

Office of  
Inspector General

Semiannual Report to the Congress

October 1, 2011  
through  
March 31, 2012

*Number 46*

*April 20, 2012*



FARM CREDIT ADMINISTRATION



April 20, 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, Virginia 22102-5090

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

Enclosed is the semiannual report on the activities of the Farm Credit Administration's (FCA or Agency) Office of Inspector General (OIG) for the period October 1, 2011 through March 31, 2012. This is the forty-sixth report since the establishment of the OIG on January 22, 1989.

I am submitting this report in accordance with the Inspector General Act of 1978, as amended (IG Act). Section 5(b) of the IG Act requires that the FCA Board send this report to the appropriate Congressional committees and subcommittees within 30 days after the date of this transmittal, accompanied by management's report on the status of audit, inspection, and/or evaluation action items.

During this reporting period, the OIG issued the annual financial audit report. The OIG contracted with the Bureau of the Public Debt for Brown & Company CPAs, PLLC to perform the audit of FCA's financial statements for fiscal year 2011. The audit delivered an unqualified opinion and was issued November 7, 2011. Please refer to page 3 for further information.

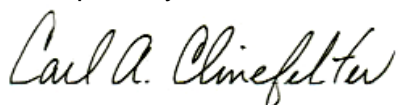
Also, the OIG's annual evaluation of the Agency's compliance with the Federal Information Security Management Act was completed. This annual evaluation was conducted by the OIG's Senior Information Technology Auditor and the report was issued November 15, 2011. There were no action items as a result of this evaluation. Please refer to page 3 for further information.

On November 17, 2011, the OIG issued a final report on an audit of the Agency's contracting activities. The audit resulted in seven recommendations that were agreed to by Agency management and implemented before the final audit report was issued. Please refer to page 3 for further information.

The one open action item at the beginning of this period from the inspection of the Agency's borrower complaint handling process was closed during this period. Please refer to page 4 for further information.

If you have any questions, please call me at 4241 or 4030. I look forward to continuing a positive relationship between the OIG and the FCA Board, which I view as a partnership striving to strengthen FCA operations.

Respectfully,

A handwritten signature in cursive script that reads "Carl A. Clinefelter".

Carl A. Clinefelter  
Inspector General

Enclosure

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## EXECUTIVE SUMMARY

This Semiannual Report to the Congress summarizes the activities and accomplishments of the Farm Credit Administration's (FCA or Agency) Office of Inspector General (OIG) for the period October 1, 2011 through March 31, 2012. The OIG's efforts were directed toward implementing the OIG's fiscal year (FY) 2012 strategic and operational plan and budget; performing audits, inspections, and evaluations of FCA programs and operations; conducting investigations, as necessary; independently and confidentially surveying Farm Credit System (FCS or System) institutions regarding the effectiveness of the Agency's examination function and examiners; and providing objective, independent reporting and counsel to the FCA Board on FCA programs and operations.

During this reporting period, the OIG issued two audit reports and one evaluation report. The OIG contracted with the Bureau of the Public Debt (BPD) for Brown and Company CPAs, PLLC (Brown & Co.) to perform the audit of FCA's financial statements for FY 2011. The audit delivered an unqualified opinion and was issued November 7, 2011. See page 3 for further information.

The audit of the FCA's contracting activities was issued on November 17, 2011. There were seven recommendations that were made by the OIG and implemented by management before the final audit report was issued. See page 3 for further information.

Also, the OIG issued an evaluation report on the Agency's compliance with the Federal Information Security Management Act (FISMA). There were no recommendations as a result of this evaluation. This evaluation was conducted by the OIG's Senior Information Technology (IT) Auditor. See page 3 for further information.

Additionally, the OIG issued two quarterly reports and one FY summary report to the Chief Examiner and FCA Board on results of OIG surveys of System institutions regarding the examination function and the examiners. These reports were for the quarters ended September 30 and December 31, 2011. The FY summary report was for the FY ended September 30, 2011. In coordination with the Office of Examination, the survey was updated and revised beginning in FY 2012.

The OIG maintains five positions: the Inspector General (IG), a Deputy Inspector General (DIG) and Counsel, a Senior Auditor, a Senior IT Auditor, and an Administrative Assistant. Appendix G and Appendix H reflect the organizational structure of FCA and the OIG, respectively.

## BACKGROUND

### Farm Credit Administration

The FCA is an independent Federal agency of the United States government responsible for the regulation and examination of FCS institutions chartered under the Farm Credit Act of 1971, as amended (Farm Credit Act). The FCA is also a “designated Federal entity” within the meaning of the Inspector General Act of 1978, as amended (IG Act).

As a non-appropriated agency, FCA funds its expenses primarily through assessments to the institutions it regulates. The Agency’s FY 2012 budget is \$60,812,899. Assessments by FCA to FCS institutions for FY 2012 were \$54,100,000 with other sources of funding totaling \$6,712,899. The OIG’s FY 2012 budget is \$1,144,346.

At the end of this reporting period, FCA had 285 employees, about half of which are examiners located in five field offices. At the end of the prior semiannual reporting period, the Agency had 288 employees.

### Farm Credit System

The FCS is a Government-sponsored enterprise comprised of 4 Farm Credit banks and 84 lending associations, as of March 31, 2012, in all 50 states and Puerto Rico that primarily make loans to agriculture. The System raises funds by selling securities in the national and international money markets through its special purpose entity, the Federal Farm Credit Banks Funding Corporation. These securities are not guaranteed by the U.S. Government.

The Federal Agricultural Mortgage Corporation (Farmer Mac), also a part of the FCS, is chartered by the Federal government to provide a secondary market for agricultural mortgage loans. Farmer Mac is publicly traded and issues its own debt securities.

Additionally, there are four active service corporations organized under the Farm Credit Act that provide services to FCS entities and eligible borrowers.

## AUDIT, INSPECTION, AND EVALUATION REPORTS ISSUED

The OIG conducts all audits in accordance with Government Auditing Standards issued by the Comptroller General of the United States for audits of Federal organizations, programs, activities, and functions. Inspections and evaluations are conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Inspections. Copies of most OIG reports are available on the OIG web site at [www.fca.gov/home/inspector.html](http://www.fca.gov/home/inspector.html), or by contacting the OIG at (703) 883-4030, or by TTY at (703) 883-4359, or by e-mail at [ig\\_information@fca.gov](mailto:ig_information@fca.gov).

### FCA's Contracting Activities

The audit's objective was to determine whether the FCA's contracting environment is efficient and effective in acquiring products and services that provide the best value to FCA. There were seven recommendations by the OIG noted and implemented by management before the final audit report was issued on November 17, 2011.

### FY 2011 Independent Financial Statement Audit of FCA

The Accountability of Tax Dollars Act of 2002 required FCA and certain other agencies to submit to Congress and the Office of Management and Budget (OMB) an audited financial statement each fiscal year.

In continuing to assist the Agency in meeting these requirements, the OIG contracted with the BPD for Brown & Co. to perform the audit of FCA's financial statements for FY 2011. The audit resulted in an unqualified opinion and was issued November 7, 2011.

### FY 2011 Federal Information Security Management Act Evaluation

The evaluation of the Agency's compliance with FISMA for FY 2011 was performed by the OIG's Senior IT Auditor, using guidelines established by FISMA, OMB, and the National Institute of Standards and Technology. The report revealed no significant deficiencies and was issued November 15, 2011.

## AUDIT, INSPECTION, AND EVALUATIONS IN PROGRESS

Planning is underway to announce one OIG audit and one OIG survey.

## STATUS OF UNIMPLEMENTED RECOMMENDATIONS

At the beginning of the reporting period, there was one open action item resulting from the OIG inspection on FCA's Borrower Complaint Processing.

| <b>Audit, Inspection, and Evaluation Agreed-Upon Actions and Recommendations</b> |               |  |  |                           |
|--|---------------|--|--|---------------------------|
| <b>Report</b>  | <b>Issued</b> | <b>Open During this 6-Month Period</b> | <b>Final Management Actions During this Period</b> | <b>Open on 04/01/2012</b> |
| Borrower Complaint Processing  | 9/16/2010     | 1                                      | 1  | 0                         |
| <b>Total</b>   |               | <b>1</b>                               | <b>1</b>   | <b>0</b>                  |

The one open agreed-upon action from this inspection was closed on March 21, 2012. It was administrative in nature.

## OIG OBSERVATION ISSUED

OIG Observations are designed to be a quick mechanism to offer the Agency head suggestions on ways to strengthen Agency operations.

### Observation FY 2012-01

The OIG issued to the Chairman and Board Members on October 27, 2011, Observation FY 2012-01, entitled, The Need for Independent Objective Oversight of the Farm Credit System Insurance Corporation by a Statutorily Designated Inspector General.



## INVESTIGATIONS

Three investigations were opened during this reporting period. Two were unsubstantiated and closed. One is being preliminarily reviewed.

OIG Hotline calls and emails dealing with borrower complaints concerning FCS institutions and other FCA issues were referred to the FCA office or other Federal agency responsible for reviewing such matters.

## LEGISLATION AND REGULATIONS

In furtherance of the OIG's mandate to review existing and proposed legislation and regulations, the IG or DIG and Counsel attends joint briefings of the FCA Board on regulations at the proposed and final stages. The following were reviewed by the DIG and Counsel:

### Legislation

- 1) S. 241, The Non-Federal Whistleblower Protection Act
- 2) S. 300, Purchase and Travel Card Controls
- 3) S. 652, The American Infrastructure and Finance Authority
- 4) S. 801, Information Technology Investment Management Act of 2011
- 5) S. 991 / H.R. 1949, Clean-Up Act
- 6) S. 1222 / H.R. 2146, Digital Accountability and Transparency Act of 2011 or DATA Act
- 7) S. 1549/H.R. 12, American Jobs Act
- 8) S. 1280, Kate Puzy Peace Corp Volunteer Protection Act
- 9) S. 2105, The Cybersecurity Act of 2012
- 10) H.R. 514, FISA Sunset Extension Act of 2011 (Extends Patriot Act)
- 11) H.R. 754, Intelligence Authorization Act for 2011
- 12) H.R. 3371, High Performance Federal Building Act
- 13) H.R. 3360, Contingency Operations and Interagency Enhancements

### Proposed Rule

- 14) Disclosure to Investors

15) Liquidity and Funding

Notice of Proposed Rulemaking

16) Farmer Mac Investments and Liquidity Management

Informational Memorandum

17) Maximum Bank Director Compensation for 2012

18) Notice of Draft Second Amended and Restated Market Access Agreement;  
Request for Comments

## OTHER ACTIVITIES

### Quarterly Survey of Farm Credit System Institutions

The OIG administers an ongoing survey of FCS institutions regarding the quality and consistency of the Agency's examination function and examiners. The OIG issues a quarterly report and, at the end of each FY, a summary report on the surveys' results to the Chief Examiner and the FCA Board.

During this 6-month period, the OIG sent surveys to the Audit Committee Chairmen and Chief Executive Officers of 28 FCS institutions. Quarterly reports for the 3-month periods ended September 30 and December 31, 2011, were issued by the OIG to the Chief Examiner and the FCA Board. A summary FY 2011 report as of September 30, 2011, was also issued. In coordination with OE, the survey was updated and revised for issuance in FY 2012.

### Staff Participation in Activities Within the Inspector General Community

OIG staff members are encouraged to take part in organizations that contribute to the mission of the Inspectors General community, as well as their individual professional development. Most staff members are actively involved in one or more professional organizations, as well as activities within the CIGIE.

The IG serves as the Vice Chairperson of CIGIE, is a member of CIGIE's Executive Council, helps chair the monthly meetings of all Inspectors General comprising CIGIE, and participates as a member of the CIGIE's Inspection and Evaluation (I&E) Committee.

The OIG DIG and Counsel meets monthly with counsels to the other Inspectors General. Counsel also attends DIG and Directors of Investigations meetings.

The OIG Senior Auditor and Senior IT Auditor attend Federal Audit Executive Committee meetings and conferences. The Senior Auditor participates as a member of the I&E Committee's Roundtable. The Senior IT Auditor is actively involved in the IT Subcommittee of the Federal Audit Executive Committee and attends local ISACA (formerly known as Information Security and Control Association) meetings.

## **Staff Participation in Agency Organizations**

OIG employees are active on Agency workgroups and task forces, as appropriate.

## **Staff Development**

OIG employees continually seek ways to improve skills and become knowledgeable in the initiatives of the community of Inspectors General. Audit and legal staff must meet continuing education requirements. Individual development plans are used to identify long and short-term career goals along with specific training and developmental needs. These plans are geared to enhance individual skills in the performance of official duties and meet the criteria needed to achieve OIG performance goals and objectives.

## **ANNEX**

This annex is provided in accordance with the National Defense Authorization Act for FY 2008.

This referenced statute requires all Inspectors General appointed under the IG Act to include an annex to their semiannual reports as follows:

- 1) listing all contract audit reports issued during the reporting period containing significant audit findings;
- 2) briefly describing the significant audit findings in the report; and
- 3) specifying the amounts of costs identified in the report as unsupported, questioned, or disallowed.

Significant audit findings are defined as unsupported, questioned, or disallowed costs in excess of \$10,000,000, or other findings that the Inspector General determines to be significant. It defines contracts as a contract, an order placed under a task or delivery order contract, or a subcontract.

No contract audit reports meeting these criteria were issued on behalf of the OIG during this reporting period.

APPENDIX A

|                      | INDEX OF REPORTING REQUIREMENTS  | Page  |
|----------------------|--|-------|
| Section 4(a)(2)      | Review of Legislation and Regulations  | 5 – 6 |
| Section 5(a)(1)      | Significant Problems, Abuses, and Deficiencies   | None  |
| Section 5(a)(2)      | Recommendations for Corrective Action  | None  |
| Section 5(a)(3)      | Prior Recommendations Not Yet Implemented  | None  |
| Section 5(a)(4)      | Matters Referred to Prosecutive Authorities  | None  |
| Section 5(a)(5)      | Summary of Instances Where Information Was Unreasonably Refused or Not Provided              | None  |
| Section 5(a)(6)      | List of OIG Audit/Inspection Reports Issued During the Period                                | 3     |
| Section 5(a)(7)      | Summary of Significant Reports Issued During the Period                                      | 3     |
| Section 5(a)(8)      | Statistical Table on Management Decisions with Questioned Costs                              | 10    |
| Section 5(a)(9)      | Statistical Table on Management Decisions on Recommendations that Funds be put to Better Use | 11    |
| Section 5(a)(10)     | Summary of Each Audit Over Six Months Old for Which No Management Decision Has Been Made     | None  |
| Section 5(a)(11)     | Significant Revised Management Decisions   | None  |
| Section 5(a)(12)     | Significant Management Decisions with Which the Inspector General Disagreed                  | None  |
| Section 5(a)(13)     | Compliance of Agency Financial Management System   | 3     |
| Section 5(a)(14)(15) | Peer Reviews Conducted of this OIG   | 12    |
| Section 5(a)(16)     | Peer Reviews Conducted by this OIG   | 13    |

|             | FY 2008 NATIONAL DEFENSE AUTHORIZATION ACT CITATION AND REQUIREMENT | Page  |
|-------------|---|-------|
| Section 845 | Review of Legislation and Regulations                               | 5 - 6 |

APPENDIX B

| <b>Audit, Inspection, and Evaluation Reports Issued</b> |   |                         |  |
|---|---|-------------------------|--|
| <b>Title of Report</b>                                  | <b>Number of Agreed Upon Actions/ Recommendations</b> | <b>Questioned Costs</b> | <b>Recommendations That Funds Be Put to Better Use</b> |
| Financial Statement Audit for FY 2011                   | 0   | \$ 0                    | \$ 0   |
| Federal Information Security Management Act for FY 2011 | 0   | \$ 0                    | \$ 0   |
| FCA's Contracting Activities                            | 7   | \$ 0                    | \$ 0   |
| <b>Total</b>  | <b>0</b>  | <b>\$ 0</b>             | <b>\$ 0</b>  |

APPENDIX C

| Reports with Questioned Costs   |         |                      |                     |                      |
|---|---------|----------------------|---------------------|----------------------|
|   | Number  |                      | Dollar Value        |                      |
|   | Reports | Recom-<br>mendations | Questioned<br>Costs | Unsupported<br>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                 |
|   | 0       | 0                    | \$ 0                | \$ 0                 |
| <i>Subtotals (A+B)</i>  |         |                      |                     |                      |
| 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                 |
|   | 0       | 0                    | \$ 0                | \$ 0                 |

APPENDIX D

| Reports with Recommendations that Funds be Put to Better Use                                  |                   |                           |              |
|---|-------------------|---------------------------|--------------|
|   | Number of Reports | Number of Recommendations | Dollar Value |
| 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         |
| <i>Subtotals (A + B)</i>  | 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         |

APPENDIX E

| <b>Peer Reviews Conducted of this Office</b>                             |                       |                          |                           |
|--|-----------------------|--------------------------|---------------------------|
| <b>Peer Review Performed By</b>  | <b>Date of Report</b> | <b>Function Reviewed</b> | <b>Peer Review Rating</b> |
| U.S. Commodity Futures Trading Commission<br>Office of Inspector General | February 4, 2011      | Audit                    | Pass                      |
| U.S. Security and Exchange Commission<br>Office of Inspector General     | December 26, 2007     | Investigations           | Pass                      |

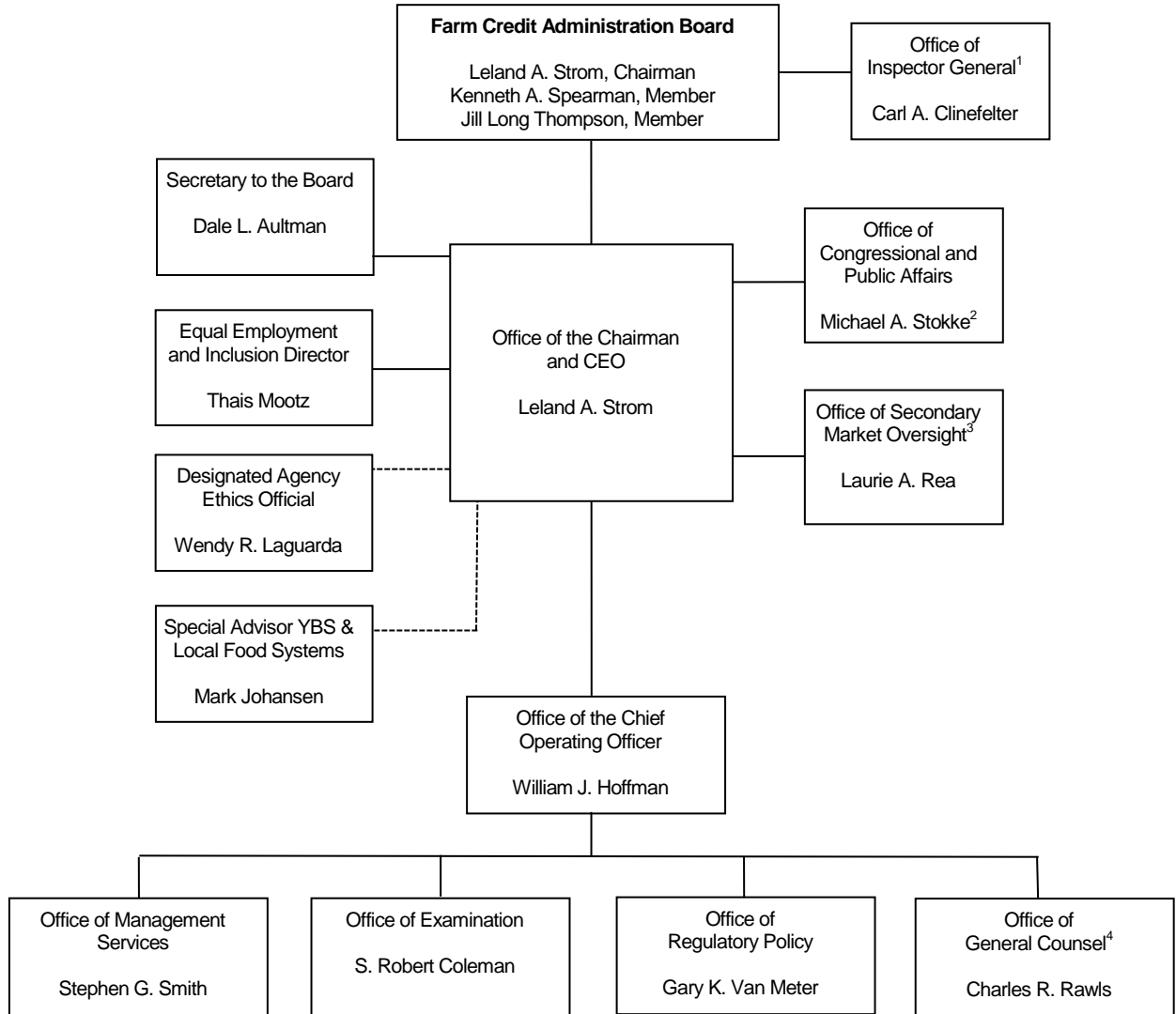


APPENDIX F

| <b>Peer Reviews Conducted by this Office</b>                      |                       |                          |                           |
|---|-----------------------|--------------------------|---------------------------|
| <b>Peer Review Of</b>   | <b>Date of Report</b> | <b>Function Reviewed</b> | <b>Peer Review Rating</b> |
| Consumer Product Safety Commission<br>Office of Inspector General | May 23, 2011          | Audit                    | Pass                      |

APPENDIX G

**FCA Organizational Chart**



<sup>1</sup> The Dodd-Frank Wall Street and Consumer Protection Act, Public Law 111-203, amended the Inspector General Act, 5 U.S.C. App 3, changing the meaning of “head of the designated Federal entity.” The effect is that the Inspector General now reports to the FCA Board. Prior to the amendment, the FCA Chairman was the “head of the designated Federal entity” under the IG Act and the IG reported to the Chairman.

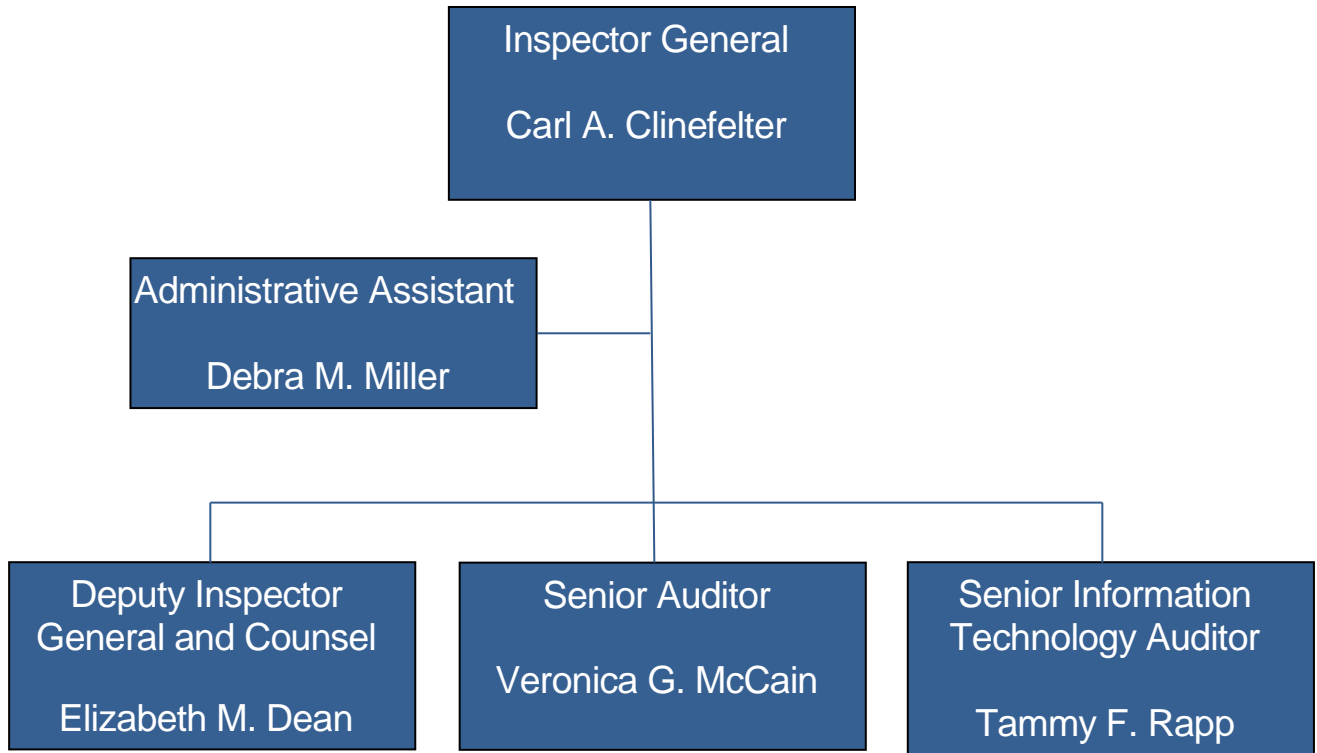
<sup>2</sup> Serves as Executive Assistant to the Chairman.

<sup>3</sup> Reports to the Board for policy and to the CEO for administration.

<sup>4</sup> Maintains a confidential advisory relationship with each of the Board members.

APPENDIX H

## Office of Inspector General Organizational Chart



*Carl A. Clinefelter*

Carl A. Clinefelter, Inspector General

December 9, 2010

Date

## APPENDIX I

### Glossary of Terms

|                 |   |
|-----------------|---|
| Agency          | – Farm Credit Administration                                    |
| BPD             | – Bureau of the Public Debt                                     |
| Brown & Co.     | – Brown & Company CPAs, PLLC                                    |
| CIGIE           | – Council of the Inspectors General on Integrity and Efficiency |
| DIG             | – Deputy Inspector General                                      |
| Farm Credit Act | – Farm Credit Act of 1971, as amended                           |
| Farmer Mac      | – Federal Agricultural Mortgage Corporation                     |
| FCA             | – Farm Credit Administration                                    |
| FCS             | – Farm Credit System  |
| FISMA           | – Federal Information Security Management Act                   |
| FY              | – Fiscal Year   |
| H.R.            | – House Resolution  |
| IG              | – Inspector General   |
| IG Act          | – Inspector General Act of 1978, as amended                     |
| I&E             | – Inspection and Evaluation                                     |
| ISACA           | – Information Security and Control Association                  |
| IT              | – Information Technology  |
| OE              | – Office of Examination   |
| OIG             | – Office of Inspector General                                   |
| OMB             | – Office of Management and Budget                               |
| System          | – Farm Credit System  |

# R E P O R T

Fraud | Waste | Abuse | Mismanagement



## FARM CREDIT ADMINISTRATION OFFICE OF INSPECTOR GENERAL

- Phone: Toll Free (800) 437-7322; (703) 883-4316
- Fax: (703) 883-4059
- E-mail: [fca-ig-hotline@rcn.com](mailto:fca-ig-hotline@rcn.com)
- Mail: Farm Credit Administration  
Office of Inspector General  
1501 Farm Credit Drive  
McLean, VA 22102-5090