

Office of Inspector General

FISCAL YEARS 2010 & 2011 PERFORMANCE REPORT

January 2012



FARM • CREDIT • ADMINISTRATION

Farm Credit Administration

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



January 9, 2012

The Honorable Leland A. Strom, Chairman and Chief Executive Officer
The Honorable Kenneth A. Spearman, Board Member
The Honorable Jill Long Thompson, Board Member
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Dear Chairman Strom and FCA Board Members Spearman and Long Thompson:

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 products, services, and leadership of the Office of Inspector General (OIG) during fiscal years 2010 and 2011.

The OIG continues to work to enhance its role as an agent for positive change within the Farm Credit Administration (FCA or Agency). The results reflect the commitment that OIG staff has to assisting the FCA Board and FCA employees in achieving the Agency's mission of ensuring a safe and sound Farm Credit System that provides a dependable source of credit to farmers and ranchers.

We look forward to continuing to work with you to ensure FCA remains effective in its efforts to accomplish its mission. I welcome your comments on ways to improve OIG services that help you achieve your goals for FCA's operations.

If you have any questions, please call me at extension 4241 or 4030.

Respectfully,

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

Carl A. Clinefelter
Inspector General

Enclosure

FARM CREDIT ADMINISTRATION
OFFICE OF INSPECTOR GENERAL

FISCAL YEARS 2010 & 2011 PERFORMANCE REPORT

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FARM CREDIT ADMINISTRATION
OFFICE OF INSPECTOR GENERAL

FISCAL YEARS 2010 & 2011 PERFORMANCE REPORT

EXECUTIVE SUMMARY

The Office of Inspector General (OIG) of the Farm Credit Administration (FCA or Agency) met or exceeded most goals for performance in fiscal years (FY) 2010 and 2011. 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 Inspector General community, and
- outreach.

The OIG products listed below were timely and constructive while accommodating the priorities of the Agency. Most products addressed risk to the Agency. Many of the products contained recommendations to improve Agency operations.

During the reporting period the OIG issued two program audits:

- *Regulation and Policy Development Processes*
- *FCA's Approval Process of Funding Corporation Debt Issuance*

Two financial statement audits were issued:

- *Audit of the FCA's FY 2009 Financial Statements*
- *Audit of the FCA's FY 2010 Financial Statements*

Two evaluations were issued:

- *The Federal Information Security Management Act (FISMA) Evaluation for 2009*
- *The FISMA Evaluation for 2010*

Two inspections were issued:

- *FCA's Adherence to the Government in the Sunshine Act*
- *FCA's Borrower Complaint Processing*

The OIG also continued the practice of issuing Inspector General (IG) Observations. The purpose of issuing an Observation is to alert Agency leadership to new issues, problems, or information to aid in decision making. The IG issued Observations on:

- *Review and Update of FCA Board Policies*
- *Compensation and Job Grading*
- *Consideration of Legislative Initiatives Regarding FCA and the Farm Credit System Insurance Corporation's Prior Approval of Funding Corporation Debt Issuances.*

Survey to Gather Feedback on FCA Examination of System Institutions

- Since 1995, the OIG has developed, administered, and collected survey data from the Farm Credit System (FCS or System) on the quality and effectiveness of the Agency's examination function and examiners for use by the Chief Examiner and FCA Chairman and Board as a feedback mechanism. During FY 2010-2011, eight quarterly and two annual summary survey reports continued to provide useful feedback, mostly positive.

FCA's Inspector General Continues to Lead the Inspectors General Community as Vice Chairperson of the Council of the Inspectors General on Integrity and Efficiency (CIGIE or Council)

- The IG assumed a major role as Vice Chairperson of the CIGIE, a council formed as a result of the passage of the IG Reform Act of 2008. He assists the Chairperson in planning and carrying out all agenda items and cross cutting projects undertaken by the Council, consisting of all 73 Inspectors General and six other Federal officials. A charter and strategic plan are operational and a fully functioning Council, including various operating committees, permanent staff, and a training institute have enhanced the cohesiveness of the statutory IGs. There is national and international interest by governmental groups to learn and use CIGIE as a model. As a result, presentations on CIGIE are made by the IG at the request of foreign governmental organizations.

A measure of the OIG's success is contributing to the Agency's continuous utilization of sound business practices and basic integrity. We are confident the Agency will continue to show firm commitment to the independence of the OIG and to follow-up on OIG report findings, conclusions, and recommendations to improve operations and programs.

The OIG welcomes comments and suggestions related to performance measurement.

AUDITS, INSPECTIONS, AND EVALUATIONS

Objective – Audit and evaluate the Agency’s programs and operations to promote economy, efficiency, and effectiveness.

Performance Goal 1 – Deliver quality audit, inspection, and evaluation products and services that are useful to the Board.

PERFORMANCE MEASURES

Audits, inspections, and evaluations are relevant. Audit coverage includes all mandated audits and at least 75 percent of those suggested by the Board and management. Risk is addressed. One hundred percent of the OIG audits are performed in high risk/high dollar programs and activities and/or are tied to the Agency strategic planning goals.

OIG performed or supervised the following audits, inspections, and evaluations of mission critical operational areas:

- **Audit:**
 - Regulation and Policy Development
 - FCA’s Approval Process of Funding Corporation Debt Issuances
- **Inspections:**
 - FCA’s Adherence to the Government in the Sunshine Act
 - FCA’s Borrower Complaint Process
- For FY 2010 and FY 2011, OIG contracted with a Certified Public Accountant (CPA) firm to audit FCA’s financial statements.
- During 2009 and 2010, the OIG’s Senior IT auditor performed the FISMA evaluation.

Products are timely, i.e., average time to complete audits and issue draft reports will not exceed 6 months.

- Draft reports for audits, inspections, and evaluations were issued in less than 6 months (average).

OUTCOME / IMPACT

FCA programs and operations are more effective. Waste in Agency programs and operations is reduced. Better business practices are initiated.

- The OIG found and continues to avail itself of opportunities to save contracting funds by utilizing the Department of the Treasury’s Bureau of the Public Debt contract for financial statement auditing services.
- Unqualified opinions for Agency financial statements have continued.
- Security of information has been validated and strengthened through FISMA reviews.
- In lieu of a contractor, the OIG Senior IT Auditor performs the FISMA evaluation.
- FCA developed an information technology action plan to guide the Agency in achieving compliance with United States Government Configuration Baseline.
- FCA has assured there are appropriate procedures and safeguards in place to promote compliance with the Government in the Sunshine Act. To enhance understanding, at OIG’s recommendation, management developed scenarios to assist Board members in understanding requirements of the Government in the Sunshine Act.
- FCA made improvements to the borrower complaint process, increasing efficiency, transparency, and accountability in investigating and processing such complaints.
- OIG determined that FCA’s approval process of the Funding Corporation debt issuances was operating efficiently and effectively.
- OIG determined FCA’s regulation and policy development process was operating efficiently and effectively and in compliance with applicable guidelines.

AUDITS, INSPECTIONS, AND EVALUATIONS

Objective – Audit and evaluate the Agency’s programs and operations to promote economy, efficiency, and effectiveness.

Performance Goal 1 (continued) – Deliver quality audit, inspection, and evaluation products and services that are useful to the Board.

PERFORMANCE MEASURES

Audits are constructive. At least 75 percent of audit products contain recommendations or agreed-upon actions to improve Agency operations. The Agency accepts at least 80 percent of the OIG audit action items.

- Not all audits contained action items if the findings did not warrant corrective action. Those audit and inspection products containing recommendations to improve Agency operations have been accepted as agreed-upon actions and are generally addressed within a year. In some cases, Agency management took immediate action for improvement as a result of an OIG suggestion so no formal recommendation was necessary.
- At the close of FY 2011, one agreed-upon action was open. During the 2-year reporting period, the two audits, two inspections and one FISMA evaluation resulted in twelve agreed-upon actions. All but one action items have been addressed and closed.

See Appendix (page 12) for details of audits and inspections.

OUTCOME / IMPACT

FCA is more effective in carrying out its mission.

- Management’s attention to resolving open OIG recommendations or agreed-upon actions continues to be diligent and in the majority of instances, resolution occurs within a 6-month timeframe.

AUDITS, INSPECTIONS, AND EVALUATIONS

Objective – Audit and evaluate the Agency’s programs and operations to promote economy, efficiency, and effectiveness.

Performance Goal 2 – Provide technical advice and assistance to Agency officials in developing sound management information and financial reporting systems and in streamlining programs and organizations.

PERFORMANCE MEASURES

The IG advises the FCA Board concerning policy direction or administrative priorities.

- The OIG, through its audit, inspection, and evaluation reports, provides the FCA Board with recommendations to strengthen Agency operations.
- The IG identifies management’s top challenges in the Agency’s Performance and Accountability Report and the OIG’s semiannual reports.
- IG Observations address Agency policy or administrative functions.
- The OIG conducts an ongoing survey of FCS institutions as to the effectiveness of the examination function and examiners. The survey of FCS institutions was revamped in 2006 and is electronic. The OIG preserves the anonymity of respondents and the integrity of the survey.

The OIG performs analyses and provides technical advice to management concerning accounting, management systems and controls, and performance measures.

- The OIG’s contract auditing firm assessed the Agency’s accounting and financial reporting annually, including controls and compliance with laws and regulations. Any recommendations were conveyed to the FCA Board and to the Chief Financial Officer.
- The OIG’s Senior IT Auditor assessed the Agency’s compliance with FISMA. Any recommendations were conveyed to the FCA Board, the Chief Information Officer, and the Director of the Office of Management Services (OMS). In addition, the Senior IT Auditor made suggestions that were readily accepted throughout the evaluation process.

OUTCOME / IMPACT

The OIG input and advice contributes to Agency decisions and actions that are more complete and valid at their inception.

- The OIG contributed to enhancing the Agency’s orientation and training program for FCA Board members by recommending development of further guidance on Government in the Sunshine Act scenarios.
- The Office of the Board sought technical perspective on certain aspects of Agency operations: compensation, organizational structure, legislative proposals, etc.
- OMS continues to strengthen its information security program. For example, the Agency implemented an action plan to guide the Agency in achieving compliance with the United States Government Configuration Baseline.
- Together with the Office of Examination, the OIG is currently working on updating the survey to obtain meaningful responses from the FCS institutions following examination for FY 2012 and beyond.

Increase in management requests for advice, audit work, or technical assistance.

- The OIG is always receptive to management’s requests for audit work or for the OIG’s perspective on FCA operations, whether technical or non-technical in nature.
- The OIG has recently completed audit work in the contract and procurement areas and management was receptive to findings and recommendations.

AUDITS, INSPECTIONS, AND EVALUATIONS

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.

PERFORMANCE MEASURES	OUTCOME / IMPACT
<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. Courses attended include: <ul style="list-style-type: none"> - <i>OIG Leadership courses</i> - <i>Yellow Book Auditing (Government Accountability Office)</i> - <i>Professionalism, Substance Abuse & Legal Ethics</i> - <i>Federal Audit Executive Council Conference</i> - <i>ISACA seminars and webinars</i> - <i>Federal Audit Executive Committee meetings and conferences</i> - <i>Ethics for Virginia CPAs</i> - <i>Plain Writing Act</i> - <i>Harassment Training</i> - <i>No Fear Act</i> - <i>National Intergovernmental Audit Forum</i> - <i>CIGIE Retreat</i> - <i>Ethics of Email</i> - <i>FOIA/Privacy Act Training Workshop</i> - <i>Hotline Operator Training Program</i> ▪ In addition, CIGIE training sessions and legal forums are attended. The OIG team also stays current in FCA operations and strategic management initiatives. <p>The OIG implements administrative improvements identified through reviews of Agency programs and through staff involvement with the professional community.</p> <ul style="list-style-type: none"> ▪ The OIG website is continually improved and kept current. As required by the Consolidated Appropriation Act, Pub.L.110-161, the OIG maintains an email list for those who wish to receive notification when OIG reports are posted to the Agency’s website. There is a direct link to the OIG on the Agency homepage. 	<p>Peer review reports provide an unqualified opinion that the OIG audit and investigative functions meet or exceed quality audit standards prescribed by the U.S. Government Accountability Office (GAO) and the CIGIE.</p> <ul style="list-style-type: none"> ▪ OIG peer review of the audit function was performed by the U.S. Commodity Futures Trading Commission OIG in February 2011. We were found to be in full compliance with GAO and CIGIE auditing standards. The next such review is scheduled for March 2013. ▪ OIG’s audit team completed a peer review of the Consumer Product Safety Commission OIG’s audit operations in May 2011. ▪ The IG’s opportunity to facilitate positive change within the Agency is enhanced by the quality and credibility of OIG products and advice. ▪ Management seeks and listens to the OIG’s perspective on issues. ▪ OIG staff members receive recognition through awards from the CIGIE community. ▪ The OIG provides sound perspectives for the Office of the Board on aspects of Agency operations. ▪ The quarterly reports on the OIG’s survey of FCS institutions relative to the Agency’s examination function provide Agency management with quantitative and narrative feedback that assists in facilitating positive change. <p>Audit, inspection, and other reports are made public upon issuance and the OIG uses an email mechanism to alert those on the mailing list of new publications.</p>

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, the Attorney General (when appropriate), and Congress.

PERFORMANCE MEASURES

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.

- There were no investigations with substantiated findings during FYs 2010 and 2011. The OIG is notified of missing equipment if it contains personally identifiable information (PII). Coordinate with law enforcement when warranted.

OUTCOME / IMPACT

Administrative action, convictions, or pleas are obtained for employees and/or contractors found guilty of wrongdoing.

Management actions taken against employees serve as deterrent to future wrongdoing.

FCA internal policies, procedures, and controls are strengthened to prevent and/or detect future wrongdoing.

- Policies and procedures involving loss of equipment have been strengthened.

Public confidence in the integrity of FCA programs and internal operations is heightened.

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.

PERFORMANCE MEASURES

Allegations of wrongdoing are received in a timely manner and are supported by specific information.

- The OIG has a secure email hotline, fca-ig-hotline@rcn.com and phone numbers 703-883-4316 and 800-437-7322.
- Follow-up by OIG and appropriate forwarding to other Agency offices.

OUTCOME / IMPACT

Investigations are more successful because they are initiated in a timely manner and have better information.

- Several hotline complaints were referred to the Office of Congressional and Public Affairs, the Office of Examination, Department of Agriculture, and the Federal Bureau of Investigation for review and follow-up.

FCA employees are more willing to report real or suspected wrongdoing because they trust the competence, fairness, and confidentiality of OIG's investigations.

- The IG and Deputy IG made presentations to new employees regarding their responsibility to report observed or suspected fraud, waste, abuse of authority, mismanagement, or other wrongdoing.

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.

PERFORMANCE MEASURES

Processes are established and documented for identifying and circulating (as appropriate) relevant documents.

- Legislation and proposed rules are tracked on a regular basis.
- The CIGIE Legislation Committee is active in forwarding interest items.

Constructive comments on relevant documents are submitted by the deadlines requested by the office, Agency, or staff circulating comments.

OUTCOME / IMPACT

The OIG input is part of the decision making process in approving or amending legislation, regulations, circulars, and other policy positions.

- The OIG established a collaborative process with the Office of Regulatory Policy to designate points in time when information on regulations and briefings will be sent to the OIG.

Constructive criticism and creative alternatives offered in OIG comments improve the quality and usefulness of documents initiated by the Agency.

FCA Board and management are informed about the status of new or pending legislation or regulations initiated externally.

- The IG and Deputy IG/Counsel were active in informing the Board of the changes to reporting under the IG Act caused by the Dodd-Frank legislation. The IG now reports to the FCA Board, as agency head, as opposed to the Chairman of the FCA (as previously defined).
- Legislative update and reform is continually considered as a future remedy to outdated provisions in the Farm Credit Act.

Regulations reviewed by OIG are noted in the OIG's semiannual reports to Congress.

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 governmentwide issues.

Performance Goal 1 – Promote OIG’s role within the FCA and the community at large.

PERFORMANCE MEASURES

Develop and maintain educational brochures or pamphlets describing OIG roles and activities.

- Examples include: Strategic Planning brochure, The IG at FCA pamphlet, FCA Orientation PowerPoint presentation, and input into the CIGIE Annual Report to the President.

Facilitate feedback from Agency employees and refine products and practices based on the feedback to OIG products and educational materials.

- The OIG would be receptive to any and all feedback received from Agency management and staff regarding OIG practices and products.

OUTCOME / IMPACT

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.

- OIG updates Directives periodically.
- Developed PowerPoint presentation on the OIG at FCA for web use and for new employee training.
- Reaction to IG Observations has been positive.
 - Observation on compensation and grading resulted in a consultant review.
 - An inspection from a prior time period suggested revision of enforcement policies and procedures. Although at first reluctant, FCA management reaped the benefits of revising and upgrading enforcement policies and practices since they have been needed in recent times.
 - An observation on Board policy review was successful in prompting revisions and suspense dates.

Audit follow-up is improved.

- Agreed-upon actions are implemented more expeditiously. Rarely does an action take more than a year to clear.

Responded to Congressional Request (Rep. Issa) inquiries about “unimplemented recommendations.”

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 governmentwide issues.

Performance Goal 2 – Provide leadership to organizations directly contributing to the IG community, the Agency, and the Federal Government.

PERFORMANCE MEASURES

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.

- OIG staff actively participated in CIGIE: IG is the Vice Chairperson of CIGIE. The IG is a member of the Executive Council of CIGIE. The IG and staff participate on the Inspection and Evaluation Council of CIGIE, Association of Government Accountants (AGA), Deputy Inspectors General Quarterly meetings, Council of Counsels (CCIG), CIGIE Federal Audit Executive Committee (FAEC), CIGIE FAEC IT Committee, Instructor at the Federal Law Enforcement Training Center (FLETC), Federal Women’s Program Committee, Blacks In Government, Administrative Burden Reduction Workgroup, and the Combined Federal Campaign.

OIG networking opportunities have resulted in an expanded consideration of FCA ideas and practices by community contacts and experts. The 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.

OUTCOME / IMPACT

Projects and activities of adjunct organizations such as the AGA, the Institute of Internal Auditors, CIGIE Training Institute and CCIG meetings and forums are improved by OIG staff contributions and participation.

- IG as Vice Chair of the CIGIE, along with the Chair leads monthly meetings of the Council and Executive Council.
- OIG participates in the CIGIE working group on inspections and evaluations. The group collaborates and shares common areas for inspection and evaluation work.
- IG frequently makes presentations on the IG Reform Act and CIGIE to organizations and international groups.
- Deputy IG/Counsel led the development and presentation of a CIGIE course for new OIG attorneys.
- OIG auditors performed a peer review of the audit program of the OIG, Consumer Product Safety Commission (CPSC) in 2011. FCA OIG shared with the CPSC OIG several recommendations to improve their audit operations.
- An OIG auditor actively participates in the FAEC IT Committee. This subcommittee worked with the Office of Management and Budget to revise the performance metrics for FISMA reporting by OIGs.
- OIG auditor participated on an administrative workgroup charged with setting up the infrastructure for CIGIE operations which included developing business, financial and staffing plans; and acquiring business services, office space, IT equipment and services, and telecommunications.

FCA programs and operations are more effective and efficient.

- OIG was acknowledged by the Project on Government Oversight (POGO) for having effective performance reporting.

APPENDIX

AUDITS

AUDIT NAME	AUDITS ARE RELEVANT	RISK ADDRESSED	PRODUCTS ARE TIMELY	AUDITS ARE CONSTRUCTIVE	AGENCY ACCEPTS ≥ 80 %
Regulation and Policy Development	OIG Initiated	Strategic Plan	6 Months	No Action Items	N/A
FCA's Approval Process of Funding Corporation Debt Issuances	FCA Board Chairman Requested	Strategic Plan	6 Months	No Action Items	N/A
FY 2009 and 2010 Financial Statements (Issued in FYs 2010 and 2011)	Legislatively Mandated Annual Audit	Strategic Plan	6 Months	No Action Items	N/A

INSPECTIONS

FCA's Adherence to the Government in the Sunshine Act	OIG Initiated	Strategic Plan	4 Months	1 Agreed-Upon Action	Management Accepted; Implemented
Borrower Complaint Process	OIG Initiated	Strategic Plan	6 Months	10 Agreed-Upon Actions	Management Accepted; 9 implemented 1 outstanding

EVALUATIONS

Federal Information Security Management Act Evaluation for FY 2009 and 2010 (Issued in FYS 2010 and 2011)	Legislatively Mandated	Strategic Plan	3 Months	1 Agreed-Upon Action (FY 2009 Evaluation Report)	Management Accepted; Implemented
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