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,

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.
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 AREA & RESOURCE NEEDS

<table>
<thead>
<tr>
<th>Area of Responsibility</th>
<th>Functions/Activities</th>
<th>TRS Code</th>
<th>Sponsored</th>
<th>Projected OE Staff Days</th>
<th>Projected OE Travel Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Capital</td>
<td>Human Capital Planning</td>
<td>40450700</td>
<td>135</td>
<td>1,660 $3,300</td>
<td>2,300 $4,200</td>
</tr>
<tr>
<td></td>
<td>Recruiting</td>
<td>364</td>
<td>175</td>
<td>153 $1,500</td>
<td>7,400 $14,000</td>
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<tr>
<td></td>
<td>Compensation Program</td>
<td>40450700</td>
<td>619</td>
<td>174 $1,100</td>
<td>21,190 $24,190</td>
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<tr>
<td></td>
<td>Training &amp; Dev</td>
<td>364</td>
<td>870</td>
<td>794 $3,100</td>
<td>72,400 $12,400</td>
</tr>
<tr>
<td></td>
<td>Pre-Doc On-The-Job Training (POST)</td>
<td>364</td>
<td>2,100</td>
<td>1,880 $10,000</td>
<td>30,000 $60,000</td>
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<tr>
<td></td>
<td>Pre-Doc Off - Training Time</td>
<td>364</td>
<td>8,900</td>
<td>671 $45,000</td>
<td>253,100 $1,460,000</td>
</tr>
<tr>
<td></td>
<td>Training T'ees (all stff - IT/IS &amp; In Time/In Time)</td>
<td>364</td>
<td>1,660</td>
<td>1,760 $742,400</td>
<td>253,100 $2,850,000</td>
</tr>
<tr>
<td>General Staff Support</td>
<td>Workforce Integration Project</td>
<td>364</td>
<td>300</td>
<td>208</td>
<td>18,000 $36,000</td>
</tr>
<tr>
<td></td>
<td>O&amp;E's Travel Budget is broken out into six main areas of responsibilities.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Each function activity line item has a sponsor within OE who is responsible for initially developing that portion of the travel budget.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>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.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>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.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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1. Codes: S = Sponsor, B = Basic Function, R = Resource Provider (secondary to primary, if needed)
2. Time Only - travel functions will also involve resources from outside OE
3. OE Time Only - travel functions will also involve resources from outside OE
4. OE Time Only - travel functions will also involve resources from outside OE
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 approach\(^1\). 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.

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\(^1\) 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.

<table>
<thead>
<tr>
<th>Fiscal Years</th>
<th>Approved Travel Budget</th>
<th>Actual Travel Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$1,839,323</td>
<td>$1,414,939</td>
</tr>
<tr>
<td>2006</td>
<td>$2,082,213</td>
<td>$1,800,629</td>
</tr>
<tr>
<td>2007</td>
<td>$2,130,900</td>
<td>$2,038,798</td>
</tr>
<tr>
<td>2008</td>
<td>$2,394,000</td>
<td>$2,258,985</td>
</tr>
</tbody>
</table>

Leveraging Technology - OE is using technology to reduce travel costs. For example, recently OE used Live Meeting\(^2\) 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

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\(^2\) 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.
REPORT
Fraud | Waste | Abuse | Mismanagement

FARM CREDIT ADMINISTRATION
OFFICE OF INSPECTOR GENERAL

- Phone: Toll Free (800) 437-7322; (703) 883-4316
- Fax: (703) 883-4059
- E-mail: fca-ig-hotline@rcn.com
- Mail: Farm Credit Administration
  Office of Inspector General
  1501 Farm Credit Drive
  McLean, VA  22102-5090