

Office of
Inspector General

Semiannual Report to the Congress

October 1, 2013
through
March 31, 2014

Number 50

April 9, 2014



FARM CREDIT ADMINISTRATION



April 9, 2014

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, 2013 through March 31, 2014. This is the fiftieth report since the establishment of the OIG on January 22, 1989.

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.

This reporting period the OIG has experienced some personnel transitions. We welcomed Katherine Gallo, an experienced attorney with over 20 years of experience in Inspector General matters, as the Counsel to the Inspector General. One of our senior auditors took another position and we are actively seeking to fill the position. With a fully staffed OIG, and together with the FCA Board and management, it is my expectation and my goal to continue to improve the high quality of Agency programs and operations.

The OIG contracted with the Bureau of Fiscal Service for Brown & Company CPAs, PLLC to perform the audit of FCA's financial statements for fiscal year 2013. This audit was completed during this reporting period and resulted in an unmodified opinion. 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 on November 19, 2013. There were two action items as a result of this evaluation. Please refer to page 3 for further information.

During this reporting period, the OIG initiated an audit on the Agency's Training and Conference Expenses to determine the effectiveness of controls related to training, conferences, and related travel expenses. Please Refer to page 3 for further information.

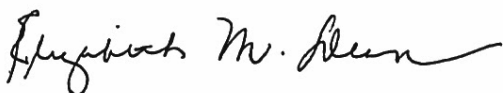
One open action item from an audit issued September 23, 2013, was closed during this reporting period. Therefore, there are no agreed-upon action items open at the end of this reporting period.

The OIG continues to send surveys to the Farm Credit System institutions following regulatory safety and soundness examinations and other interactions with the FCA Office of Examination (OE). The results of the surveys, evaluating the quality of the examination work and OE interactions, are summarized without attribution on a quarterly basis. The FCA Board and OE find this to be a valuable measuring tool.

I would like to acknowledge the effective efforts of the OIG staff in diplomatically leading Agency management to focus on significant program issues, as well as FCA management's positive and timely reaction and improvement. I look forward to continuing a positive and effective relationship between the OIG and the FCA Board, a partnership striving to continuously strengthen FCA operations.

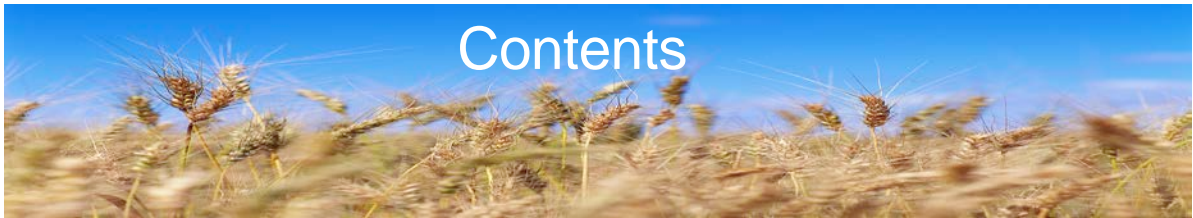
If you have any questions, please call me at 703-883-4036 or 4030.

Respectfully,

A handwritten signature in black ink, appearing to read "Elizabeth M. Dean". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Elizabeth M. Dean
Inspector General

Enclosure



EXECUTIVE SUMMARY	1
BACKGROUND	2
FARM CREDIT ADMINISTRATION.....	2
FARM CREDIT SYSTEM.....	2
AUDIT, INSPECTION, AND EVALUATION REPORTS ISSUED	3
FY 2013 INDEPENDENT FINANCIAL STATEMENT AUDIT OF FCA	3
FY 2013 FEDERAL INFORMATION SECURITY MANAGEMENT ACT EVALUATION	3
AUDITS, INSPECTIONS, AND EVALUATIONS IN PROGRESS	3
TRAINING AND CONFERENCE EXPENSES	3
STATUS OF UNIMPLEMENTED RECOMMENDATIONS	4
MANAGEMENT ADVISORY REPORTS	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, 2013 through March 31, 2014. The OIG's efforts were directed toward implementing the OIG's fiscal year (FY) 2014 strategic and operating 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.

The OIG contracted with the Bureau of Fiscal Service (BFS) for Brown & Company CPAs, PLLC (Brown & Co.) to perform the audit of FCA's financial statements for FY 2013. This audit resulted in an unmodified opinion. 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 two agreed-upon actions 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 to the Chief Examiner and FCA Board on results of OIG surveys of the System institutions regarding the examination function and the examiners. These reports were for the quarters ended September 30 and December 31, 2013.

The OIG maintains five positions: the Inspector General, Counsel to the Inspector General, 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. The Senior Auditor position is vacant at this time as we actively seek to fill the position.



Background

Farm Credit Administration

The FCA is an independent Federal agency of the United States government responsible for the regulation and examination of Farm Credit System 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 2014 budget is \$63,900,000. Assessments by FCA to FCS institutions for FY 2014 are \$50,000,000 with other sources of funding totaling \$13,900,000. The OIG’s FY 2014 budget is \$1,264,912.

At the end of this reporting period FCA had 274 employees, about half of which are examiners located in five field offices. At the end of the prior semiannual reporting period the Agency had 277 employees.

Farm Credit System

The FCS is a Government-sponsored enterprise comprised of 4 Farm Credit banks and 80 lending associations, as of March 31, 2014, 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 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, or by contacting the OIG at (703) 883-4030, or by e-mail at ig_information@fca.gov.

FY 2013 Independent Financial Statement Audit of FCA

The Accountability of Tax Dollars Act of 2002 requires 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 Bureau of Fiscal Service for Brown & Co. to perform the audit of FCA's financial statements for FY 2013. The audit resulted in an unmodified opinion, was issued November 20, 2013, and presented to the FCA Board on January 6, 2014.

FY 2013 Federal Information Security Management Act Evaluation

The evaluation of the Agency's compliance with FISMA for FY 2013 is performed by the OIG's Senior IT Auditor, using guidelines established by FISMA, OMB, and the National Institute of Standards and Technology. Although this evaluation revealed no significant deficiencies, the Agency agreed to make improvements in two areas. This report was issued on November 19, 2013.

AUDITS AND EVALUATIONS IN PROCESS

FCA's Training and Conference Expenses

The audit objective is to determine the effectiveness of controls related to training, conferences, and related travel expenses.

STATUS OF UNIMPLEMENTED RECOMMENDATIONS

Audit, Inspection, and Evaluation Agreed-Upon Actions and Recommendations				
Report	Issued	Open During this 6-Month Period	Final Management Actions During this Period	Open on 4/1/2014
Student Loan Repayment Program	9/23/2013	1	1	0
Total		1	1	0

MANAGEMENT ADVISORY REPORT ISSUED

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

INVESTIGATIONS

Two allegations were received during the reporting period. One alleged abuse of resources, but was not substantiated and the matter was forwarded to management. The second complaint alleged inappropriate personnel practices. Following OIG's initial review, OIG requested investigative assistance from the National Credit Union Administration (NCUA) OIG because of a conflict of interest. The NCUA OIG reviewed and subsequently issued a Management Implication Report that found no violations of regulations or policy, but noted concerns with internal operations.

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 Acting Inspector General or the Inspector General attends joint briefings of the FCA Board on regulations at the proposed and final stages. The following were reviewed:

Legislation

- 1) H.R. 1163, Federal Information Security Amendments Act of 2013
- 2) H.R. 1468, Strengthening and Enhancing Cybersecurity by Using Research, Education, Information, and Technology Act of 2013 (SECURE IT)
- 3) H.R. 3345, Stop Unworthy Spending Act (SUSPEND Act)
- 4) H.R. 2061/S. 994, Digital Accountability and Transparency Act of 2014
- 5) H.R. 3032, Executive Cyberspace Coordination Act of 2013
- 6) S. 1360, Improper Payments Agency Cooperation Enhancement Act of 2013
- 7) H.R. 1211, Freedom of Information Act Oversight and Implementation Act of 2014
- 8) S. 1953, Oversight Workforce Improvement Act of 2014
- 9) H.R. 314, Inspector General Improvement Act of 2013

Proposed Rule

- 10) Federal Agricultural Mortgage Corporation Governance; Farmer Mac Corporate Governance and Standards of Conduct
- 11) Joint Notice of Proposed Rule Making, Loans in Areas Having Special Flood Hazards

Final Rule

- 12) Releasing Information; General Provisions; Accounting and Reporting Requirements; Reports of Accounts and Exposures, 12 CFR Parts 602, 618, and 612
- 13) Final Rule that Amends Liquidity Management Regulations for the Federal Agricultural Mortgage Corporation (Farmer Mac)
- 14) Final Interim Rule Repealing Non-binding, Advisory Votes on Compensation for CEO and Senior Officers of System Banks or Associations, 12 CFR Parts 611, 620, and 630

Regulations

- 15) Spring 2014 Abstract of the Unified Agenda of Federal Regulatory and Deregulatory Actions and Spring 2014 Regulatory Projects Plan
- 16) To amend FCA's Standards of Conduct and Referral of Known or Suspected Criminal Violations; Standards of Conduct, 12 CFR Part 612, Subpart A

Informational Memorandum

- 17) Recent Consumer Financial Protection Bureau Actions
- 18) Maximum Farm Credit System Bank Director Compensation for 2014
- 19) Guidelines for Requesting Certificates of Good Standing, Authenticity, and/or Merger or Consolidation
- 20) Guidance on Homeownership Counseling Requirements

Other

- 21) Proposed, Revised Equal Employment Opportunity Commission, Management Directive 110

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 28 FCS Institutions. Quarterly reports for the 3-month periods ended September 30 and December 31, 2013, were issued by the OIG to the Chief Examiner and the FCA Board. A summary FY 2013 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 Council of the Inspectors General on Integrity and Efficiency.

The Inspector General is a member of CIGIE, which provides a forum for IGs from various government agencies to discuss government-wide issues and shared concerns. Collectively, the members of CIGIE work toward improving government programs and operations. The IG also serves as a member of CIGIE's Legislation Committee and participates as a member of CIGIE's Inspection and Evaluation Committee, and is the incoming Chair of the Small IG group. The Counsel to the Inspector General is active in the Council of Counsels and the Directors of Investigation.

The OIG Senior IT Auditor attends Federal Audit Executive Committee (FAEC) meetings and conferences and is actively involved in the IT Subcommittee of the FAEC. The Senior IT Auditor also 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	4
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	10
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 – 2013	0	\$ 0	\$ 0
Evaluation of the Federal Information Security Management Act – 2013	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 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

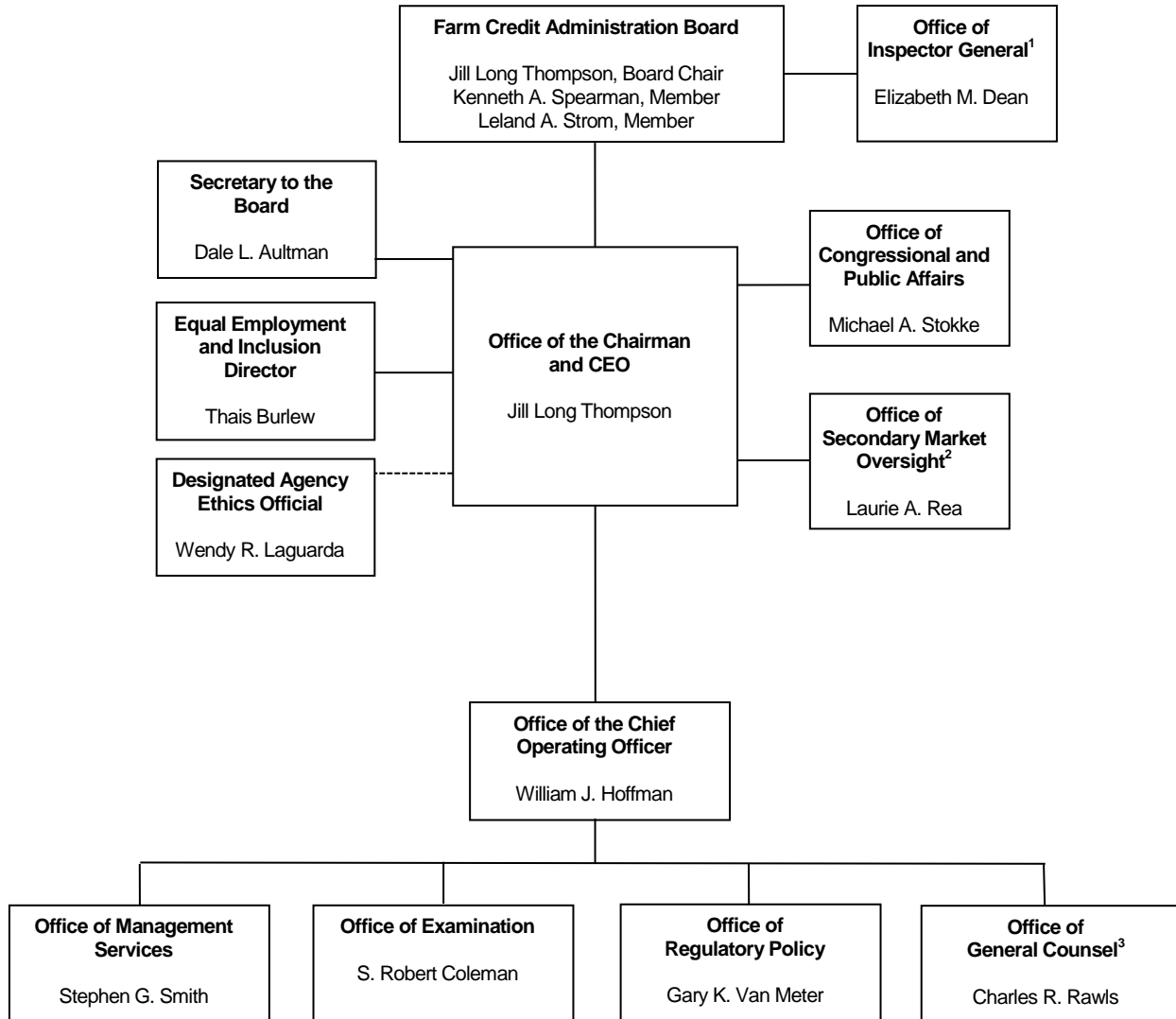
Peer Reviews Conducted of this Office			
Peer Review Performed By	Date of Report	Function Reviewed	Peer Review Rating
Architect of the Capitol Office of Inspector General	June 26, 2013	Audit	Pass
U.S. Securities and Exchange Commission Office of Inspector General	December 26, 2007	Investigations	Pass

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

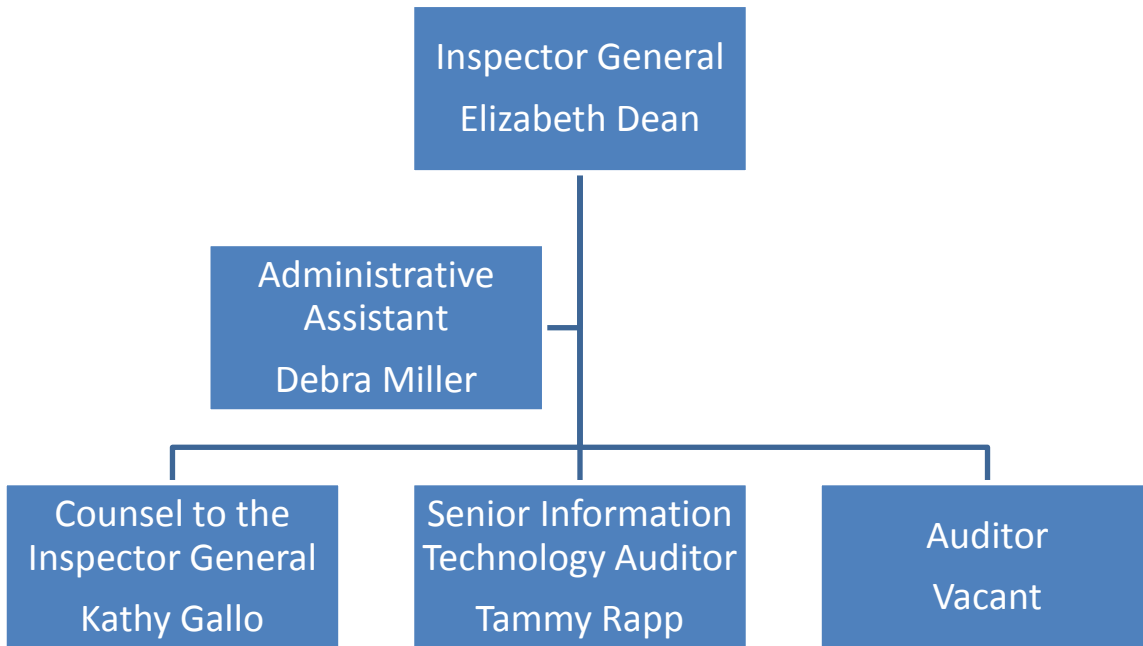


¹ The Dodd-Frank Wall Street and Consumer Protection Act, Public Law 111-203, amended the Inspector General Act, 5 U.S.C. App 3, changing the meaning of “head of the designated Federal entity.” The effect is that the Inspector General now reports to the FCA Board. Prior to the amendment, the FCA Chairman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

March 2014

Glossary of Terms

Agency	– Farm Credit Administration
BFS	– Bureau of Fiscal Service
Brown & Co.	– Brown & Company CPAs, PLLC
CIGIE	– Council of the Inspectors General on Integrity and Efficiency
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 of Representatives
IG	– Inspector General
IG Act	– Inspector General Act of 1978, as amended
ISACA	– Information Security and Control Association
IT	– Information Technology
NCUA	– National Credit Union Administration
OE	– Office of Examination
OIG	– Office of Inspector General
OMB	– Office of Management and Budget
Pub. L.	– Public Law
S.	– Senate
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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