

April 25, 2000

The Honorable Michael M. Reyna
Chairman of the Board and
Chief Executive Officer
Farm Credit Administration
McLean, Virginia

Dear Mr. Reyna:

We are filing this semiannual report in accordance with the Inspector General Act of 1978, as amended (Act). It is the twenty-second report on the activities of the Farm Credit Administration's (FCA or Agency) Office of Inspector General (OIG) since creation of the office on January 22, 1989. Section 5(b) of the Act requires that we send this report to the appropriate Congressional committees and subcommittees within 30 days after the date of this transmittal, with management's report on the status of audit recommendations.

This is the first semiannual report addressed to you as Chairman. It reflects the benefits accruing from the constructive relationship between the Inspector General and Agency management in which we share our commitment to improving Agency programs and operations. OIG will continue to seek ways to add value to the Agency's activities.

Respectfully,

Eldon W. Stoehr
Inspector General

REPORT HIGHLIGHTS

We issued three audit and three inspection reports during this period. Based on recommendations made in these and earlier reports, as well as other OIG activity, management took the following actions:

- Successfully prepared for the rollover to a new millenium so it occurred without incident in both the Agency and its regulated institutions.**
- Switched Agency telecommunication services to a more cost-effective provider.**
- Improved policies to enhance the Agency's computer security.**
- Reduced accounting object codes by 51%.**
- Implemented tiered user training for in-house computer applications.**
- Improved remote access service to the Agency's computer network.**

We also performed the peer review of the OIGs at the Federal Maritime Commission and the National Labor Relations Board.

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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 nonappropriated agency with a fiscal year (FY) 2000 budget of \$35,800,000 for administrative costs. The FY 2000 budget for the Office of Inspector General (OIG) is \$805,814.

FCA currently has 310 established positions, about half of which are examiners located at five field offices. Also included in the Agency positions are 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” within the meaning of the Inspector General Act of 1978, as amended. The Inspector General is appointed by and under the general supervision of the Chairman of the FCA Board (Chairman).

AUDIT AND INSPECTION REPORTS ISSUED

We issued three audit reports during this reporting period, which are summarized below. We conduct all audits in accordance with audit standards established by the Comptroller General of the United States for audits of Federal organizations, programs, activities, and functions. We also issued three inspection reports. Inspections are conducted in accordance with the Presidents’ Council on Integrity and Efficiency’s *Quality Standards for Inspections*. Copies of all reports are available on FCA’s Web site (www.fca.gov/oig), by contacting the Inspector General’s (IG) office on 703/883-4030, or by e-mail at BURRJ@FCA.GOV.

During this period, we began reporting actions required to correct audit or inspection findings as “agreed upon actions” whenever we and management agreed on a mutually acceptable way to resolve a problem identified during reviews. Our objective is to recognize managers’ preferred method of correcting problems whenever we agree that their approach is a reasonable solution. We identified this approach through our benchmarking of Freddie Mac. Managers have responded positively to this technique and it seems to speed up final corrective action as well as reduce the normal tension associated with OIG recommendations. A management decision occurs simultaneously with a recommendation whenever we achieve “agreed upon actions.” Recommendations are included in reports when management and OIG cannot agree on a specific corrective action prior to report issuance or when an action or decision is needed from the Board.

OIG STAFF AUDITS

FCA's Supply and Procurement Functions

The objectives of this audit were to evaluate the efficiency of FCA's procurement and supply activities and users' satisfaction with these services. Our review found that staff are generally satisfied with the services provided; however, costs to the Agency could be reduced without diminishing service. OIG and management achieved "agreed upon action" on 12 issues that would improve the efficiency of both functions. This report also presented two recommendations that, if accepted by management, would improve operations, reduce expenses and eliminate the need for 11 of the 12 aforementioned actions.

FCA's Preparation for Year 2000 Compliance (Y2k)

The objectives of the audit were: to evaluate the Agency's efforts to ensure the Y2k project is implemented consistent with the Board-approved plan to help ensure the continued effective operation of the Agency in the next millenium; to determine if the Agency's Y2k efforts conform to existing regulatory and governmental guidance; to identify whether the project had addressed material Y2k risks; and to evaluate the Agency's efforts to identify the Y2k readiness of Farm Credit System (FCS) institutions and prompt corrective measures when necessary. We found the Agency was adequately prepared for the Y2k challenges as shown by the absence of operational disruptions both through the Y2k weekend and through the February 29th leap year. Also, the Agency provided effective supervision of FCS institutions and January 1, 2000 and February 29, 2000 passed uneventfully in all FCS institutions. Management adequately addressed many suggestions for improvement that we made to the Agency during this audit.

CONTRACTED AUDIT

FCA's FY 1999 Financial Statements

The OIG contracted with the independent accounting firm of Tichenor & Associates (Tichenor), Certified Public Accountants, to audit FCA's FY 1999 financial statements, including the balance sheet and the related statements of net cost, changes in net position, budgetary resources, and financing. Tichenor issued an unqualified opinion on these financial statements.

Tichenor also issued two reports, both dated December 15, 1999, on FCA's internal control structure and FCA's compliance with laws and regulations. The report on internal control structure disclosed no material weaknesses.

The report on compliance with laws and regulations disclosed an instance of noncompliance with applicable laws and regulations that we are required to report under Government Auditing Standards

and Office of Management and Budget (OMB) Bulletin 98-08. Specifically, Tichenor reported that adequate management evaluations of internal controls did not always exist to support the assurance letters provided by some Division Chiefs and Office Directors to the Agency head. However, the Agency head's assessment of management controls for Federal Financial Management Improvement Act reporting purposes was supported by various sources of information. These sources include Inspector General and General Accounting Office reports, audits of financial statements conducted under the Chief Financial Officer's Act, and other sources referenced in OMB Circular A-123.

INSPECTION REPORTS

OIG continued to use inspection reports to provide a quick turnaround on issues important to management. We issued three inspection reports during this reporting period.

Telecommunication Costs and Services

The objectives of this inspection were to: evaluate the cost of telecommunication services provided to FCA through the FCS Building Association (FCSBA); identify alternative providers, if appropriate; test the accuracy and integrity of billings for these services; and review the Agency's oversight of this area. The inspection identified opportunities for cost savings in several areas including obtaining General Services Administration's FTS 2001 telecommunication service, which occurred during the inspection. Also, we identified added opportunities to improve the Agency's arrangement with the FCSBA for telecommunication services.

Six "agreed upon actions" focused on addressing added opportunities to improve the Agency's operations.

McLean Field Office Inspection

The field office inspection involved the review of various administrative and examination areas to assess compliance with external and internal guidance. The overwhelming majority of areas exhibited no weaknesses. However, one administrative area needed improvement as well as two examination areas. We developed three "agreed upon actions" for improving operations in these areas.

Performance Measures Inspection

The FCA Board had directed management to integrate the established Agency-level performance measures into internal performance measures for each office's day-to-day functions and operations. We conducted this inspection to determine if FCA offices and individual divisions have performance measures in place for each significant function.

FCA's current Agency-level performance measures and related Performance Plan for FY 1999 is well thought-out and fully encompasses the major responsibilities of the Agency. FCA's management reporting on the status of the Agency's current strategic goals is reliable, informative and complies with the Board's strategic objectives. However, we found developing internal office performance measures has not kept pace with the development of Agency-level measures. It was determined that three major areas need to be addressed to improve individual office and ultimately, Agency-level performance measures and reporting. These three areas are:

- Creating uniform guidance at the office and division levels would enable responsible officials to better understand the Board's expectations.
- Use of common terminology would help unify offices that share the work in achieving the goals dictated by the Agency's Strategic and Performance Plans.
- A common format would simplify preparing the annual consolidated performance report to the Congress. This will ease the process of reviewing and reporting on the status of performance goals.

STATUS OF UNIMPLEMENTED RECOMMENDATIONS

During the reporting period, management implemented 17 recommendations, all but two in a timely manner. Fifteen of the recommendations were from two audit reports while the remaining two recommendations were from two inspection reports. At the end of this reporting period, 28 recommendations remain open, 18 for audits and 10 for inspections. Twenty-four of the 28 open recommendations were included in reports issued just before the close of this reporting period. The other four open recommendations were included in the assessment of the Agency's computer network infrastructure issued during the reporting period ended September 30, 1999.

Audits

Management took final action on the following open recommendations: one from the audit report on FCA's IMPAC Program issued on August 11, 1998, and 14 from the audit report on the Analysis of the FCA IT Infrastructure issued September 30, 1999.

The open audit recommendations and agreed upon actions at the end of this reporting period are as follows: four recommendations from the audit report Analysis of the FCA IT Infrastructure; and two recommendations and 12 agreed upon actions from the audit report FCA's Supply and Procurement Functions issued on March 29, 2000.

AUDIT RECOMMENDATIONS*

Open at Beginning of Reporting Period	19
Added This Reporting Period	14
Closed During This Period	15
Balance Remaining Open	18

Inspections

Management took final action on one open recommendation from the inspection of FCA's Workmen's Compensation Program issued September 30, 1998 and one from the inspection of the McLean field office issued March 31, 2000.

The open recommendations and agreed upon actions at the end of this reporting period are as follows: two recommendations from the inspection report Performance Measures issued March 24, 2000; six agreed upon actions from the inspection report Telecommunication Costs and Services issued March 28, 2000; and two agreed upon actions from the report Inspection of McLean Field Office issued March 31, 2000.

INSPECTION RECOMMENDATIONS*

Open at Beginning of Reporting Period	1
Added This Reporting Period	11
Closed During This Period	2
Balance Remaining Open	10

* Recommendations include "Agreed Upon Actions"

AGENCY FINANCIAL MANAGEMENT SYSTEM

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

Management installed new financial management software (FINASST) as of October 1, 1999, to correct some systemic weaknesses that existed in the predecessor system. The replacement configuration, data conversion and testing of this replacement software began in early FY 1998 and were substantially completed during the summer of 1999. Management engaged a consultant to perform an independent validation and verification of the software in March 1999. Even though the new system had not been run parallel with the old system, management installed FINASST as the system-of-record, based on the testing described above.

Implementing FINASST has not been successful and the Agency is currently considering other options, including cross servicing. The Inspector General has deferred a planned post implementation review of FINASST until a final decision is made about other system options.

INVESTIGATIONS

There were three open investigations at the beginning of this reporting period. We opened one new investigation and closed one during this period.

The investigation closed concerned allegations of contract irregularities. Because the allegation included an OIG contract, we arranged for the Federal Reserve Board (FRB) Inspector General to perform this review. The FRB OIG issued a final investigation report on March 22, 2000 which concluded the allegations of fraud, waste, or abuse in the awarding or performance of the contracts at issue were unfounded.

Most OIG Hotline calls dealt with FCS borrower complaints and were referred to the FCA division responsible for researching such matters. One call merited a preliminary review by OIG, but there was no support for the allegations.

LEGISLATION AND REGULATIONS

We reviewed several FCA regulations in both proposed and final form. We also reviewed statutory and regulatory compliance issues as they arose in audits and investigations. We continued our review of legislation pending before Congress, which would affect the FCA and Federal government employees. We have reviewed and commented on proposed legislation through the legislation committee of the President's Council on Integrity and Efficiency (PCIE) and the Executive Committee on Integrity and Efficiency (ECIE).

A bill concerning computer security, S. 1993, was advanced. We made comments through the PCIE/ECIE legislation committee.

Finally, the Inspector General joined with several other ECIE Inspectors General in protesting a proposed change to Generally Accepted Government Auditing Standards which would jeopardize the independence of Inspectors General in designated Federal agencies.

OTHER ACTIVITIES

Survey of FCS Institutions

OIG administers an ongoing Agency survey of the regulated institutions of the FCS. This survey program is designed to provide the FCA Board with independent feedback about how well FCA performs its examination and enforcement activities. OIG reports the results of the survey to assure the confidential treatment of individual responses from FCS institutions. We survey the chairman of the board and the chief executive officer of each FCS institution following their receipt of FCA's report of examination for their voluntary feedback on the quality and consistency of the examination and enforcement processes. We mailed out 60 surveys during this reporting period and received 36 responses, a 60% response rate (down from a 70% rate last period). Overall, the average rating for the questions answered this period was very good (1.51) [1=completely agree; 5=completely disagree] slightly better than the 1.63 average for the last 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 issued the OIG Performance Report for FY 1999 during this reporting period.

Staff Participation in Activities of the Professional Community

OIG staff members are encouraged to take part in organizations that 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 as well as ad hoc activities of the PCIE/ECIE.

Staff Participation in Agency Organizations

OIG staff are active on several Agency workgroups and task forces. During this reporting period the OIG was represented on the Leadership Team, Compensation Workgroup, Equal Employment Opportunity Advisory Committee, Strategic Message Workgroup, Employee Council, FCA's Mentoring Program, Administrative Burden Reduction Workgroup, Telecommuting Pilot Program, Federal Women's Program and the Farm Credit Club.

Peer Reviews

Our office performed two peer reviews of other Offices of Inspector General. We reviewed the National Labor Relations Board and the Federal Maritime Commission.

APPENDIX I

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

AUDIT/INSPECTION REPORTS	Number of Recommendations/Agreed Upon Actions	Questioned Costs	Recommendations That Funds Be Put to Better Use
Telecommunication Costs and Services	6	\$6,999	\$ 0
FCA's Supply and Procurement Functions	14	\$ 0	\$198,385
FCA's FY 1999 Financial Statements	0	\$ 0	\$ 0
Performance Measures	2	\$ 0	\$ 0
FCA's Preparation for Year 2000 Compliance	0	\$ 0	\$ 0
McLean Field Office	3	\$ 0	\$ 0
Total		\$ 6,999	\$ 198,385

APPENDIX Ia

**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	1	2	\$ 6,999	\$ 0
Subtotals (A+B)	1	2	\$ 6,999	\$ 0
C. For which a management decision was made during the reporting period	1	2	\$ 6,999	\$ 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	1	2	\$198,385
Subtotals (A + B)	1	2	\$198,385
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	1	2	\$198,385
E. For which no management decision was made within six months of issuance	0	0	\$ 0