

OFFICE OF
INSPECTOR GENERAL

Report of Audit

Office of Examination
Travel Expense Budgeting,
Usage and Control

A-09-02

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Auditor-in-Charge



July 23, 2009

FARM CREDIT ADMINISTRATION



July 23, 2009

The Honorable Leland A. Strom
Chairman of the Board
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Chairman Strom:

The Office of Inspector General completed an audit of the Office of Examination's (OE) Travel Expense Budgeting, Usage and Control.

We found OE's travel expense budgeting process, usage and control to be satisfactory. The travel budget is well defined and supported, and travel expenditures are appropriately tracked by functions performed by the OE. Our analysis of travel usage shows that organizational changes and examination methodology have primarily contributed to travel costs increasing, but not inappropriately. OE continuously monitors travel expenditures to ensure they do not exceed budgeted amounts. In addition, technology is being used as an alternative to travel. OE and the Agency as a whole can achieve additional travel expenditure savings through the increased use of technology.

We conducted the audit in accordance with *Government Auditing Standards* issued by the Comptroller General for audits of Federal organizations, program activities, and functions. We conducted fieldwork from January 2009 through June 2009, provided a discussion draft report to management on June 24, 2009, and held an exit conference regarding the discussion draft report with the Chief Examiner on July 21, 2009.

We appreciate the courtesies and professionalism extended to the audit staff. If you have any questions about this audit, I would be pleased to meet with you at your convenience.

Respectfully,

A handwritten signature in black ink that reads 'Carl A. Clinefelter'.

Carl A. Clinefelter
Inspector General

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BACKGROUND

The Office of Examination (OE) is the largest organizational unit in the Farm Credit Administration (FCA or Agency) and responsible for the Agency's ongoing examination and supervision of Farm Credit System (FCS or System) institutions. Over the past several years, OE has undergone significant organizational change. This was based in large part on recommendations made from a 2005 strategic study of OE and other Agency operations that was completed by an outside firm. Prior to FY 2006, OE's organizational structure consisted of five field offices that conducted examinations primarily within their geographic territory. In FY 2006, while there remained five field offices, OE changed its organizational methodology from a geographical to a functional structure. That is, each of the field offices contributes staff to the examination and supervision functions on a national versus regional basis. Put another way, the functional organizational structure is intended to allow OE to bring to examinations the needed skills and resources regardless of their geographic location.

The new organizational structure does require OE staff to travel to locations outside their geographic location; however, OE feels it makes all efforts to accomplish its mission by using its human resources as efficiently as possible.

OBJECTIVE AND SCOPE

The objective of this audit was to evaluate OE's budgeting process, usage and control regarding travel expenses.

The scope of the audit work included the following:

- Interviews with the Chief Operating Officer, Chief Examiner, Chief Information Officer and OE budget staff.
- Review of the Agency's strategic study entitled Organizational Needs for the Office of Examination, Office of Policy and Analysis, and Office of Secondary Market Oversight dated March 31, 2005, conducted by KPMG.
- Review of OE's organizational charts, travel information, operational plans, staffing data, bank examination information and time recording system data.
- Review of various OE travel budget/expenditure data provided by the Office of Management Services for FYs 2004-2009.

The audit was performed at FCA headquarters in McLean, Virginia, from January 2009 through June 2009, in accordance with generally accepted auditing standards for Federal audits.

CONCLUSIONS

OE's travel budgeting process, usage and control are satisfactory.

Travel Budgeting Process. We found OE's process for determining its travel budget was satisfactory. OE's travel budget process is a detailed systematic assessment of projected travel costs for the various functions performed by the office. The travel budget is well defined and supported.

Travel Budget Usage. Travel expenditures are appropriately tracked by functions performed by OE. This process provides a clear perspective on how travel funds are being used. Our analysis of travel usage shows that organizational changes and examination methodology has primarily contributed to travel costs increasing but not inappropriately.

Travel Expenditure Control. OE has implemented processes to control travel costs. Travel expenditures are continuously monitored to ensure expenditures do not exceed budgeted amounts. Examination schedules are coordinated so that travel is conducted economically and efficiently. In addition, technology is being used as an alternative to travel.

While OE has made strides in its use of technology to reduce travel costs, OE and the Agency as a whole can achieve additional travel expenditure savings through the increased use of technology.

AUDIT RESULTS

Travel Budgeting Process

OE's travel budget is well defined and supported. OE uses a functions/activities matrix approach for generating its travel budget. This matrix process breaks travel into manageable areas for estimating travel costs. The diagram below shows how the process works. This diagram is for illustrative purposes only.

SUMMARY OF OE FUNCTIONAL AREAS & RESOURCE NEEDS							
Area of Responsibility	Functions/Activities	TRS Code	Sponsor	Projected OE Staff Days ²		Projected OE Travel Costs	
				2007	2008	2007	2008
Human Capital Administration & Development	Human Capital Planning	3004/3379	EPDD	135	65	\$ 3,600	\$ 3,300
	Recruiting	3164	EPDD	175	150	\$ 15,000	\$ 7,500
	Commissioning Program	3320	EPDD	610	170	\$ 41,100	\$ 21,900
	Training Admin & Development	3163	EPDD	820	790	\$ 82,800	\$ 72,600
	Pre-Com On-The-Job Training (OJT)	3384	SDT	2,000	1,880	\$ 30,000	\$ 30,000
	Pre-Com OJT -- Trainer Time	3385	SDT	620	570	\$ -	\$ -
	Training Taken (all staff -- IDP & Just-In-Time)	3001	EPDD	1,660	1,760	\$ 242,400	\$ 253,100
General Exam Support	Workflow Integration Project	3317	RSD	300	200	\$ 30,000	\$ 18,000
	Internal Communications	3247	OCE	2,580	2,570	\$ 356,100	\$ 356,200
	OE Conference Attendance	2050	OCE	0	700	\$ -	\$ 210,000
	FCA Support of FCSIC	3279	RSD	150	150	\$ 4,500	\$ 4,500
Policy & Guidance	Policy Liaison and Regulation Support	3389 ³	RSD	700	700	\$ 7,200	\$ 7,200
	Exam Policy, Guidance, & Tools	2640	EPDD	800	600	\$ 44,400	\$ 22,500
	Interpretations	3387	RSD	200	200	\$ 4,800	\$ -
	Accounting Guidance & Support	3388	EPDD	150	90	\$ 3,000	\$ 3,000
Risk ID & Supervision	Risk Assessment Programs	508	RSD	480	450	\$ 36,000	\$ 28,800
	Strategic Risk Supervision	3386	RSD	310	300	\$ 30,000	\$ 30,000
	National Examination Activities	uninum	ETs	1,800	2,100	\$ 123,800	\$ 145,800
	Base Supervisory Activities (Institutions)	uninum	ETs	4,205	4,175	\$ -	\$ -
	Portfolio Risk Pools	uninum	ETs	4,080	3,965	\$ 625,500	\$ 646,500
	Farmer Mac	uninum	BMRT	480	530	\$ -	\$ -
	National Cooperative Bank	uninum	BMRT	160	160	\$ 24,500	\$ 24,500
	Contract Exams (SBA-3143, USDA-3314, or uninum)	--	SPET	1,420	1,340	\$ 293,000	\$ 303,000
	General Examination	2026	OCE	960	960	\$ 28,800	\$ 28,800
	Borrower Complaints & Congressional Inquiries	3156	EPDD	20	20	\$ -	\$ -
Planning, Reporting, & Controls	OE Planning & Scheduling	3004	RSD	400	400	\$ 12,600	\$ 12,600
	Budgeting	3235	RSD	20	20	\$ -	\$ -
	IRMOG & IRM Planning	3330/3331	CET	20	20	\$ 6,000	\$ 6,000
	Management Reporting	2308	RSD	190	190	\$ 4,800	\$ 4,800
	Internal Controls Program	2042	OCE	300	300	\$ 24,000	\$ 24,000
Subtotal - OE Mission Areas:				25,745	25,525	\$ 2,073,900	\$ 2,264,600
Management & Admin Support	General Admin	3002	OE	1,260	1,260	\$ 20,000	\$ 20,000
	Clerical & Administrative Support	3005	OE	2,000	2,000	\$ -	\$ -
	Management & Supervision	3160	OE	1,120	1,120	\$ 20,000	\$ 20,000
	Employee/Management Relations	3165	OE	70	70	\$ -	\$ -
	Leave	3244	OE	6,300	6,280	\$ -	\$ -
	Ethics Program	3251	OE	30	30	\$ -	\$ -
	EEO	3254	OE	140	140	\$ 5,000	\$ 5,000
Subtotal - Mgmt & Admin Support:				10,920	10,900	\$ 45,000	\$ 45,000
Grand Total OE Resource Needs:				36,665	36,425	\$ 2,118,900	\$ 2,309,600
Resources Available:				36,380	36,300		
Resource Excess/(Shortfall):				(285)	(125)		
Mgmt & Admin Support Adjustment Factor:				130%	130%		
Add'l Needs to Fund Shortfall Internally:				370	162		

OE's travel budget is broken out into six main areas of responsibilities.

Within each of the main areas are function activity line items which account for all the work performed by OE.

Each function activity line item has a sponsor within OE who is responsible for initially developing that portion of the travel budget.

The sponsors determine the number of days and costs for travel planned for their specific function activity line item. Travel budget estimates are based on historical information and projected travel needs.

The sponsor forwards their budget estimates with supporting documentation to the responsible Division Director. The Division Director reviews the information and discusses the data with the sponsor, as needed.

The Division Directors forward their information to OE budget personnel. Budget personnel review budget information for reasonableness and support, and consolidates the data into the overall OE travel budget spreadsheet.

¹ Codes (Note: Input to the Sponsor on any given function is the responsibility of all Divisions/Teams/Staff)

S = Sponsor

R = Resource Provider (primary)

r = Resource Provider (secondary and/or as needed)

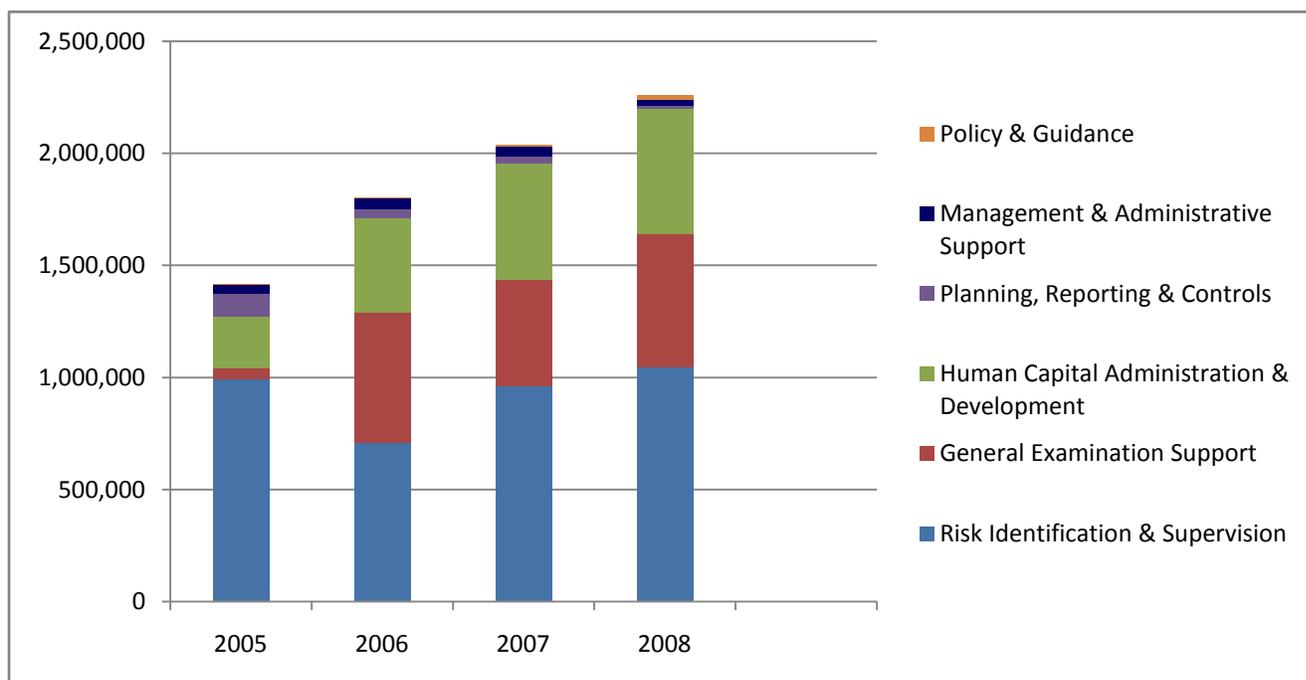
² OE Time Only -- several functions will also involve resources from outside OE

³ In addition to the RSD Policy Liaison function (TRS code 3389), this line item includes involvement in other regulatory projects, such as Loan Syndication Investments in Rural USA (3292), Scope and Eligibility (3351), etc.

The consolidated spreadsheets are forwarded to the OE Executive Management Team and Chief Examiner for review and discussion, and are adjusted as needed. The consolidated spreadsheets are then forwarded to Agency senior management for review. The Chief Examiner discusses the proposed budget with Agency senior management and makes revisions as needed. The budget is then submitted for FCA Board approval.

Travel Budget Usage

The chart below shows a break-down of actual travel expenses in OE's six main categories of operations from FYs 2005-2008.



The chart shows travel expenditures are mainly in the areas of risk identification and supervision, general examination support, and human capital administration and development. It also shows the level of travel funds used in each of these areas has varied over the years. Based on discussions with the Chief Examiner and budget staff, travel cost increases in these areas can mainly be attributed to the following organizational and examination methodology changes.

- Risk Identification and Supervision** - Decreased travel costs from FY 2005-2006 were due to OE reorganizing and changing its examination philosophy to a more risk-based approach¹. The risk-based examination approach resulted in nearly half of the FCS institutions not receiving the examination related travel they had experienced in prior years. Also examination staff was reduced by 13 employees from FY 2005 -2006.

¹ An examination approach that seeks to stay abreast of risk in an individual FCS institution and focus examination efforts and resources in areas that could materially impact the safety and soundness of the FCS institutions.

The increase in cost in FY 2007 was due to 14 new associate examiners traveling to FCS institutions for on-the-job training. In addition, OE implemented its National Examination Program which included onsite examinations in the areas of call reporting, information technology and compliance, and shared assets. Also, due to risk at FCS institutions toward the end of FY 2007, OE managers began to increase onsite examination activity.

- General Examination Support - Prior to FY 2005, Agency senior management decided to limit the executive management meetings and there was no OE annual conference. This resulted in little travel funds being expended on general examination support and a smaller baseline for measuring growth in this area in future years.

In FY 2006, there was increased work and meetings at various field offices to orient the staff to the new organizational structure and risk-based examination process. In addition, improvements were made with the way travel expenditures were being recorded in the travel system resulting in a more accurate assessment of general examination support travel costs.

Overall, the reorganization that began in FY 2006 has resulted in about two years of adjustments with additional travel funds being expended on examination support activity.

- Human Capital Development - Human capital development and training increased in FY 2006 due to increase travel for recruiting new examiners.

In FY 2007 and FY 2008, there were further increases in training-related travel due to the revamping of the commissioning program and placing greater emphasis on formal training for the new associate examiners hired in FY 2006-2008.

OE is taking steps to control travel costs in these areas. This includes placing greater emphasis on technology to reduce travel between field offices and FCS bank examination travel.

Travel Expenditure Control

OE's travel expenditures are monitored throughout the year to ensure costs remain under budget. In addition, technology is being used to reduce travel costs.

Monitoring Costs - OE's actual travel costs are continuously monitored by OE and other Agency staff.

OE Travel Budget Staff - OE has a staff member who is responsible for overseeing the travel budget. The Office of Management Services Finance Team (OMS/FT) provides this person the following reports to assist with monitoring travel costs:

- Detailed monthly reports on all travel vouchers filed and authorized outstanding, with a summary of days and dollars expended for travel in the six broad area budget categories,

- Quarterly reports on total nights traveled by each examiner, and
- OE and OMS/FT then work together to complete various analyses on OE's travel data.

Field Office Directors and Supervisors - On a quarterly basis, OE budget staff provide field office directors and supervisors a summary of the travel expenses used to date compared with the budgeted amounts.

As part of their operating plan, field office directors review their examination schedule and coordinate examinations to minimize staff travel time and ensure that the most economical and efficient way of conducting examinations is utilized.

Agency Senior Management - As part of OE's quarterly operation report to the Chief Operating Officer and Board members' Executive Assistants, OE provides year-to-date actual travel cost expenditures by functional activities compared to budgeted amounts.

Actual versus Budget Travel Costs - The continuous monitoring of travel costs has contributed to OE not exceeding their travel budget.

Fiscal Years	Approved Travel Budget	Actual Travel Costs
2005	\$1,839,323	\$1,414,939
2006	\$2,082,213	\$1,800,629
2007	\$2,130,900	\$2,038,798
2008	\$2,394,000	\$2,258,985

Leveraging Technology - OE is using technology to reduce travel costs. For example, recently OE used Live Meeting² to conduct a training session on the new financial institution rating system oversight template. The Live Meeting was hosted by the McLean office and each of the field offices were connected on-line. The training was presented using a PowerPoint presentation. Field office staff was able to follow the PowerPoint presentation and ask questions using the whiteboard tool. The Agency plans on purchasing additional webcams which can be used with Live Meeting and is also in the process of upgrading the infrastructure in the field offices to increase bandwidths.

Technology development is also being incorporated to assist with reducing travel costs for bank examinations. For example, five of the largest FCS institutions have signed an interconnect agreement with the Agency which allows FCA direct access to their financial information. Also the Agency has been working on the loan database to improve the sources of data to help with

² Live meeting is an online meeting space that allows you to collaborate in real-time even over long distances. Meeting attendees can deliver presentations, kick off a project, brainstorm ideas and collaborate on white boards from their personal computer without raveling.

off-site oversight. The Agency's Chief Information Officer stated in the future the Agency will encourage more FCS institutions to take part in the interconnect agreement, but hardware/software compatibility and security concerns must be carefully considered.

Agencywide Technology Advancement

The Agency has also made investments in other technology such as Microsoft Communicator, a tool that enables users to communicate better when using instant messaging, voice, desktop sharing and video. It is used more for smaller group communication such as discussions and chats. In addition, the Agency has upgraded its videoconferencing to High Definition videoconferencing. The videoconferencing picture is better, much clearer and does not have as many problems with connections as in the past.

Technology investments such as Live Meeting, Microsoft Communicator and High Definition videoconferencing are Agencywide initiatives that can help FCA work more efficiently. As the Agency continues to invest in technology to improve operations, measures need to be in place to ensure these investments are being fully utilized and projected benefits realized.

R E P O R T

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