

Office of Inspector General

Semiannual Report
to the Congress

October 1, 1992
through
March 31, 1993



Farm Credit Administration

Office of Inspector General
1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4030



April 30, 1993

The Honorable Harold B. Steele
Chairman of the Board and
Chief Executive Officer
Farm Credit Administration
McLean, Virginia

Dear Mr. Steele:

This semiannual report is submitted in accordance with the Inspector General Act of 1978, as amended (Act), and is the eighth report on the activities of the Farm Credit Administration's Office of Inspector General (OIG) since the office was created on January 22, 1989. The reporting period is from October 1, 1992 through March 31, 1993. Section 5(b) of the Act requires that you submit this report to the appropriate congressional committees and subcommittees within 30 days, together with your report.

The OIG has provided objective, independent assessments of the efficiency and effectiveness of the agency's programs and operations. In its coverage, the OIG continues to emphasize those areas which have been designated as "high risk" by the Office of Management and Budget, as well as those agency programs and operations which have historically been sources of significant issues and concerns.

My staff and I will continue to provide you with our best professional analysis and judgment as a part of our statutory oversight of agency programs and operations.

Respectfully,

A handwritten signature in cursive script, appearing to read 'Eldon W. Stoehr', is written over a horizontal line.

Eldon W. Stoehr
Inspector General

REPORT HIGHLIGHTS

- o The FCA Board adopted a formal Board policy in January 1993 which demonstrates its increased commitment for resolving audit issues and specifies its role in these activities.
- o Management's communication and responsiveness to OIG issues has been improved by FCA's establishing a new chief operating officer although problems still exist and improvements have yet to be institutionalized.
- o OIG operations were expanded by establishing a formal inspections program.
- o The staffing was also expanded in January 1993 by the addition of OIG's first criminal investigator.
- o The required peer review of the FCA OIG was performed by the US Postal Service OIG and the report was issued on November 10, 1992. That report confirmed that audit operations are in compliance with government auditing standards and those standards are effectively applied.

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BACKGROUND

The Farm Credit Administration (FCA) is an independent Federal agency of the United States Government responsible for the regulation, examination and supervision of institutions chartered under the Farm Credit Act of 1971. FCA is a non-appropriated agency operating under a congressionally imposed spending limitation of \$39,908,000 for the FY 1993 administrative costs of the agency, with individual spending limitations of \$2,000,000 for the Office of General Counsel, \$500,000 for the Office of Congressional and Public Affairs, and \$300,000 for the Office of Secondary Market Oversight. The Office of Inspector General (OIG) has an authorized budget level of \$637,934 for FY 1993.

FCA currently has 477 established positions, about half of which are examiners located at nine field offices throughout the country. Also included in the established agency positions are the seven approved positions for the OIG. Appendix II displays the current organizational structure of FCA and Appendix III displays the Office of Inspector General within that structure.

FCA is a "designated Federal entity" within the meaning of the Inspector General Act of 1978, as amended (Act). The Inspector General is appointed by and is under the general supervision of the Chairman of the FCA Board.

SOME PROGRESS HAS BEEN MADE BY MANAGEMENT IN RESPONDING TO OIG ISSUES

The last four semiannual reports have described agency management's pattern of delay, challenge and obstruction of OIG audit and investigation activities. Two events occurred during this reporting period which should improve management's response to OIG issues.

First, a new chief operating officer (COO) position was filled in November of 1992. The COO was delegated the day-to-day responsibility for supervising management's actions related to audit and inspection reports issued by OIG. This change has improved communication and relationships between OIG and agency management, even though some problems still exist and many of the improvements have yet to be institutionalized. OIG was performing an audit of the agency's audit followup program and practices when the COO assumed her duties; consequently, the COO immediately became aware of problems in this area and has already initiated a number of actions to correct them. Specific initiatives include recruiting for a senior staff person in the COO's office who will become the audit followup official which elevates that function from a mid-level staff person to a senior official. Also, revisions of internal policies and procedures for audit followup are under development.

The COO has caused Office Directors to make management decisions and take final actions which have reduced the large backlog of unimplemented audit recommendations reported in the last semiannual report. However, our review of the documentation for these actions indicates some continuing denial of audit findings and an accompanying unwillingness to address the problems. The COO has assured the Inspector General that Office Directors will be held accountable and further asserts that such actions have already been taken, when appropriate.

The FCA Board adopted a formal Board policy in January 1993 which demonstrates its increased commitment for resolving audit issues and specifies its role in these activities.

OIG DISAGREEMENT WITH MANAGEMENT DECISIONS

During this reporting period, management rejected 26 OIG audit recommendations contained in two audit reports. The OIG disagrees with these rejections because the identified problems still exist. Management rejected 18 recommendations in the OIG audit of Sensitive Payments issued on December 11, 1991. In most cases, management expressed agreement with the findings but proposed alternative actions which will not resolve them. Examples of rejected recommendations in the Sensitive Payments audit are:

- We recommended that the agency establish policies and procedures for Board travel vouchers. Management expressed agreement with the recommendation and stated that a policy would be issued establishing Board travel documentation requirements. The policy was adopted on November 12, 1992. However, the Board policy fails to include the items recommended by the OIG and agreed upon by management. In addition, the policy states that noncompliance with the policy statement will not constitute grounds for denial of claims submitted by Board members.
- Three of the rejected recommendations relate to expenses paid to Board members for travel costs incurred as Presidential nominees prior to and at confirmation hearings. Management's decision to pay the expenses was based on a flawed legal opinion that was retroactively applied. A significant portion of these travel expenses was incurred by the Chairman who was also the deciding official on those recommendations.
- We recommended recovery of funds from FCA Office Directors for the cost of meals received at their official duty station. The management decision was to "modify" the recommendation by "waiving" the recovery of funds. OIG considers this waiver a rejection of the recommendation.

Management rejected 8 recommendations in the OIG audit of Human Resource Programs issued on September 30, 1992. Management indicated agreement with the findings but modified the recommendations. OIG concluded management's proposed actions represent rejection of the 8 recommendations because they did not address the findings. Examples include:

- We recommended that performance plans for supervisors and reviewing officials be revised to ensure accountability for writing quality performance standards and meeting processing deadlines or tasks associated with employee performance appraisals. The management decision was that the Human Resources Division (HRD) is currently working on an action plan to redefine HRD's responsibilities in administering FCA's performance management system. This decision does not address the problem.
- We recommended that HRD ensure that Personnel Management Specialists and Personnel/Payroll Assistants periodically receive OPM-sponsored training on basic Federal personnel requirements. Although management's decision indicates agreement, it only provides a summary of past training attended by these employees. Management's decision did not address the institutionalization of periodic OPM-sponsored training to ensure knowledge of basic Federal personnel requirements.
- We recommended that personnel records be located in a limited access area. The Office Director's response indicates disagreement to the extent that this recommendation requires relocating files. Management inaccurately portrays its response as a modification. As an alternative to having records located in a limited access area, management states that procedures were implemented to improve security of the personnel records by having a staff member present at the Division secretary's desk during her lunch break and on days she is not there. Members of the IG staff randomly tested these newly implemented procedures and have concluded that this coverage is not consistently provided.
- We recommended that HRD perform periodic internal inspections of HRD staff offices to ensure that personnel records are properly secured. We further recommended that HRD procedures ensure that records are maintained to reflect completion of these inspections. Although management said it agreed with the recommendation, no procedures were developed, and the problem of unsecured personnel records still exists.

OIG Access to Information

For the 6 months ending March 31, 1993, OIG staff has continued to experience difficulty in accessing agency information. This problem resulted in a scope impairment reported in OIG's audit of "FCA's Audit Followup Process." Further, OIG's written request for access to the agency's basic electronic files has not yet been granted. The COO has expressed a willingness to address this problem, however, no tangible progress has yet been made.

SUMMARY OF MANAGEMENT DECISIONS/IMPLEMENTATION
ON RECOMMENDATIONS

During this semiannual reporting period, management reduced the backlog of outstanding audit recommendations. The following table shows activity in management decisions on audit and inspection recommendations and final actions taken on those management decisions:

OIG Recommendations	Recommendations Without Management Decisions	Decisions Without Final Action	Total
Outstanding at beginning of period (1)	106	52	158
Recommendations made during period (2)	+ 6	+ 6	
Decisions made during period (3)	-62	+62	
Decision to reject recommendation (4)		-26	-26
Final actions taken during period (5)		-35	-35
Outstanding at end of period (6)	50	53	103

- (1) The previous semiannual report stated that there were 161 outstanding recommendations. Three recommendations had final action in the previous period but were not reported to the OIG until this semiannual reporting period.
- (2) One audit and one inspection report were issued during this semiannual reporting period. Each report contained three recommendations.
- (3) A total of 62 management decisions were made during the period. Of these, 44 were made after the 6 month timeframe established in OMB Circular A-50.
- (4) Of the 62 management decisions, 26 decisions rejected the recommendations. In most instances, management indicated agreement, but proposed actions which did not address the findings.
- (5) Management took final action on 35 recommendations. Of these, 24 were taken more than 6 months and 5 more than 1 year after the date established in the management decision. Nine were taken within the timeframe established in the management decision.
- (6) Of the 50 recommendations without a management decision at the end of the period, 44 are over 6 months and 10 are over 1 year since the reports were issued. Of the 53 decisions without final action, 34 are beyond the final action date established in the management decision. Of those 34 decisions, 19 are over 1 year, 11 are over 2 years, and 1 is over 3 years past the implementation date established in the management decision.

AUDITS

Audits are conducted in accordance with audit standards established by the Comptroller General of the United States for audits of Federal organizations, programs, activities and functions.

Two audit reports were completed during this reporting period and are summarized below.

FCA's Audit Followup Process

This audit concluded that FCA's audit followup has not been effective and does not comply with OMB Circular A-50 or FCA's internal directives for audit followup. Management decisions and implementation of audit recommendations have been significantly late, quality control over the effectiveness of final action by management is weak, and management has frequently reported final action on recommendations when final action has not, in fact, occurred. The underlying cause of these deficiencies is the lack of priority and agency commitment to the process. The FCA Board adopted a policy in January 1993 which will cause increased Board involvement in audit followup issues. Further, the agency recently established a new chief operating officer (COO) position and assigned audit followup responsibilities to that position. The COO has voiced appropriate priority and concern for correcting audit followup deficiencies.

Survey of Guaranteed Loans

An audit of guaranteed loans in Farm Credit System institutions was terminated after the survey was completed. This termination was based on OIG's conclusion that guaranteed loans were not a significant issue in the Farm Credit System. Additionally, FCA's current data on guaranteed loans is unreliable.

INSPECTIONS

A formal inspection program was established within OIG during this reporting period. These inspections comply with the interim standards issued by the Presidents Council on Integrity and Efficiency. OIG has also issued internal policies and procedures to guide its inspection activity. The first inspection report is summarized below:

Inspection of FCA's Budget Limitation

This report identified transactions which, by their nature or timing, could potentially raise questions as to whether or not the agency is complying with the spirit and intent of the spending limitations established by Congress, both for the agency as a whole and for three individual offices within the agency.

INVESTIGATIONS

A criminal investigator position was added to our staff in January 1993. Previously complaints were usually investigated by the Counsel to the Inspector General and occasionally by other OIG staff.

Six open investigations were carried forward from the prior reporting period and an additional twelve investigations were opened during this period. Eight of the twelve new investigations involve allegations of wrongdoing by personnel within FCA, one of which was received through OIG's HOTLINE. The remaining four allegations concerned wrongdoing against borrowers by institutions of the Farm Credit System; three of which were referred to the programmatic offices within the agency for review, and the other was referred to the Department of Justice. Three of the borrower complaints were received through the OIG HOTLINE.

One investigation carried forward from the previous semiannual reporting period resulted in the suspension of an FCA employee for violation of FCA's Standards of Conduct and absence without leave.

Seventeen investigative matters remain open at the close of this reporting period.

LEGISLATION AND REGULATIONS

The OIG audit of Cash and Debt Management issued on February 14, 1992, recommended that the agency's assessment regulations be amended so that assessments from the institutions of the Farm Credit System be collected based on actual FCA cash flow requirements rather than on the budgeted expenses. The audit reported that FCA had an average fund balance of about \$10 million. Management expressed agreement and a willingness to adopt the recommendation. However, the FCA adopted new assessment regulations during this period which focused almost exclusively on how the assessments for FCA expenses would be apportioned among institutions rather than how the assessment would be collected. Although we believe the agency overlooked an opportunity to use funds more efficiently, no further action by this office is contemplated.

COORDINATION AND LEADERSHIP

The Executive Council on Integrity and Efficiency (ECIE) was created by Executive Order to establish a forum for the Inspector General community to continually identify, review and discuss areas of weakness and vulnerability in Federal programs and operations to fraud, waste and abuse. The ECIE also permits Inspectors General to develop plans for coordinated, Government wide activities to address these problems and promote economy and efficiency in Federal programs and operations.

The Inspector General and the Counsel to the Inspector General continue to be actively involved in ECIE activities and projects. The Inspector General chairs the ECIE Peer Review Committee, and is a member of the ECIE Executive Committee which coordinates ECIE activities, and the Committee of Financial Regulatory Agencies which addresses issues of mutual concern. The Counsel to the Inspector General is active in the Council of Counsels of Inspectors General and the ECIE Enforcement Committee.

PEER REVIEW

The IG Act requires each OIG to comply with Generally Accepted Government Auditing Standards. These standards require a peer review of audit operations once every 3 years. The US Postal Service OIG performed a peer review of the FCA OIG and issued a report on November 10, 1992. That report concluded that FCA's OIG has an adequate internal quality control system in place that is operating effectively. This peer review was arranged by the ECIE Peer Review Committee.

PREVENTION ACTIVITIES

FCA has suffered from inadequate guidance in many areas of agency internal administration. OIG received fourteen internal directives originated or amended by management during this period, many of which are in response to deficiencies in management or financial controls identified in OIG audits. OIG staff carefully reviewed these documents and extensive comments were offered in areas of concern.

FCA's absence of an adequate financial management system has been identified as a high risk area for several years. The agency has abandoned in-house attempts to develop a new system and is currently in the process of purchasing software and services to fill this need. OIG has contributed to this effort by: 1) providing technical assistance in the agency's efforts to select a new system to assure that appropriate controls are included; 2) counseling management about organizational structure and staffing needs; and, 3) coordinating with the OMB on-site team which is reviewing FCA's financial management deficiencies and the appropriateness of decisions proposed to correct them.

AUDIT REPORTS ISSUED BY FCA OIG
 October 1, 1992 to March 31, 1993

	Number of Recommendations	Questioned Costs	Recommendations That Funds Be Put To Better Use
FCA's Audit Followup Process (March 30, 1993)	3	\$ 0	\$ 0
Total (1 Report)	3	\$ 0	\$ 0

INSPECTION REPORTS ISSUED BY FCA OIG
 October 1, 1992 to March 31, 1993

	Number of Recommendations	Questioned Costs	Recommendations That Funds Be Put To Better Use
Inspection of Budget Limitations (March 1, 1993)	3	\$ 0	\$ 0
Total (1 Inspection)	3	\$ 0	\$ 0

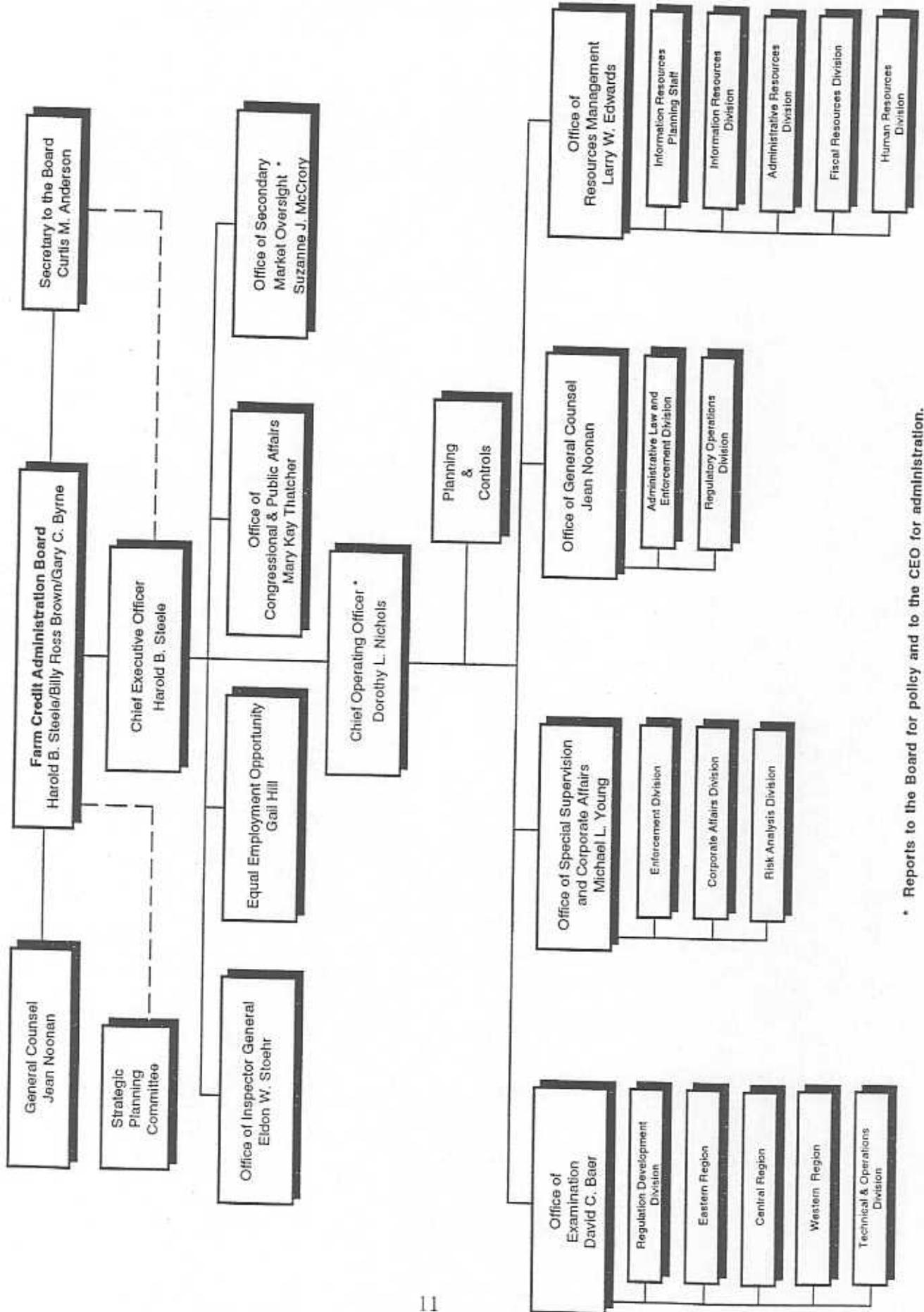
**INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED COSTS**

	<u>Number</u>		<u>Dollar Value</u>	
	<u>Reports</u>	<u>Recomm.</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision has been made by the commencement of the reporting period	<u>3</u>	<u>5</u>	<u>\$ 140,672</u>	<u>\$ 41,672</u>
B. Which were issued during the reporting period	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotals (A + B)	<u>3</u>	<u>5</u>	<u>140,672</u>	<u>41,672</u>
C. For which a management decision was made during the reporting period	<u>1</u>	<u>3</u>	<u>6,335</u>	<u>6,335</u>
(i) dollar value of disallowed costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(ii) dollar value of costs not disallowed	<u>1</u>	<u>3</u>	<u>6,335</u>	<u>6,335</u>
D. For which no management decision has been made by the end of the reporting period	<u>2</u>	<u>2</u>	<u>134,337</u>	<u>35,337</u>
Reports for which no management decision was made within six months of issuance	<u>2</u>	<u>2</u>	<u>\$ 134,337</u>	<u>\$ 35,337</u>

**INSPECTOR GENERAL ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	<u>Number</u>		<u>Dollar Value</u>
	<u>Reports</u>	<u>Recomm.</u>	
A. For which no management decision has been made by the commencement of the reporting period	<u>1</u>	<u>1</u>	<u>\$ 150,000</u>
B. Which were issued during the reporting period	<u>0</u>	<u>0</u>	<u>0</u>
Subtotals (A + B)	<u>1</u>	<u>1</u>	<u>150,000</u>
C. For which a management decision was made during the reporting period	<u>1</u>	<u>1</u>	<u>150,000</u>
(i) dollar value of recommendations that were agreed to by management	<u>1</u>	<u>1</u>	<u>120,000</u>
-- based on proposed management action	<u>1</u>	<u>1</u>	<u>120,000</u>
-- based on proposed legislative action	<u>0</u>	<u>0</u>	<u>0</u>
(ii) dollar value of recommendations that were not agreed to by management	<u>1</u>	<u>1</u>	<u>30,000</u>
D. For which no management decision has been made by the end of the reporting period	<u>0</u>	<u>0</u>	<u>0</u>
Reports for which no management decision was made within six months of issuance	<u>0</u>	<u>0</u>	<u>\$ 0</u>

Farm Credit Administration

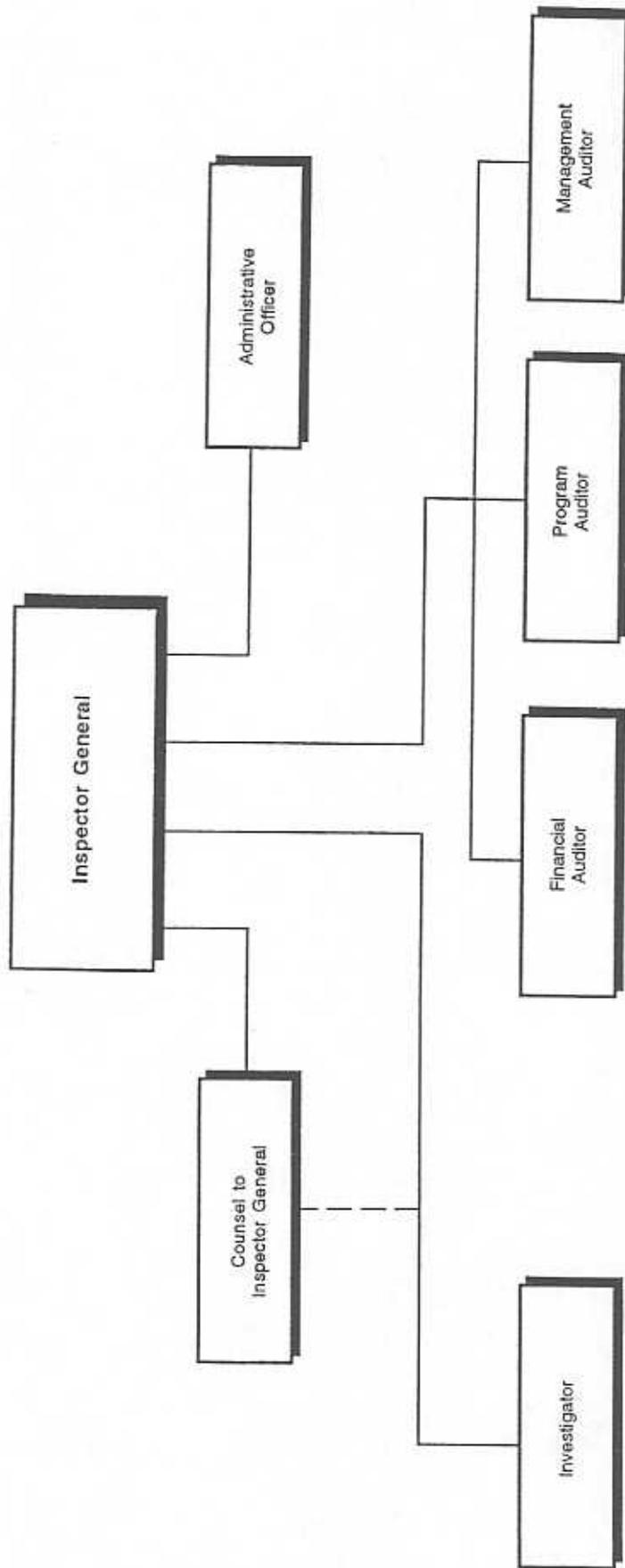


* Reports to the Board for policy and to the CEO for administration.

William Stosh

Inspector General
March 1, 1993

Office of Inspector General



HOTLINE

800-437-7322

**Toll Free 24 Hour Answering Service
703-883-4316 Washington, DC Area**

or write

**FCA Inspector General
1501 Farm Credit Drive
McLean, Virginia 22102-5090**

INFORMATION IS CONFIDENTIAL

REPORT: FRAUD, WASTE, ABUSE, MISMANAGEMENT

CALLER CAN BE ANONYMOUS

**However, each caller is encouraged to assist the Inspector General
by supplying information as to how they may be contacted for additional information.**