

Office of Inspector General

Semiannual Report
to the Congress

October 1, 1998
through
March 31, 1999



April 22, 1999

The Honorable Marsha Pyle 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 twentieth report on the activities of the Farm Credit Administration's (Agency) Office of Inspector General (OIG) since the office was created on January 22, 1989. Section 5(b) of the Act requires that this report be submitted to the appropriate Congressional committees and subcommittees within 30 days after the date of this transmittal, together with management's report on the status of audit recommendations.

Agency programs have continued to improve through management's acceptance and implementation of OIG advice and recommendations. Your support is very much appreciated.

Respectfully,

Eldon W. Stoehr
Inspector General

REPORT HIGHLIGHTS

Two audits and one inspection were issued during this period. As a result of these and earlier reports, management took the following actions:

- *Established a “clear and plain” language initiative for Agency regulations and other documents.*
- *Improved security for personal safety of field office employees and enhanced controls over property and equipment.*
- *Improved procedures and controls over the Agency’s credit card purchasing program.*
- *Broadened the expertise of subject matter specialists through rotational programs for Capital Markets Specialists and Information Systems examiners.*
- *Eliminated financial control weaknesses reported by independent financial auditors as reportable conditions.*
- *Segregated incompatible duties between the time entry conversion function and the payroll leave audit function.*
- *Expanded its Examination Manual to provide guidance for reviewing officer and employee compensation and affirmative action plans for regulated institutions.*

OIG initiated the use of management letters as a vehicle for more timely identification and correction of management issues. We issued five management letters and, even though those letters were issued late in this period, management has already taken the following actions:

- *The Agency’s flexiplace program has been broadened, on a test basis.*
- *The Information Resources Division (IRD) changed the methodology for assigning addresses to computers on the network.*
- *An article was published in FCA This Week to ensure all employees know how to use remote access to the Time Recording and Consolidated Reporting Systems.*

**Special Highlighting of Developments Encroaching on the Independence of IGs.
(See page 6)**

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BACKGROUND

The Farm Credit Administration (FCA or Agency) 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, as amended. FCA is a non-appropriated agency with a fiscal year (FY) 1999 budget of \$36,017,177 for administrative costs of the Agency. The FY 1999 budget for the Office of Inspector General (OIG) is \$731,604.

FCA currently has 310 established positions, about half of which are examiners located at five field offices. Also included in the established Agency positions are the five 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” (DFE) 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 AND INSPECTION 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. Two audit reports were issued during this reporting period and are summarized below. Copies of these reports are available by contacting the Inspector General’s (IG) office on 703/883-4030 or via email at BURRJ@FCA.GOV.

OIG STAFF AUDIT

CONTRACTED AUDIT

FCA's FY 1998 Financial Statements

The OIG contracted with the independent accounting firm of Tichenor & Associates (Tichenor), Certified Public Accountants, to audit FCA’s Financial Statements. This audit included the balance sheet as of September 30, 1998, and the related statements of; net cost, changes in net position, budgetary resources, and financing, for the year ended September 30, 1998. Tichenor issued an unqualified opinion on these financial statements.

Tichenor also issued two reports; both dated November 10, 1998, on FCA’s internal control structure and FCA’s compliance with laws and regulations. The report on internal control structure disclosed no material weaknesses; however, it did disclose two conditions that Tichenor considered to be reportable. Specifically, Tichenor reported that: (1) inadequate procedures were in place for detecting manipulation of financial statement information, and (2) inadequate controls were in place over the payroll audit function.

The report on compliance with laws and regulations disclosed one instance of noncompliance with applicable laws and regulations under Government Auditing Standards and OMB Bulletin 98-08. Specifically, Tichenor reported that under reporting requirements of the Prompt Pay Act, all Federal agencies must report annually to the Director of OMB by November 30th of each year. FCA did not submit its annual report for fiscal year 1997. Subsequently, on November 10, 1998, this reporting requirement was repealed by Public Law 105-362.

As a result of the audit, two recommendations were made which focused on measures needed to resolve the reportable conditions pertaining to internal control structure. Management agreed with the recommendations and has taken corrective action.

INSPECTION

This reporting period OIG continued to expand the use of inspection reports in an effort to provide a quick turnaround on issues important to management. The OIG issued the final report on the Dallas Field Office inspection (summarized below) and completed the fieldwork for a second field office inspection, although the final report will not be issued until the next reporting period.

Dallas Field Office

STATUS OF UNIMPLEMENTED RECOMMENDATIONS

During the reporting period, management continued to implement most recommendations in a timely manner.

Audits

Management took final action on the following open recommendations: two from the audit report on FCA's IMPAC Program issued on August 11, 1998; two from the audit report on FCA's FY 1998 Financial Statements issued November 10, 1998; and two from the audit report on FCA's Specialization/Certification Programs issued January 5, 1999.

The open recommendations at the end of this reporting period are as follows: one from the audit report on FCA's IMPAC Program and three from the audit report on the FCA's Specialization/Certification Programs.

Inspections

Final action was taken on one recommendation from the report on the Inspection of the Bloomington Field Office issued May 7, 1998, and one from the report on the Inspection of the

Sacramento Field Office issued October 16, 1998. A management decision has yet to be made on the three recommendations from the Inspection of FCA's Workmen's Compensation Program issued on September 30, 1998.

Management's continued commitment toward timely final action on all open recommendations is anticipated.

YEAR 2000

The Agency is making reasonable progress in addressing year 2000 (Y2K) issues, both within Agency operations and in the regulated institutions. OIG is making an on-going audit of the Agency's Y2K activities that will continue through the first half of 2000 with quarterly status reports to the FCA Board. Further, OIG has engaged an independent consultant to make an assessment of FCA's complete network infrastructure.

AGENCY FINANCIAL MANAGEMENT SYSTEMS

The Federal Financial Management Improvement Act of 1996 requires agencies to implement and maintain financial management systems that substantially comply with Federal financial management requirements, government accounting standards, and the U.S. Government standard general ledger. This Act also requires the OIG to report on the Agency's compliance.

FCA implemented off-the-shelf software in FY 1994, which was sufficient to support unqualified opinions on the financial statements for fiscal years 1994, 1995, 1996, and 1997. However, the auditors did identify some systemic weaknesses in that software, which were deemed a reportable condition in FY 1996. During FY 1997, management selected replacement software designed to satisfy all of the above mentioned Federal systems requirements. The replacement configuration, data conversion and testing of this replacement software began in early FY 1998 with the expectation that implementation would occur at the beginning of FY 1999; however, problems identified during testing have delayed implementation. Management engaged a consultant to perform an independent validation and verification of the software in March 1999 and now expects that the problems identified through that process will be corrected and the system implemented at the beginning of FY 2000.

MANAGEMENT LETTERS

We have initiated the practice of developing management letters in order to bring issues to managers' attention in a timely fashion. During this period, we issued five management letters concerning Prompt Payments, Travel, Remote Access to the Agency Network System, Supply Room Security, and FCA's Drug Free Workplace Program. We expect management to continue to be receptive and responsive to this practice.

INVESTIGATIONS

There were two open investigations at the beginning of this reporting period. No additional investigations were opened during this period. One of the two open investigations was closed during this six-month period.

The investigation closed during this period concerned allegations of employees receiving benefits from travel which were not allowed for within the Federal Travel Regulations. We investigated the allegations and the relevant laws and Comptroller General decisions concerning allowable benefits to Federal employees. The allegation that FCA employees were receiving inappropriate or unallowable benefits from official travel was not substantiated.

The OIG Hotline continues to receive few calls or walk-ins, which require investigative action by this office. Five calls were received through the Hotline that dealt with FCS borrower complaints. These calls were either referred to the FCA division responsible for investigating such matters or we are awaiting further information from the complainant. Two calls pertained to an allegation internal to FCA, but did not result in the opening of an investigation because the preliminary review indicated that there was no support for the allegations. Another Hotline call reported concerns over administrative procedures rather than violations of law and will be considered to incorporate in a future audit or inspection. The remainder of the Hotline calls required no investigative action by the OIG.

LEGISLATION AND REGULATIONS

During this reporting period, four Agency regulations and an FCA public policy were reviewed. We reviewed the regulations and public policy to assess their possible administrative effects and the risk of fraud, waste and abuse under them.

Special Highlighting of Developments **Encroaching on the Independence of IGs**

An issue that may need Congressional support or action involves the encroachment on the independence of designated Federal entities (DFE) Inspectors General under on the Inspectors General Act of 1978, as amended in 1988. DFE Inspectors General believe that the Inspector General Act Amendments of 1988 intended to grant Inspectors General in the DFEs with the same independence as the Presidentially appointed Inspectors General; however, the independence of DFE Inspectors General has recently been challenged in two forums.

The first to question the independence of the DFE Inspectors General was the Professional Ethics Committee of the American Institute of Certified Public Accountants (AICPA). That Committee has proposed a revision of its rules that would define DFE Inspectors General as not sufficiently independent to issue audit reports under Generally Accepted Auditing Standards (GAAS). Under the proposed rules, the Presidentially appointed Inspectors General would be treated as independent auditors, but the DFE Inspectors General would be treated as “internal auditors” because they are appointed by their agency heads and are therefore considered to be less

independent. In response, 24 DFE Inspectors General signed a letter challenging the AICPA's proposed revision, and asserting that the manner of an Inspector General's appointment does not vest Presidentially appointed Inspectors General with more independence than their DFE counterparts.

The second challenge to the independence of DFE Inspectors General grew out of a hearing before an Administrative Law Judge (ALJ) of the Federal Labor Relations Authority (FLRA) on an Unfair Labor Practice charge against the Office of Inspector General of the National Labor Relations Board (NLRB). At issue was the alleged refusal of an investigator from the NLRB OIG to permit an employee to be represented by his union during an investigative interview. This very issue is pending a decision by the U.S. Supreme Court in *FLRA v. National Aeronautics and Space Administration and National Aeronautics and Space Administration Office of Inspector General*, 120 F.3d 1208 (11th Cir.1997), *cert.granted*, 119 S.Ct. 401(1998); and oral argument was heard on March 23, 1999. The ALJ who decided the NLRB case, however, felt that the case was not necessarily dependent on the outcome of the NASA case in the Supreme Court. The ALJ found that since the NLRB case involved a DFE Inspector General, and the pending NASA case involved a Presidentially appointed Inspector General, the cases were sufficiently dissimilar. The ALJ stated:

Unlike the Inspector General in *NASA* and the Inspectors General of other agencies defined by section 11 of the IG Act as "establishments," the Inspector General of the NLRB is appointed by its Chairman, who may also remove him or her. Although such removal must be explained to Congress, there are not formal limitations on such action. The Inspector General, therefore, must rely solely on political considerations rather than legal standards with respect to the security of his or her position.

NLRB OIG and NLRBU, FLRA Case No. AT-CA-80026 (February 10, 1999), at 19. The ALJ went on to state that because a DFE Inspector General serves at the pleasure of the agency head, and because of the agency's role in establishing the Inspector General's budget, a DFE Inspector appears to have at least somewhat less independence than a Presidentially appointed Inspector General. *Id.* at 20.

Legislative proposals are expected to be introduced in this Congress which will directly affect Inspectors General, and in the coming months, as a DFE Inspector General I intend to become more involved in working with Congress to address these independence issues as a part of these legislative proposals.

OTHER ACTIVITIES

Survey of Farm Credit System (FCS) Institutions

OIG administers an ongoing survey of the regulated institutions of the FCS. This survey program is designed to provide the FCA Board with independent feedback concerning how well FCA is performing its examination and enforcement activities. OIG administers and reports the results of

the survey to assure the confidential treatment of individual responses from FCS institutions. The chairman of the board and the chief executive officer of each FCS institution are surveyed following their receipt of FCA's report of examination to solicit their voluntary feedback on the quality and consistency of the examination/enforcement processes. During this reporting period, 70 surveys were mailed out and 48 responses were received from institutions, a 68% response rate. Overall, the average rating for the questions answered this period was (1=completely agree; 5=completely disagree) compared to 1.72 from the previous reporting period.

OIG Performance Measures

OIG developed performance measures during FY 1995 and implemented them in FY 1996. We have refined the measures in each subsequent year and have issued performance reports for both FY 1996 and 1997. We revised OIG's time reporting system for FY 1998 to accumulate better data to support the measures. The report for FY 1998 will be issued during the next reporting period.

Staff Participation in Activities of the Professional Community

OIG staff are encouraged to participate in organizations which contribute to the mission of the Inspector General community as well as their individual professional development. Most staff are actively involved in one or more professional organizations in addition to ad hoc activities of the Executive Council on Integrity and Efficiency/President's Council on Integrity and Efficiency.

Staff Participation in Agency Organizations

OIG staff have participated in several Agency workgroups and task forces. During this reporting period the OIG was represented on the Leadership Team, EEO Advisory Committee, Annual Report Task Force, Chartering and Corporate Issue Workgroup, Strategic Message Workgroup, Employee Council, FCA's Mentoring Program, Administrative Burden Reduction Workgroup, Farm Credit Club and the Federal Women's Program.

**AUDIT/INSPECTION REPORTS
ISSUED BY FCA OIG**

AUDIT/INSPECTION REPORTS	Number of Recommendations	Questioned Costs	Recommendations That Funds Be Put to Better Use
Analysis of FCA's IT Infrastructure	20	\$ 0	\$ 0
Dallas Field Office Inspection	1	\$ 0	\$ 0
Total	21	\$ 0	\$ 0

**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 (A+B)	0	0	\$ 0	0
C. For which a management decision was made during the reporting period	1	1	\$ 31,892	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

**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
E. For which no management decision was made within six months of issuance	0	0	0