

Office of
Inspector General

Semiannual Report to the Congress

October 1, 2012
through
March 31, 2013

Number 48

April 17, 2013



FARM CREDIT ADMINISTRATION



April 17, 2013

The Honorable Jill Long Thompson, Board Chair and Chief Executive Officer
The Honorable Kenneth A. Spearman, Board Member
The Honorable Leland A. Strom, Board Member
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

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

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, 2012 through March 31, 2013. This is the forty-eighth report since the establishment of the OIG on January 22, 1989. I have been a proud contributor to each report and the substantive efficiencies gained by the FCA during each reporting period.

I submit 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 2012. The audit delivered an unqualified opinion and was issued November 5, 2012. 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 9, 2012. There were no action items as a result of this evaluation. Please refer to page 3 for further information. There were no open audit, inspection, or investigation action items at the end of this reporting period.

Carl A. Clinefelter served as the Inspector General of the FCA from July 2005 until his retirement on January 3, 2013. Carl's many years at FCA were honored at a commemorative ceremony at the FCA OIG. His two-term service as Vice Chair of the Council of Inspectors General on Integrity and Efficiency (CIGIE) was also recognized by the CIGIE. Since Carl's departure, cost-savings and

efficiencies have continued to be realized within the OIG as I serve in the roles of Acting IG, Deputy IG, Counsel, and Director of Investigations. I look forward to continuing a positive and effective relationship between the OIG and the FCA Board, a partnership striving to strengthen FCA operations.

If you have any questions, please call me at 4036 or 4030.

Respectfully,

A handwritten signature in cursive script that reads "Elizabeth M. Dean".

Elizabeth M. Dean
Acting Inspector General

Enclosure



Contents

EXECUTIVE SUMMARY	1
BACKGROUND	2
FARM CREDIT ADMINISTRATION.....	2
FARM CREDIT SYSTEM.....	2
AUDIT, INSPECTION, AND EVALUATION REPORTS ISSUED	3
FY 2012 INDEPENDENT FINANCIAL STATEMENT AUDIT OF FCA.....	3
FY 2012 FEDERAL INFORMATION SECURITY MANAGEMENT ACT EVALUATION.....	3
AUDITS, INSPECTIONS, AND EVALUATIONS IN PROGRESS	3
TELEWORK PROGRAM.....	3
TRAINING EXPENSES AND STUDENT LOAN REPAYMENTS.....	3
MANAGEMENT ADVISORY REPORT ISSUED	4
INVESTIGATIONS	4
LEGISLATION AND REGULATIONS	5
OTHER ACTIVITIES	7
QUARTERLY SURVEY OF FARM CREDIT SYSTEM INSTITUTIONS.....	7
STAFF PARTICIPATION IN ACTIVITIES WITHIN THE INSPECTOR GENERAL COMMUNITY.....	7
STAFF PARTICIPATION IN AGENCY ORGANIZATIONS.....	7
STAFF DEVELOPMENT.....	7
ANNEX	8
APPENDICES	
APPENDIX A – INDEX OF REPORTING REQUIREMENTS.....	9
APPENDIX B – AUDIT, INSPECTION, AND EVALUATION REPORTS ISSUED.....	10
APPENDIX C – REPORTS WITH QUESTIONED COSTS.....	11
APPENDIX D – REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE.....	12
APPENDIX E – PEER REVIEWS CONDUCTED OF THIS OFFICE.....	13
APPENDIX F – PEER REVIEWS CONDUCTED BY THIS OFFICE.....	14
APPENDIX G – FCA ORGANIZATIONAL CHART.....	15
APPENDIX H – OFFICE OF INSPECTOR GENERAL ORGANIZATIONAL CHART.....	16
APPENDIX I – GLOSSARY OF TERMS.....	17

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, 2012 through March 31, 2013. The OIG's efforts were directed toward implementing the OIG's fiscal year (FY) 2013 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 Inspector General (IG), Carl A. Clinefelter, retired on January 3, 2013. He was honored for his service during ceremonial gatherings both at the FCA and as departing Vice Chair of the Council of Inspectors General on Integrity and Efficiency (CIGIE).

The OIG contracted with the Bureau of the Public Debt (BPD) for Brown & Company CPAs, PLLC (Brown & Co.) to perform the audit of FCA's financial statements for FY 2012. The audit delivered an unqualified opinion, was issued November 5, 2012, and was presented to the FCA Board on January 10, 2013. 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. The 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 the FY 2012 summary report to the Chief Examiner and FCA Board. These reports tabulate results and capture comments responsive to the OIG survey questions posed to System institutions regarding the quality of the FCA examination program.

The OIG maintains five positions: the Inspector General, 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. Since January 4, 2013, the Deputy IG/Counsel has served as Acting IG.



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 2013 budget is \$61,900,000. Assessments by FCA to FCS institutions for FY 2013 are \$50,000,000 with other sources of funding totaling \$11,900,000. The OIG’s FY 2013 budget is \$1,212,318. At the end of this reporting period, FCA had 265 employees, about half of which are examiners located in five field offices. At the end of the prior semiannual reporting period, the Agency had 282 employees.

Farm Credit System

The FCS is a Government-sponsored enterprise comprised of Farm Credit banks and 83 lending associations, as of March 31, 2013, 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.

Audits, Inspections, and Evaluations

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 CIGIE Quality Standards for Inspections. Copies of most OIG reports are available on the OIG web site at 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.

FY 2012 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 2012. The audit resulted in an unqualified opinion, was issued November 5, 2012, and presented to the FCA Board on January 10, 2013.

FY 2012 Federal Information Security Management Act Evaluation

The evaluation of the Agency's compliance with FISMA for FY 2012 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 9, 2012.

REPORTS IN PROCESS

FCA's Telework Program

The audit objective is to determine whether the FCA's telework program is being effectively administered.

Training Expenses and Student Loan Repayments

The objective of this audit is to determine the effectiveness of controls related to training, conferences, and related travel expenses; and student loan repayments.

MANAGEMENT ADVISORY REPORT ISSUED

OIG Management Advisory Reports are designed to be a quick mechanism to offer the Agency head suggestions on ways to strengthen Agency operations. The OIG continued to provide information and best practices related to an advisory issued last reporting period on FCA's Use of Social Media.

INVESTIGATIONS

Two allegations of inappropriate conduct and misuse of resources were reviewed, but unsubstantiated. One of the allegations had been previously advanced and reviewed in a prior semiannual period. Although unsubstantiated, the same allegation was forwarded to the OIG, the Chairperson of the Agency, and to a Congressman.

OIG Hotline calls and emails dealing with borrower complaints concerning FCS institutions and other FCA program 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) Pub. L. 112-248 (January 10, 2013), Improper Payments Elimination and Recovery Improvement Act of 2012
- 2) S. 241, H.R. 6406, The Non-Federal Whistleblower Protection Act
- 3) S. 300, Purchase and Travel Card Controls
- 4) S. 743, Whistleblower Protection
- 5) S. 1222/H.R. 2146, Digital Accountability and Transparency Act of 2011 or DATA Act
- 6) S. 2105, The Cybersecurity Act of 2012; S. 3342, SECURE IT; S. 3414
- 7) S. 3286 Comprehensive Contingency Contracting Reform Act of 2012
- 8) H.R. 314, Inspector General Act of 2013
- 9) H.R. 1211, The Freedom of Information Act Oversight and Implementation Act of 2013.
- 10) H.R. 1163, The Federal Information Security Act Amendment of 2013
- 11) H.R. 6016, The Government Employee Accountability Act
- 12) H.R. 6634, To Change the Effective Date for the Internet Publication of Certain Financial Disclosure Statements

Final Rules

- 13) Investment Management
- 14) Farmer Mac Investment Management
- 15) Liquidity and Funding

Proposed Rules

- 16) Capital Planning at Farmer Mac

Bookletter

- 17) Providing Credit to Farmers and Ranchers Operating in Local/Regional Food Systems

Informational Memoranda

- 18) Impact of Biggert-Waters Act
- 19) LARS and FCSLoans1 Data Collection
- 20) Truth in Lending and Consumer Leasing- Annual Adjustments

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, Chief Executive Officers, and Boards of 37 FCS institutions. Quarterly reports for the 3-month periods ended September 30 and December 31, 2012, were issued by the OIG to the Chief Examiner and the FCA Board. A summary FY 2012 report was also issued.

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 served as the Vice Chairperson of CIGIE, was a member of CIGIE's Executive Council, helped chair the monthly meetings of all Inspectors General comprising CIGIE, and participated as a member of the CIGIE's Inspection and Evaluation (I&E) Committee. The Acting IG has been attending the foregoing meetings since January 2013.

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.

Appendixes

APPENDIX A

Index of Reporting Requirements

SECTION	TITLE	Page
4(a)(2)	Review of legislation and regulations	5 - 6
5(a)(1)	Significant problems, abuses, and deficiencies	None
5(a)(2)	Recommendations for corrective action	None
5(a)(3)	Prior recommendations not yet implemented	None
5(a)(4)	Matters referred to prosecutive authorities	None
5(a)(5)	Information unreasonably refused or not provided	None
5(a)(6)	List of reports issued	3
5(a)(7)	Summaries of significant reports	3
5(a)(8)	Management decisions with questioned costs	11
5(a)(9)	Management decisions on recommendations that funds be put to better use	12
5(a)(10)	Prior audit reports unresolved	None
5(a)(11)	Significant revised management decisions	None
5(a)(12)	Significant management decisions with which the Inspector General disagreed	None
5(a)(13)	Compliance of Agency financial management system	3
5(a)(14)(15)	Peer reviews conducted of this OIG	13
5(a)(16)	Peer reviews conducted by this OIG	14
845	FY 2008 National Defense Authorization Act Citation and Requirement	8

APPENDIX B

Audit, Inspection, and Evaluation Reports Issued			
Report	Number of Agreed Upon Actions/Recommendations	Questioned Costs	Recommendations That Funds Be Put to Better Use
Audit of the FCA Financial Statement 2012	0	\$ 0	\$ 0
Evaluation of the FISMA – FY 2012	0	\$ 0	\$ 0
Total	0	\$ 0	\$ 0

APPENDIX C

Reports with Questioned Costs				
	Number		Dollar Value	
	Reports	Recom- mendations	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
<i>Subtotals (A+B)</i>	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 D

Reports with Recommendations that Funds be Put to Better Use			
	Number of Reports	Number of Recom- mendations	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

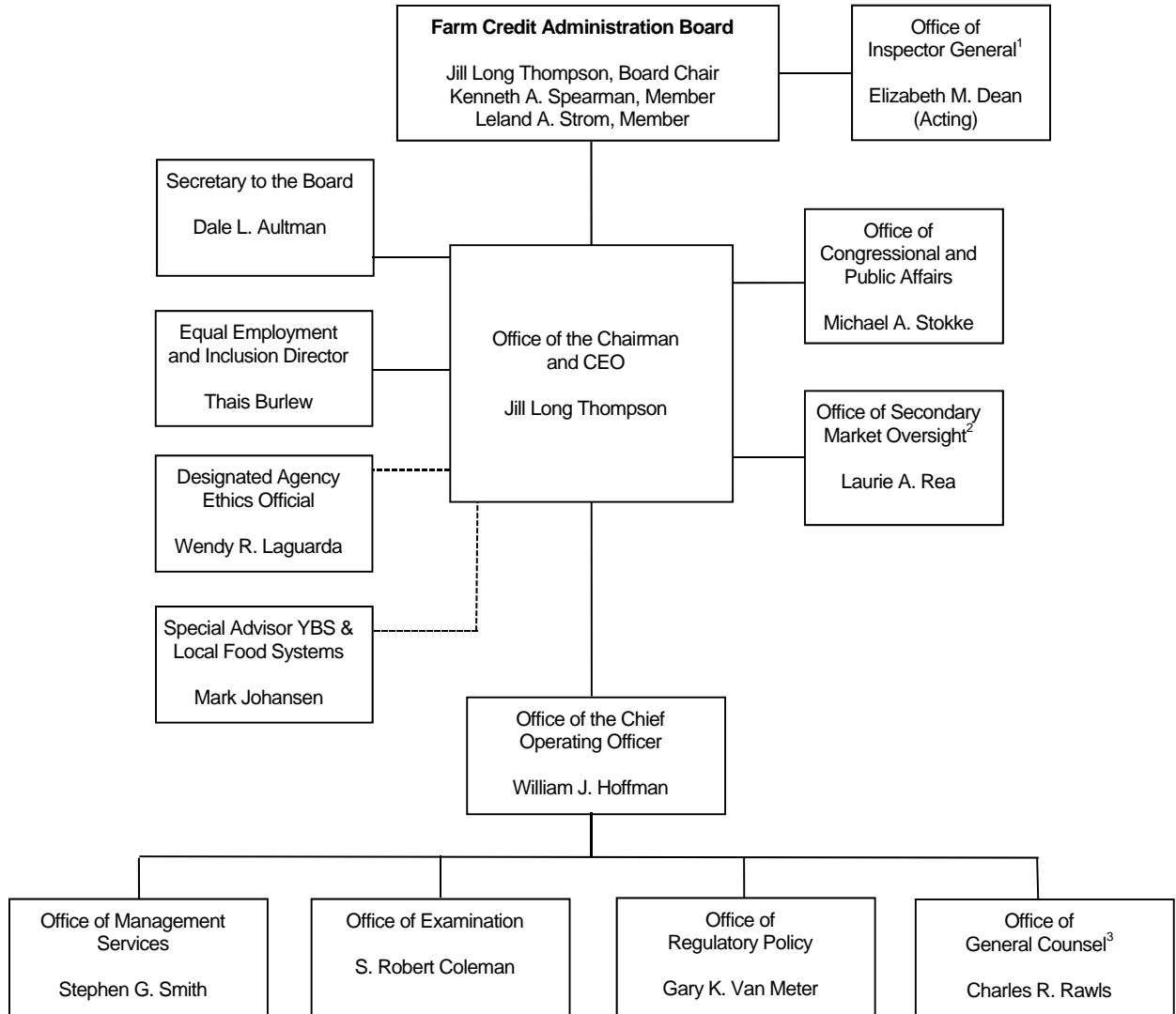
Peer Reviews Conducted of this Office			
Peer Review Performed By	Date of Report	Function Reviewed	Peer Review Rating
U.S. Commodity Futures Trading Commission Office of Inspector General	February 4, 2011	Audit	Pass
U.S. Securities and Exchange Commission Office of Inspector General	December 26, 2007	Investigations	Pass

APPENDIX F

Peer Reviews Conducted by this Office			
Peer Review Of	Date of Report	Function Reviewed	Peer Review Rating
Consumer Product Safety Commission Office of Inspector General	May 23, 2011	Audit	Pass
U.S. International Trade Commission Office of Inspector General	January 16, 2013	Audit	Pass

APPENDIX G

FCA ORGANIZATIONAL CHART

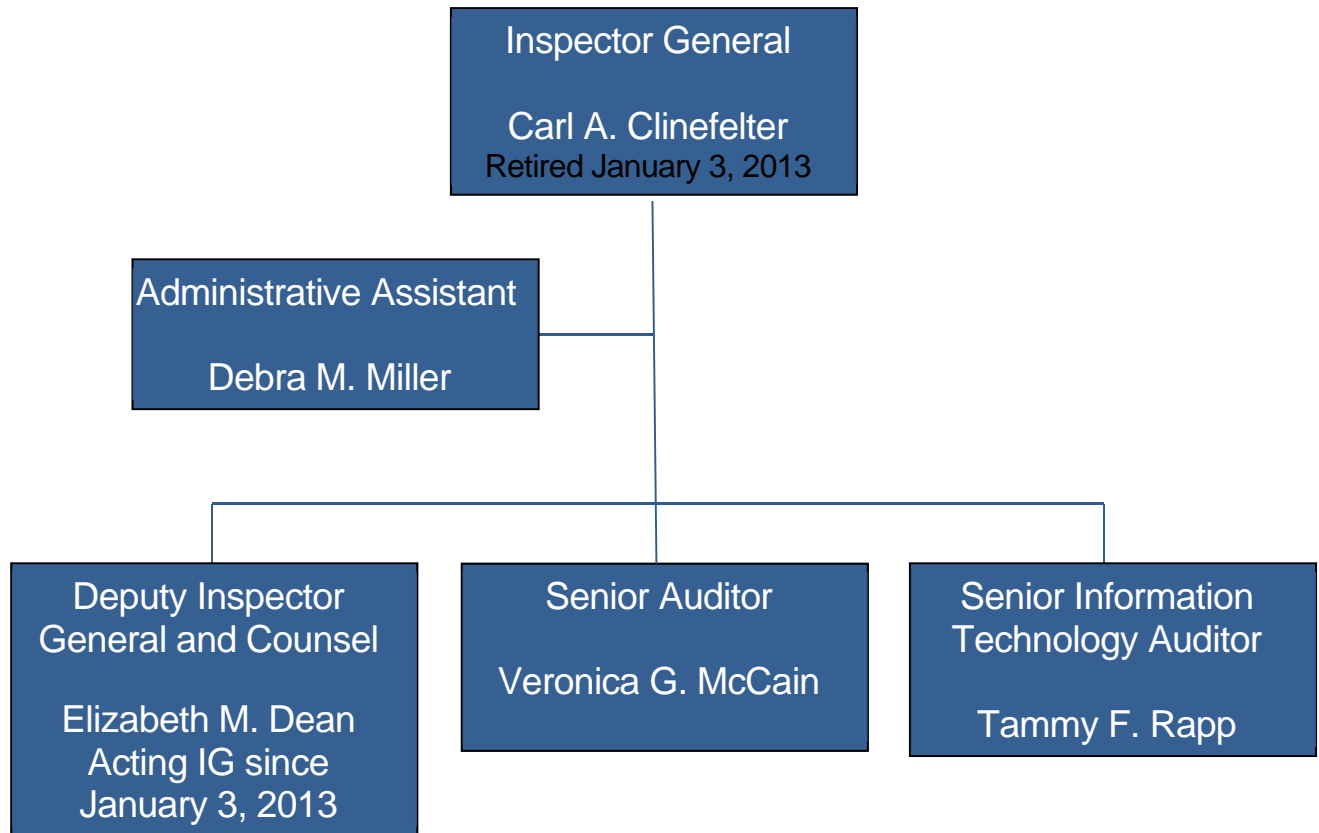


¹ The Dodd-Frank Wall Street and Consumer Protection Act, Public Law 111-203, amended the Inspector General Act, 5 U.S.C. App 3, changing the meaning of "head of the designated Federal entity." The effect is that the Inspector General now reports to the FCA Board. Prior to the amendment, the FCA Chairman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

² Reports to the Board for policy and to the CEO for administration.

³ Maintains a confidential advisory relationship with each of the Board members.

Office of Inspector General Organizational Chart



Elizabeth M. Dean, Acting Inspector General

March 2013

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

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