessed and redirected as necessary.

An Agency document expanding the purpose and expectation of the committees would provide a better Agency-wide understanding of the committees. In addition, such a document could help ensure the committees are fully incorporated into the Agency's communication and decision-making processes between the FCA Board and Agency staff. Based on our research of effective committee establishment and functioning, this document could include the following for each committee:

- Mission
- Scope of Responsibilities
- Performance Expectations
- Authorities
- Structure

- Meeting Schedule
- Operating Processes
- Record Keeping Guidelines

Agreed Upon Action

1. ***The Chief Executive Officer should formally document the mission, authorities, responsibilities, performance expectations, and duration of the Regulation and Policy Development, Risk, and Strategic Planning Committees.***

Recordkeeping Practices

A record of committee meetings should be made to ensure Agency business transactions are documented and maintained. According to Federal guidance, the head of each Federal agency shall make and preserve records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency.[1] The Agency's guidance on records management states that employees must ensure minutes are taken at important FCA Board, committee, and staff meetings at which Agency business is transacted or discussed.[2] For example, minutes must be taken and maintained when there is a meeting of a group that makes recommendations to a person(s) in a decision- or policy-making position. The minutes must be maintained within the Agency's system of records and include a copy of the agenda and all documents that were considered at or resulted from such meetings.

During committee meetings there is open discussion between senior-level Agency staff and FCA Board members' executive assistants. Discussions include issues that effect FCA Board members' decisions in areas such as regulation and policy development, risk management, strategic planning, and governance. According to committee members, while participants have taken notes during committee meetings, there are no formal minutes taken and maintained to record what was discussed at the meetings. Considering that committee discussions assist FCA Board members in making decisions, a record of committee meetings should be documented and maintained in official Agency files. In addition, documents generated for committee meetings are also considered Agency records and should also be maintained in official Agency files. A centralized database system would be an effective tool for storing, organizing, and sharing committee meeting records.

Agreed Upon Action

2. ***The Chief Executive Officer should require that the Regulation and Policy Development, Risk, and Strategic Planning Committees make a record of committee meetings and ensure these records are maintained in official Agency files.***

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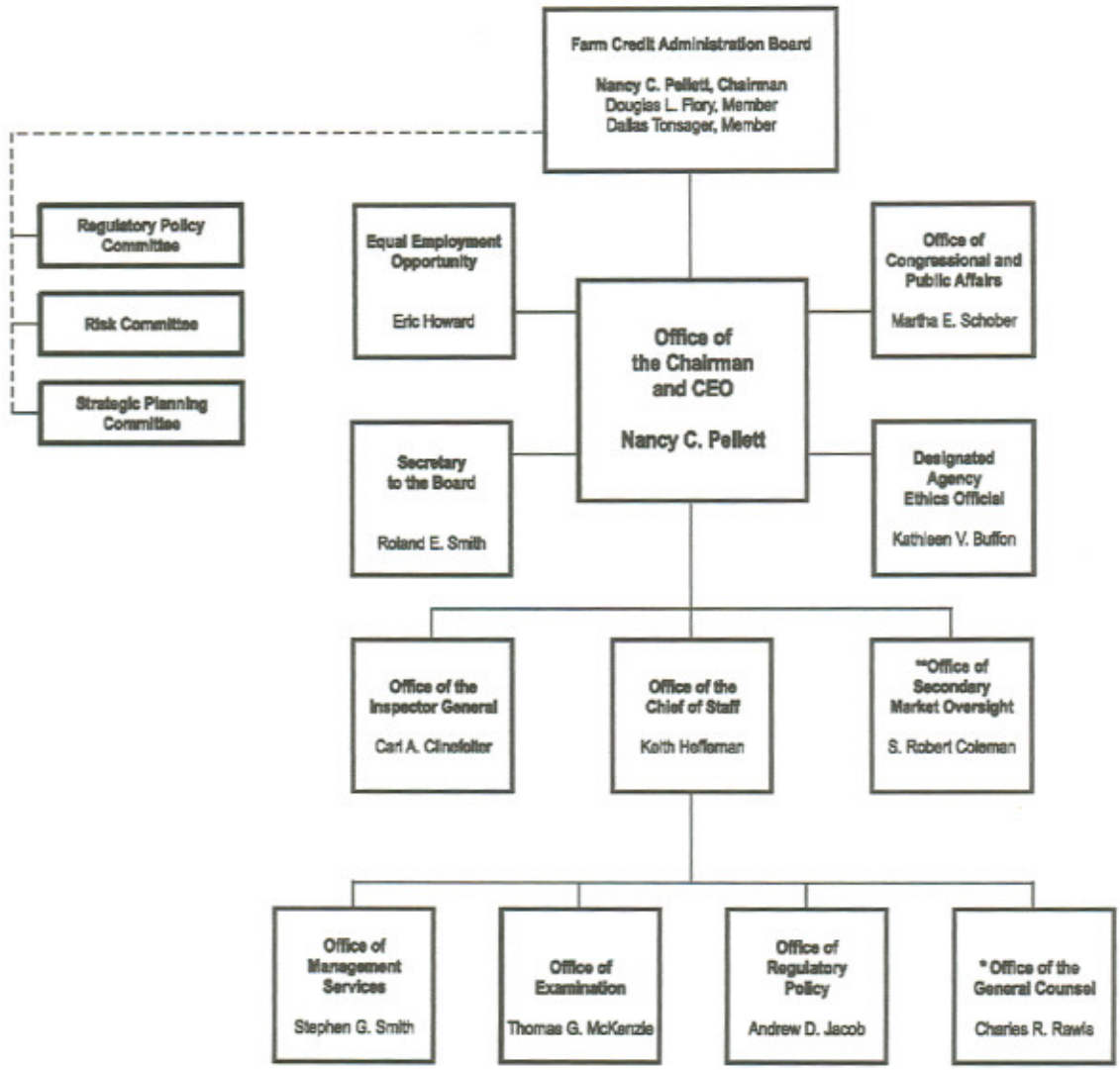
[1] 44 U.S.C. 31 § 3101, Records Management by Agency Heads.
[2] Agency Administrative Policy 903, Records Management June 7, 1998.

Farm Credit Administration Organizational Structure

As of January 3, 2006



*Maintains a confidential advisory relationship with each of the Board members.
** Reports to the Board for policy and to the CEO for administration.

R E P O R T

Fraud ❖ Waste ❖ Abuse ❖ Mismanagement

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