

Office of Inspector General

Semiannual Report
to the Congress

October 1, 1995
to
March 31, 1996



Farm Credit Administration

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

April 19, 1996



The Honorable Marsha P. Martin
Chairman of the Board and
Chief Executive Officer
Farm Credit Administration
McLean, Virginia

Dear Ms. Martin:

This semiannual report is submitted in accordance with the Inspector General Act of 1978, as amended (Act), and is the fourteenth report on the activities of the Farm Credit Administration's (FCA) Office of Inspector General (OIG) since the office was created on January 22, 1989. Section 5(b) of the Act requires that you submit this report to the appropriate Congressional committees and subcommittees within 30 days, together with management's report on the status of audit recommendations and any comments you may wish to make.

The Agency staffing plan recently adopted by the Board calls for a reduction in OIG staff from seven to four positions. The reductions are: 1) eliminating the criminal investigator position and assigning investigations responsibility to the Counsel to the Inspector General; and 2) eliminating two of the three auditor positions (retaining the auditor position with specific program knowledge) and contracting for audit coverage outside the Agency's program areas. This reduction is acceptable and streamlines OIG's operation in a manner consistent with the Board's staffing objectives. The extended period allowed for this transition is appropriate and fair to the individual staff members whose positions will be eliminated. It is essential, going forward, that the Board provide OIG with sufficient funding for contract services to ensure that adequate coverage of audit issues is continued.

In my last semiannual report, I expressed my satisfaction that you and I have maintained a very constructive working relationship but that I was concerned that some key officials had relegated the correction of deficiencies reported in OIG audits and investigations to an inappropriately low priority. You have subsequently made some key staff changes which promise to improve management's performance in this area.

I look forward to continued improvements in the Agency's operations through our collaborative efforts.

Respectfully,

A handwritten signature in dark ink, appearing to read "Eldon W. Stoehr", is written over a light-colored background.

Eldon W. Stoehr
Inspector General

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REPORTING REQUIREMENTS

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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 with a fiscal year (FY) 1996 budget of \$37,700,000 for administrative costs of the Agency. The Office of Inspector General (OIG) FY 1996 budget is \$800,438.

FCA currently has 384 established positions, about half of which are examiners located at seven 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 OIG within that structure.

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

AUDIT REPORTS ISSUED

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.

Four audit reports were issued during this reporting period and are summarized below.

OIG STAFF AUDITS

The following audits were conducted by OIG staff.

Value Engineering (A95-06).

The objectives of this audit were to: (1) determine whether the Office of Management and Budget (OMB) Circular A-131, "Value Engineering," dated May 21, 1993, is applicable to the Agency's operations; (2) assess the adequacy of Agency value engineering policies, procedures and implementation of the revised Circular, including how extensively value engineering is included in contracts and whether contractors feel they are encouraged to submit changes; (3) validate the accuracy of reported value engineering savings, if any; and (4) determine whether there are any areas/functions within the Agency where value engineering could be used.

We concluded that OMB Circular A-131 is applicable to FCA operations. However, we found that few actions have been taken to implement a value engineering program because management

individuals are unfamiliar with the term "value engineering." Therefore, our report included a section which defines value engineering. We found one instance where value engineering should have been applied to recent Agency office automation efforts. We also concluded that, although limited, value engineering techniques may have applicability to future Agency efforts including streamlining and/or reorganizing Agency functions and further automation and migration efforts.

Office of Secondary Market Oversight (Audit A95-03).

The objectives of this audit were to: (1) evaluate operations of the Office of Secondary Market Oversight (OSMO) pertaining to responsibilities for the supervision and examination of the Federal Agricultural Mortgage Corporation (Farmer Mac); (2) review FCA Board's direction to OSMO; and, (3) review OSMO's communication to Congress regarding Farmer Mac.

We concluded that: OSMO's examination and general supervision of Farmer Mac were generally adequate; the Board's supervision of OSMO is adequate to ensure that accountability for OSMO's actions resides at the appropriate level; and OSMO has complied with all requirements set forth by the Farm Credit Act of 1971, as amended, regarding its oversight of Farmer Mac except that a risk-based capital test had not been developed. OSMO's delay in establishment of the risk-based capital test seemed reasonable and was communicated to Congress. This was, however, a point of OIG concern given the clear direction provided by the statute and the uncertainty of Congress' acceptance and understanding of the reasons for delay. However, this concern has been overtaken by legislation. On February 10, 1996, the Farm Credit System Regulatory Relief Act of 1996 was signed by the President. This Act includes a provision which extends the requirement for establishment of a risk-based capital test to three years from the date of its enactment.

CONTRACTED AUDITS

Blue Cross/Blue Shield's Management and Reporting of FCA's Rate Stabilization Reserve Fund (A94-04).

Urbach Kahn & Werlin, PC (UKW) evaluated FCA's contract with Blue Cross/Blue Shield (BC/BS) and FCA's Rate Stabilization Reserve Fund (RSR) for the BC/BS contract prior to close-out of the RSR. UKW compiled a list of questions and concerns relating to BC/BS's management and reporting of the RSR activity. This report summarizes the questions raised by UKW, responses provided by BC/BS, and UKW's evaluation of BC/BS's response. The report was transmitted to management for their information and use, as appropriate, prior to final contract close-out.

FY 1995 Financial Statements (A95-08).

The OIG exercised the first option year to the contract with the independent accounting firm of UKW to audit the FCA's September 30, 1995, financial statements and supporting schedules. UKW expressed an unqualified opinion on FCA's financial statements in their report which was

dated December 13, 1995 and issued on January 25, 1996. The UKW report on the internal control structure disclosed no material weaknesses; however, it did disclose reportable conditions in property management controls. They also issued a management letter discussing certain internal control aspects of accounting and administrative policies and procedures. OIG actively coordinated and monitored the audit work to ensure compliance with Government Auditing Standards.

SPECIAL AUDIT PROJECT

Survey of Farm Credit System Institutions.

OIG is administering an ongoing survey of the regulated institutions of the Farm Credit System (FCS). This survey program is designed to provide the FCA Board with feedback concerning how well FCA is performing its examination and enforcement activities. This survey is part of the Agency's strategy to continue to provide high-quality examinations and enforcement actions that consistently adhere to FCA policies and regulations. OIG surveys the chairman of the board and the chief executive officer of each FCS institution after they have received the report of examination to solicit their voluntary feedback on the quality and consistency of the examination/enforcement process. This effort builds on OIG Audit A94-01, Survey of Farm Credit System Institutions, reported in a prior semiannual report. The program was designed with substantial input from management; however, the OIG administers and reports the results of the survey to assure the confidential treatment of individual responses from FCS institutions. OIG provides quarterly status reports to the FCA Board and will issue a year-end annual report.

STATUS OF UNIMPLEMENTED AUDIT RECOMMENDATIONS

The basic problems in management's audit followup cited in previous semiannual reports continued to exist during this period, notwithstanding some progress in discrete areas that has also been reported. The Chief Operating Officer has just reassigned responsibility for audit followup and we are confident this action will address the problems referenced above and eliminate the backlog of unimplemented audit recommendations (see below) that have existed for many years.

Fifteen of the 29 uncorrected audit recommendations are over three years old. That significant backlog contrasts with the requirements of Sec. 6009 of the Federal Acquisition Streamlining Act of 1994, as amended, as follows:

“SEC. 6009. PROMPT MANAGEMENT DECISIONS AND IMPLEMENTATION OF AUDIT RECOMMENDATIONS.

“(A) Management Decisions.(1)—The head of a Federal agency shall make management decisions on all findings and recommendations set forth in an audit report of the inspector general of the agency within a maximum of six months after the issuance of the report.

“(2) The head of a Federal agency shall make management decisions on all findings and recommendations set forth in an audit report of any auditor from outside the Federal Government within a maximum of six months after the date on which the head of the agency receives the report.

“(b) COMPLETION OF FINAL ACTION. The head of a Federal agency shall complete final action on each management decision required with regard to a recommendation in an inspector general’s report under subsection (a)(1) within 12 months after the date of the inspector general’s report. If the head of the agency fails to complete final action with regard to a management decision within the 12-month period, the inspector general concerned shall identify the matter in each of the inspector general’s semiannual reports pursuant to section 5(a)(3) of the Inspector General Act of 1978 until final action on the management decision is completed.”

Management took action on all five audit recommendations made during this reporting period. The one recommendation outstanding without a decision at the end of the period is from the Review of Internal Accounting and Administrative Controls which was issued on March 31, 1995.

Illustration I

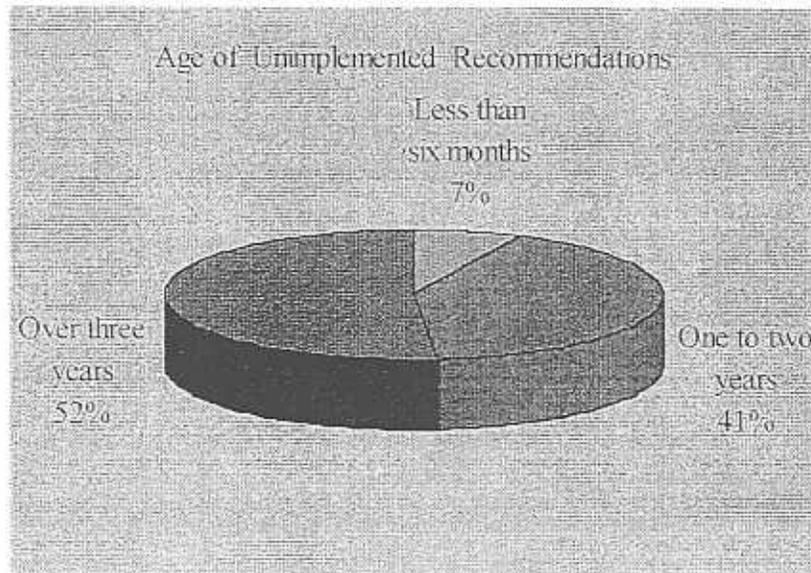


Illustration I summarizes the age of open recommendations as of March 31, 1996. Of the 15 recommendations outstanding without final action for more than three years from date of report

issuance, two recommendations are from the Audit of Purchasing and Contracting Functions issued February 12, 1990, one recommendation is from the Audit of FCA's Security issued July 16, 1992, three recommendations are from FCA's Accounting System audit issued June 27, 1990, two recommendations are from the Implementation of Borrower Rights audit issued May 10, 1991, one recommendation is from the Travel and Relocation Expenses audit issued September 27, 1991, four recommendations are from the FCA Budgeting Process audit issued September 22, 1992, and two recommendations are from the Compliance with Regulations audit issued September 24, 1992.

The remaining 14 recommendations outstanding without management decision or final action for less than two years include eight recommendations from the Conformance Review of Financial Management System audit which was issued on March 30, 1995, four recommendations are from the Review of Internal Accounting and Administrative Controls audit which was issued on March 31, 1995, and two recommendations are from the Value Engineering audit which was issued January 22, 1996.

FINAL ACTIONS TAKEN THIS PERIOD

During the reporting period, management took final action on 16 audit recommendations. The period of elapsed time from report issuance to final corrective action on these recommendations ranged from less than 6 months to over 5 years from date of report issuance. Illustration II shows that 9 of 16 final actions taken during this reporting period were on recommendations in audits issued more than 3 years ago. As previously noted, although management has made progress in reducing the backlog of old audit recommendations, there remains a significant backlog of recommendations accumulated during prior periods.

Illustration II

Aging of Final Actions Completed During Semiannual Period of October 1, 1995 through March 31, 1996	
Final Action Within:	
6 months of report issuance	3
6 months - 3 years after report issuance	4
3-5 years after report issuance	6
Over 5 years	3
Total Final Actions	16

INVESTIGATIONS

At the beginning of this semiannual reporting period there were four open investigations. Three additional investigations were opened during this period. Of those seven investigations, four were closed during this six-month period for the following reasons:

- Three laptop computers were stolen from an FCA field office but OIG was not notified. Three months after the computers were stolen OIG became aware of the theft; however, after such a long time, we were unable to identify a suspect.
- In a separate instance, a laptop computer was reported stolen from the secured supply area of FCA headquarters. However, the day after it was reported stolen, the laptop "reappeared." We were unable to identify who had removed the computer or how it was returned, in large part because of internal control and building security weaknesses.
- Two investigations were closed because insufficient evidence was found to support the alleged wrongful act.

Two other preliminary investigations were initiated, but discontinued; one due to lack of evidence and the other complaint was withdrawn after the OIG investigator mediated a satisfactory resolution of the personnel related issue.

At the close of this reporting period, three investigations remain open and are being pursued.

The OIG Hotline received 55 calls or walk-ins during this reporting period. Two of the calls concerned fraud in programs other than those under FCA's responsibility and were referred to the appropriate agency. Three calls dealt with Farm Credit System borrower complaints and were either referred to the FCA division responsible for investigating such matters or we are awaiting further information from the complainant. Four allegations were internal to FCA; one was closed after preliminary work was done and three resulted in the opening of investigations. The remainder of the Hotline calls required no investigative action by the OIG.

LEGISLATION AND REGULATIONS

During this reporting period several bills of interest to OIG became law. The National Defense Authorization Act for FY 96 (Pub. L. 104-106) (Defense Act) contained several provisions that establish expectations for management's actions in correcting deficiencies reported in audit reports. (See pages 4 and 5, under Status of Unimplemented Audit Recommendations). The Defense Act also amended other laws, including: Procurement Integrity (Section 4304); Value Engineering for Federal Agencies (Section 4306); Micro-Purchases Without Competitive Quotations (Section 4311); Performance-Based and Results-Based Management (Section 5113);

the Information Technology Management Reform Act of 1996 (Sections 5001 - 5403); Paperwork Reduction Act (Section 5605); and Computer Security of 1987 (Section 5607).

The Lobbying Disclosure Act of 1995, signed by the President on December 19, 1995, eliminated a requirement for Inspectors General to file an annual report on lobbying.

The President signed the Agriculture Appropriations Bill, H.R. 1976, on October 21, 1995 (Pub. L. 104-37). This legislation permits FCA retirees and near-retirees to reenter the Federal Employees Health Benefits program.

Executive Order 12933, Administrative Allegations Against Inspectors General, was signed on March 21, 1996. It establishes a process to handle allegations of wrongdoing by an Inspector General or senior members of an OIG.

OIG furnished comments on eight FCA regulations as well as the proposed FCA Process for Appealing Material Examination Determinations.

OTHER ACTIVITIES

The Inspector General provided the FCA Chairman with confidential advisories on Agency streamlining opportunities, comparability of FCA pay and compensation with other financial institution regulators, the Sunshine Act, and the appropriate treatment of sensitive information by Agency employees.

OIG staff are encouraged to participate in organizations which contribute to the mission of the Inspector General community. Most staff are actively involved in one or more professional organizations in addition to ad hoc activities of the ECIE/PCIE including:

- The Inspector General served on a qualifications review board for the selection of the Inspector General at the National Archives and Records Administration and an ad hoc ECIE committee to identify options for reengineering the ECIE and member OIGs.
- Counsel to the Inspector General chairs the Legislative Committee of the PCIE/ECIE Council of Counsels to Inspectors General.
- The Assistant Inspector General for Audits serves as the Small Agency Council representative on the CFO Council Financial Systems Committee, is a member of the Core Group for IGSNet/FinanceNet, chaired the JFMIP Nominations Review Committee, served on a technical evaluation panel for the Inspector General of NCUA's selection of an independent accounting firm and serves as guest instructor at the IGATL.

- A senior auditor is serving a one-year detail as an instructor at the Inspector General Auditor Training Institute.
- The Administrative Officer serves on the PCIE Federal Training Network of Training Coordinators.

APPENDIX I

AUDIT REPORTS ISSUED BY FCA OIG

October 1, 1995 to March 31, 1996

AUDIT REPORTS	Number of Recommendations	Questioned Costs	Recommendations That Funds Be Put to Better Use
Blue Cross Blue Shield	0	\$ 0	\$ 0
OSMO	1	0	0
Value Engineering	4	0	0
FY 1995 Financial Statements	0	0	0
Total	5	\$ 0	\$ 0

APPENDIX 1a

**INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED COSTS**

	Number		Dollar Value	
	Reports	Recs.	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period	0	0	\$ 0	\$ 0
B. Which were issued during the reporting period	0	0	0	0
Subtotals	0	0	0	0
C. For which a management decision was made during the reporting period	0	0	0	0
(i) dollar value of disallowed costs	0	0	0	0
(ii) dollar value of costs not disallowed	0	0	0	0
D. For which no management decision has been made by the end of the reporting period	0	0	0	0
E. For which no management decision was made within six months of issuance	0	0	0	0

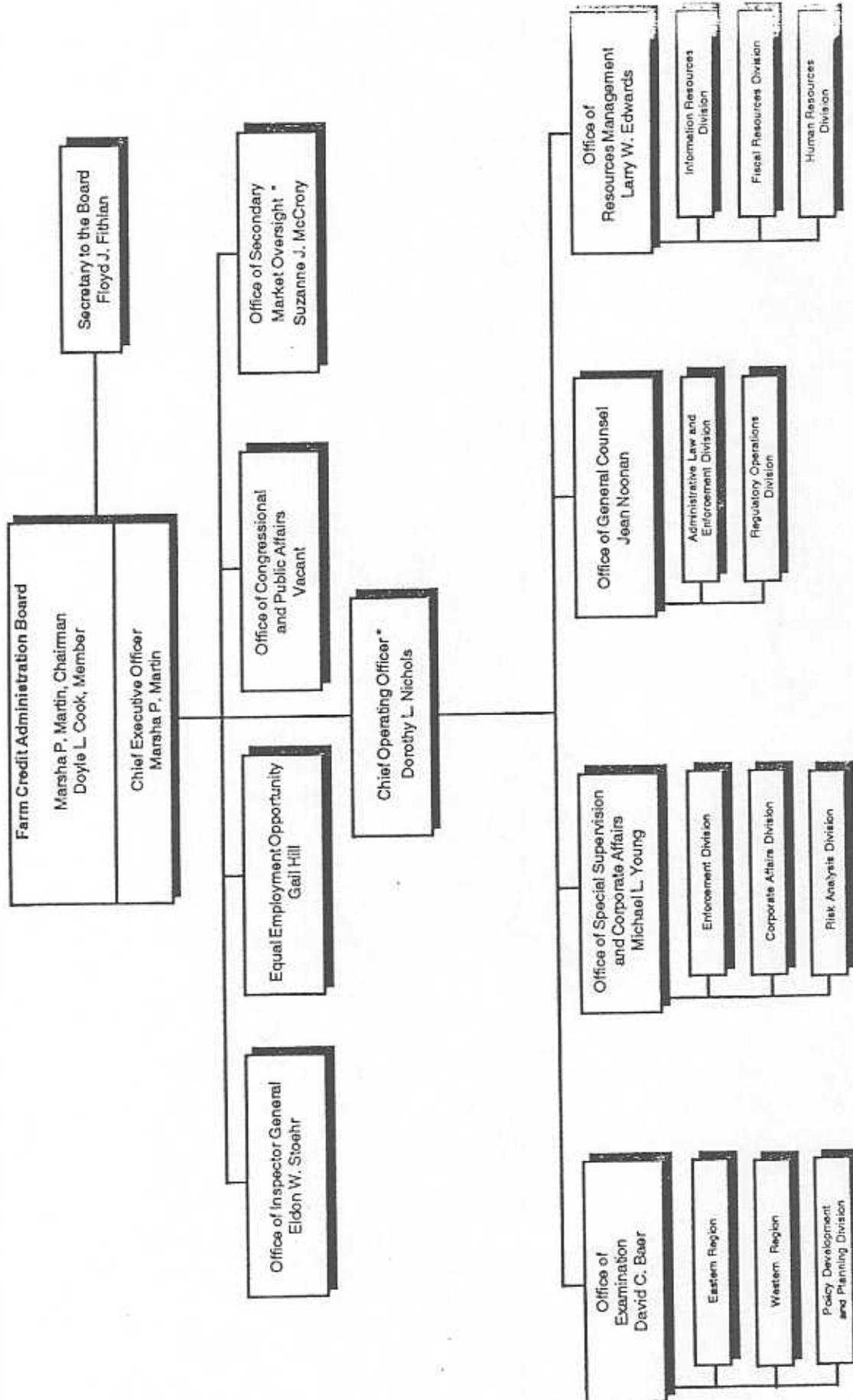
APPENDIX Ib

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

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

Farm Credit Administration

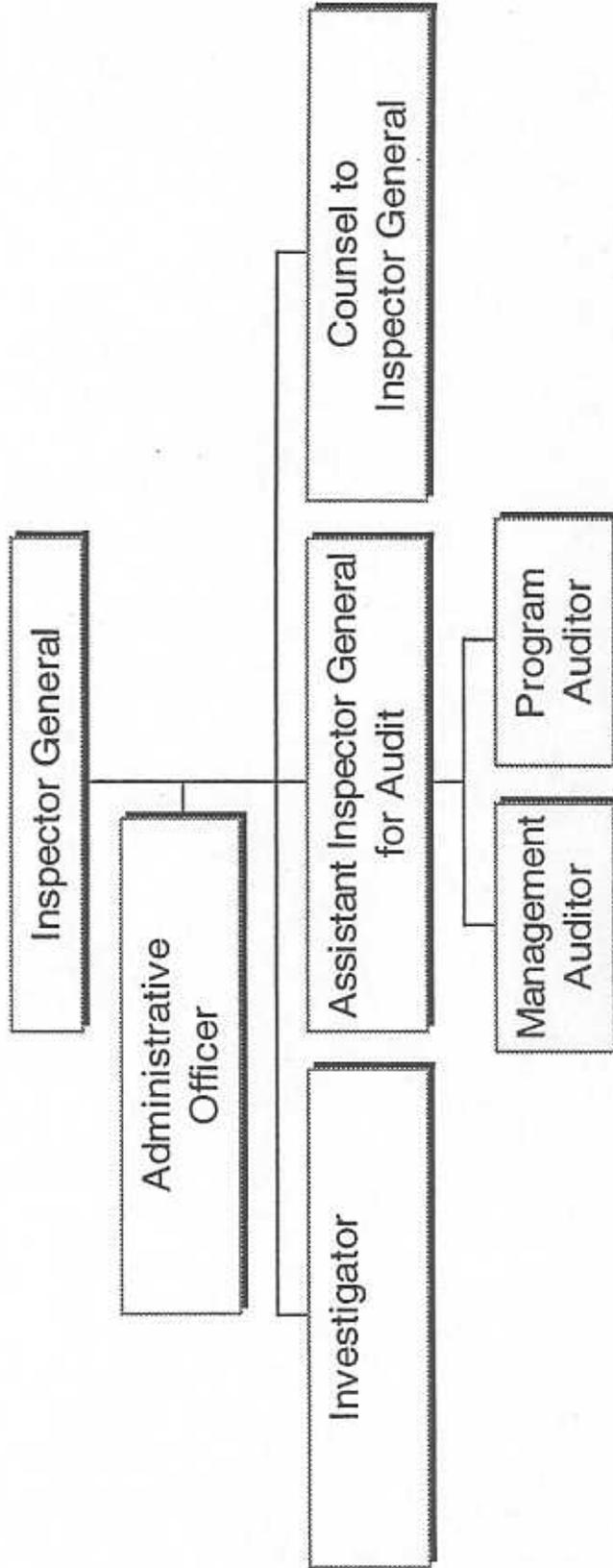
[Signature]
 Chairman
 August 1, 1995



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

Office of Inspector General

Eldon W. Stoehr
Eldon W. Stoehr
March 31, 1996



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.