

Office of Inspector General

FISCAL YEAR 2004 PERFORMANCE REPORT



December 2004

Farm Credit Administration

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



January 4, 2005

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

Dear Ms. Pellett:

The Government Performance and Results Act of 1993 encourages organizations to manage for results and hold managers accountable for executing programs to achieve desired outcomes. The enclosed report documents the outcomes or impact of the Office of Inspector General (OIG) products and services. The report demonstrates the success the OIG had working with the Agency to accomplish its mission of ensuring a dependable source of credit for agriculture and rural America.

The OIG has been successful in its role as an agent for positive change within the Farm Credit Administration. The results reflect the commitment that OIG staff has to helping you, the FCA Board, and FCA employees achieve the agency's mission. We are committed to continuing to work with you to ensure FCA remains vigilant in its efforts to accomplish its mission. I welcome your comments on ways the OIG can continue to improve our services that help you achieve your goals for FCA operations. If you have any questions, or concerns, please call me.

Respectfully,

Stephen G. Smith

Enclosure

TABLE OF CONTENTS

| | Page |
|---|------|
| Executive Summary | 1 |
| Audits and Inspections | 2 |
| Investigations | 5 |
| Legislative and Regulatory Review | 7 |
| Outreach | 8 |
| Appendix 1 | |

Farm Credit Administration Office of Inspector General FY 2004 Performance Measures

EXECUTIVE SUMMARY

The Office of Inspector General (OIG) of the Farm Credit Administration (FCA or Agency) met or exceeded most targets or goals for performance in Fiscal Year (FY) 2004. Goals pertained to:

- audits and inspections,
- technical assistance to agency officials and management,
- continuous improvement of the OIG staff,
- investigation of administrative and criminal violations,
- reviewing and commenting on legislation and regulations affecting the Agency and the IG community, and
- outreach.

During this reporting period the OIG issued two program audits: 1) the Farm Credit System Building Association Business Practices and 2) Human Capital: Job Classification. The FY 2003 Audit of the FCA's Financial Statement was also issued without material findings.

An inspection of Project Management was issued, as well as a review of the Federal Information Security Management Act (FISMA). OIG began a new practice of issuing IG Observations. The purpose of issuing the Observation is to alert agency officials and managers to new issues, problems or analysis to aid in decision making. The first one issued at the end of this year, compared compensation at FCA with that of other financial regulators. A previous practice was to issue an IG Advisory to management. Several such advisories were issued on subjects including: Sunshine in Government Act practices, confidential treatment of Closed Board Meeting sessions, the financial management system, consolidation of financial regulators, the accuracy of Board meeting records, enhancing public awareness of FCA's mission, governance, timeliness of information distribution, and Board practices.

OIG products were timely and constructive. Most products addressed risk to the Agency. Over 80% of the products contained recommendations to improve agency operations. Feedback from an audit survey instrument showed management's satisfaction with OIG products.

Since 1995, the OIG has developed, administered, and collected survey data from the Farm Credit System, following a financial institution examination, for use by the Agency as a feedback mechanism in the areas of safety and soundness and value-added results.

A measure of our success is contributing to the Agency's continuous adaptation of sound business practices and basic integrity. We are hopeful that the Agency will continue to show firm commitment to decision making and follow-up to improve operations and programs.

The OIG welcomes comments and suggestions related to performance measurement.

**Farm Credit Administration
Office of Inspector General
FY 2004 Performance Measures**

| AUDITS AND INSPECTIONS | |
|--|---|
| Objective—Audit and evaluate the Agency’s programs and operations to promote economy, efficiency and effectiveness. | |
| Performance Goal 1—Deliver quality audit and inspection products and services that are useful to the Board. | |
| OUTPUT/CRITERIA | OUTCOME/IMPACT |
| <p>Audits and inspections are relevant. Audit coverage includes all mandated audits and at least 75% of those suggested by the Board and management. Risk is addressed. 100% of the OIG audits are performed in high risk/high dollar programs and activities and/or are tied to the Agency strategic planning goals.</p> <ul style="list-style-type: none"> ▪ OIG contracted with a CPA firm to review FCA’s mission critical systems under the Federal Information Security Management Act (FISMA) and by auditing FCA’s financial statements. <p>Findings made during audit fieldwork are recognized and corrected by management prior to drafting of the audit or inspection report.</p> <ul style="list-style-type: none"> ▪ The strong trend previously established has lagged slightly this reporting period as ten agreed upon actions are pending implementation and eight recommendations have yet to be acted upon. <p>Products are timely, i.e., average time to complete audits and issue draft reports will not exceed six months.</p> <p>Audits are constructive. At least 75% of audit products contain recommendations to improve agency operations. The Agency accepts at least 80% of the OIG audit recommendations. The Agency actually implements all corrective actions prescribed by management decisions.</p> <ul style="list-style-type: none"> ▪ 80% of audit products contain recommendations to improve agency operations. ▪ The Agency accepted 66 2/3% of audit recommendations. ▪ Audits were performed within 7.5 months (average). | <p>FCA programs and operations are more effective. Waste in agency programs and operations is reduced. Better business practices are initiated.</p> <ul style="list-style-type: none"> ▪ FCA continues to improve and develop mechanisms to streamline budget data to products and services. ▪ Unqualified opinion for agency financial statements. Security of information validated through FISMA review. ▪ FCA has a redesign project underway to improve the Loan Account Reporting System. FCA is more inclined to explore E-Government initiatives. These changes are due in part to OIG findings. ▪ The Agency continues to move ahead in developing more comprehensive continuity of operations plan. Emergency supplies have been distributed, drills have taken place and policies revised. The Chief Information Officer credited the thoroughness of OIG’s work. ▪ Eight recommendations await management decision from two inspections; Program Management and FCA Board Policies. The delay in decision making challenges OIG to create a remedy by working with the new leadership. <p>FCA is more effective in carrying out its mission.</p> <ul style="list-style-type: none"> ▪ The new agency head has taken a broad approach to learning of opportunities to streamline and gain efficiencies. There is a study under contract to assist management in this assessment. It is contemplated that this will result in a comprehensive staffing plan |

**Farm Credit Administration
Office of Inspector General
FY 2004 Performance Measures**

| AUDITS AND INSPECTIONS | |
|--|---|
| Objective—Audit and evaluate the Agency’s programs and operations to promote economy, efficiency and effectiveness. | |
| <p><i>CONTINUED</i></p> <ul style="list-style-type: none"> ▪ An inspection of Project Management of the Financial System and Travel Manager was conducted. This inspection was completed in 3 months. <p><i>See Appendix 1 for details of audits and inspections.</i></p> | <p><i>CONTINUED</i></p> <p>and a solid approach to succession planning.</p> <ul style="list-style-type: none"> ▪ FCA is faced with evaluating the cost effectiveness of the financial management system as well as the adequacy of planning for upgrades and integrated programs. |
| Performance Goal 2—Provide technical advice and assistance to agency official in developing sound management information and financial reporting systems and in streamlining programs and organizations. | |
| OUTPUT/CRITERIA | OUTCOME/IMPACT |
| <p>Assist the Agency in building continuous, meaningful measures with outcomes important to their stakeholders.</p> <p>The IG advises the Chairman concerning policy direction or administrative priorities.</p> <ul style="list-style-type: none"> ▪ An ongoing survey conducted by the OIG to preserve anonymity and integrity, involves the effectiveness of the examination function. Results are benchmarked from year to year. ▪ An IG Observation compared compensation in the financial regulator agencies. ▪ IG Advisories provided information on consolidation of financial regulators and predatory pricing, made suggestions in the process of informing the public of FCA’s mission. <p>The OIG performs analysis and provides technical advice to management concerning accounting, management systems and controls, and performance measures.</p> <ul style="list-style-type: none"> ▪ The IG identifies management’s top challenges in the semiannual reports and the Agency’s performance and accountability report. | <p>OIG input and advice contributes to agency decisions and actions that are more complete and valid at their inception.</p> <ul style="list-style-type: none"> ▪ Advice on governance issues was sought by Board members and senior staff. OIG initiated a remedy for problems and wrote a memorandum reminding staff of basic guidance for Board process and procedures during meetings and in confidential treatment of agency business in closed Board meetings. <p>Increase in management request for advice, audit work or technical assistance.</p> <ul style="list-style-type: none"> ▪ Regularly, management requests the OIG to validate changes in business practices. The OIG is a laboratory of change, a model for best practices. The OIG’s budget preparation, with linkage to performance measures was used as a model for the Agency. ▪ The OIG advised the Agency on need for more rigorous controls during project management. It is imperative that management has the appropriate information to make informed decisions. ▪ OIG frequently serves as a sounding board and the conscience of the Agency. |

**Farm Credit Administration
Office of Inspector General
FY 2004 Performance Measures**

| AUDITS AND INSPECTIONS | |
|---|---|
| Objective—Audit and evaluate the Agency’s programs and operations to promote economy, efficiency and effectiveness. | |
| Performance Goal 3—Continuous improvement of the OIG staff, products and internal administration. Quality is highly valued. | |
| OUTPUT/CRITERIA | OUTCOME/IMPACT |
| <p>Customer survey feedback is used to improve products and services.</p> <ul style="list-style-type: none"> ▪ Audit feedback averaged a rating slightly above 4 (5 being the highest grade 1 being the lowest). The OIG team is studying ways to develop more feedback for audits, inspections and other reviews as well. <p>OIG training ensures the technical proficiency of staff.</p> <ul style="list-style-type: none"> ▪ The OIG team has taken technical courses to gain proficiencies: A teambuilding session included a Kolbe assessment and strategies to build a high performance team. Courses attended include: Using Strategic Leadership: Building Performance Based Organizations, Auditing in Government, IT Auditing and Controls, Quantitative Application in Administrative Decision Making, Agricultural Outlook Forum 2004, Using MS to Automate Reports, Essentials of Report Writing, Internet and Advanced Search for Investigators and Leadership Academy Workshop. In addition PCIE/ECIE training sessions and legal forums are attended. The OIG team also stays current in FCA operations training courses and strategic management initiatives. <p>OIG implements administrative improvements identified through reviews of the agency programs and through staff involvement with the professional community.</p> | <p>Peer review reports provide an unqualified opinion that the OIG audit work meets or exceeds quality audit standards prescribed by GAO and the President’s Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency (PCIE/ECIE).</p> <ul style="list-style-type: none"> ▪ Peer review of OIG audit work by National Archives and Records Administration found compliance with standards. ▪ OIG website is improved. More products are made available on line. <p>Customer survey feedback evidences increased satisfaction with report practices.</p> <ul style="list-style-type: none"> ▪ Audit survey feedback was positive. On a scale of 1 to 5 (5 being the highest grade) survey results for FY 2004 was a rating of slightly above 4. <p>The IG’s opportunity to facilitate positive change within the Agency is enhanced by the quality and credibility of OIG products and advice.</p> <ul style="list-style-type: none"> ▪ Contributed to strengthening FCA Board governance by emphasizing to agency leadership and staff the confidential nature of closed Board sessions and urged continuing education on the specifics of the Government in the Sunshine Act. Emphasized that Board policies and approach should reflect the agreement of all Board members concerning the way business will be done. |

**Farm Credit Administration
Office of Inspector General
FY 2004 Performance Measures**

| INVESTIGATIONS | |
|--|--|
| Objective—Investigate observed, alleged or suspected wrongdoing to prevent and detect fraud, waste, abuse and mismanagement in agency programs and operations. | |
| Performance Goal 1—Effectively investigate and report administrative and criminal violations relating to FCA programs and personnel to agency officials and Congress. | |
| OUTPUT/CRITERIA | OUTCOME/IMPACT |
| <p>Investigative reports are timely and presented in an objective and factual manner. Memoranda are issued to management describing internal control weaknesses or program deficiencies found during the investigative process with suggestions to prevent and/or detect future wrongdoing.</p> <ul style="list-style-type: none"> ▪ One investigation was open at the beginning of FY 2004; five additional investigations were opened during the year. Three were unsubstantiated and closed. One investigation, involving allegations concerning abuse of power and mismanagement were substantiated and management changes were made. Investigations took from four to eleven months. | <p>Administrative action, convictions or pleas are obtained for employees and/or contractors found guilty of wrongdoing.</p> <p>Management actions taken against employees serve as deterrent to future wrongdoing.</p> <p>FCA internal policies, procedures, and controls are strengthened to prevent and/or detect future wrongdoing.</p> <p>Public confidence in the integrity of FCA programs and internal operations are heightened.</p> <ul style="list-style-type: none"> ▪ Investigations involving mismanagement and abuse of power by senior officials were developed and forwarded to appropriate officials, subsequently management changes occurred. |

**Farm Credit Administration
Office of Inspector General
FY 2004 Performance Measures**

| INVESTIGATIONS | |
|--|---|
| Objective—Investigate observed, alleged or suspected wrongdoing to prevent and detect fraud, waste, abuse and mismanagement in agency programs and operations. | |
| Performance Goal 2—Cause FCA employees and managers to recognize their responsibility and report observed or suspected wrongdoing to the OIG. | |
| OUTPUT/CRITERIA | OUTCOME/IMPACT |
| <p>Allegations of wrongdoing are received in a timely manner and are supported by specific information.</p> <ul style="list-style-type: none"> ▪ Some anonymous complaints are vague, lacking sufficient information to pursue an investigation. As a result, the OIG is developing ways to obtain further information. | <p>Investigations are more successful because they are initiated in a timely manner and have better information.</p> <ul style="list-style-type: none"> ▪ There was a high level of cooperation from senior officials who reported problems to OIG and assisted in pinpointing mismanagement and abuse of power. <p>FCA employees are more willing to report real or suspected wrongdoing because they trust the competence and fairness of OIG’s investigations.</p> <ul style="list-style-type: none"> ▪ OIG receives allegations through the hotline mechanisms and through anonymous correspondence. Agency management notifies the OIG team when anonymous allegations are sent to them. |

**Farm Credit Administration
Office of Inspector General
FY 2004 Performance Measures**

| LEGISLATIVE AND REGULATORY REVIEW | |
|---|---|
| Objective—Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations and the Inspectors General Community. | |
| Performance Goal 1—Maintain an effective program for reviewing and commenting on proposed and existing legislation and regulations affecting the Agency and the IG community. | |
| OUTPUT/CRITERIA | OUTCOME/IMPACT |
| <p>Processes are established and documented for identifying and circulating (as appropriate) relevant documents.</p> <ul style="list-style-type: none"> ▪ Legislation is tracked on a daily basis. The PCIE/ECIE legislation committee is active in forwarding interest items. <p>Constructive comments on relevant documents are submitted by the deadlines requested by the office, Agency, or staff circulating comments.</p> <p>OIG updated its Privacy Act Routine uses in order to participate in IG community quality assurance reviews of the investigation program. This new routine use became a model for the ECIE community.</p> | <p>OIG input is part of the decision making process in approving or amending legislation, regulations, circulars and other policy positions.</p> <ul style="list-style-type: none"> ▪ OIG is attempting to become more proactive in tracking projects. <p>Constructive criticism and creative alternatives offered in OIG comments improve the quality and usefulness of documents initiated by the Agency.</p> <p>FCA Board and management are informed about the status of new or pending legislation or regulations initiated externally.</p> <ul style="list-style-type: none"> ▪ ECIE IGs continue to support a legislative effort to have the Program Fraud Civil Remedies Act made applicable to a broader (more than cabinet level) range of Agencies. ▪ Legislative update and reform is continually considered as a future remedy to outdated provisions in the Farm Credit Act. |

**Farm Credit Administration
Office of Inspector General
FY 2004 Performance Measures**

| OUTREACH | |
|---|---|
| Objective—Work with our agency head and the Congress to improve program management; and work with the Inspectors General community and other related organizations to address government wide issues. | |
| Performance Goal 1—Promote OIG’s role within the FCA and the community at large. | |
| OUTPUT/CRITERIA | OUTCOME/IMPACT |
| <p>Develop and maintain educational brochures or pamphlets describing OIG roles and activities.</p> <p>Facilitate feedback from agency employees and refine products and practices based on the feedback to OIG products and educational materials.</p> | <p>Agency employees’ acceptance of and cooperation with OIG activities is improved through better understanding. OIG programs and products are improved through feedback from agency employees.</p> <ul style="list-style-type: none"> ▪ OIG plans to update Strategic Plan and Directives in the first quarter of FY '05. Hosted event to celebrate 25th Anniversary of the IG Act. Had power point presentation, news article time line and open house. |

**Farm Credit Administration
Office of Inspector General
FY 2004 Performance Measures**

| OUTREACH | |
|--|--|
| Objective—Work with our agency head and the Congress to improve program management; and work with the Inspectors General community and other related organizations to address government-wide issues. | |
| Performance Goal 2—Provide leadership to organizations directly contributing to the IG community, the Agency and the Federal Government. | |
| OUTPUT/CRITERIA | OUTCOME/IMPACT |
| <p>Time and resources are provided to OIG staff members as an incentive to contribute to the Agency and outside organizations by serving on committees and holding offices.</p> <ul style="list-style-type: none"> ▪ OIG staff actively participated in the Executive Committee on Integrity and Efficiency (ECIE), Association of Government Accountants (AGA), Council of Counsels (CCIG), International Association of Financial Crime, Instructor at the Inspectors General Auditor Training Institute (IGATI), GPRA Roundtable, Employee Council, Council for Excellence in Government, Senior Staff, Accountability Report Workgroup, and Federal Women’s Program Committee. ▪ OIG networking opportunities have resulted in an expanded consideration of FCA ideas and practices by community contacts and experts. OIG has shared telecommuting policies, hotline procedures, performance measures and performance contracts and evaluation methods. Likewise, FCA benefits from the opportunity to benchmark practices in other Agencies. | <p>Projects and activities of adjunct organizations such as the AGA, IIA, PCIE/ECIE, CCIG, FLETC, and IGATI are improved by OIG staff contributions and participation.</p> <ul style="list-style-type: none"> ▪ Participating in the PCIE working group on revision to peer review guidance for audits. Providing a small agency perspective. ▪ Participation on work group that develops guidance on quality assurance review of investigations in the OIG community. Contribute to developing guidance on Freedom of Information Act requests and new routine use under the Privacy Act, used as a model for other agencies. <p>FCA programs and operations are more effective and efficient.</p> <ul style="list-style-type: none"> ▪ OIG has a goal to help the Agency build continuous, better, concrete measures with outcomes important to its stakeholders. ▪ OIG assisted the Agency in improving electronic communication by making suggestions to improve the web site and consider more electronic transactions with regulated entities and the public. ▪ Mentoring and coaching a summer intern through meaningful projects. |

**Farm Credit Administration
Office of Inspector General
FY 2004 Performance Measures**

APPENDIX 1

AUDITS

| AUDIT NAME | AUDITS ARE RELEVANT | RISK IS ADDRESSED | PRODUCTS ARE TIMELY | AUDITS ARE CONSTRUCTIVE | AGENCY ACCEPTS 80% |
|--|----------------------------|--------------------------|----------------------------|--------------------------------|---|
| Human Capital: Job Classification | OIG initiated | Strategic Plan | 7.5 Months | 5 Agreed Upon Actions | Accepted all; 0 implemented |
| FY 2003 Financial Statements | Annual Audit | Strategic Plan | 6.5 Months | No findings, Management Letter | Completed implementation of recommendations in Management Letter. |
| Farm Credit System Building Association Business Practices | OIG initiated | | 8.5 Months | 5 Agreed Upon Actions | Accepted all; 0 implemented. |

INSPECTIONS

| INSPECTION NAME | INSPECTIONS ARE RELEVANT | PRODUCTS ARE TIMELY | INSPECTIONS ARE CONSTRUCTIVE | AGENCY ACCEPTS 80% |
|------------------------|---------------------------------|----------------------------|-------------------------------------|---------------------------|
| | | | | |
| Project Management | OIG initiated | 3 Months | 5 Recommendations | No management decision. |

REVIEW

Federal Information Security Management Act Review—Legislatively mandated. Performed in 2 months. No material findings. Reports to OMB as a follow-up.

