

# Office of Inspector General

Semiannual Report  
to the Congress

April 1, 1991  
through  
September 30, 1991



## Memorandum

Farm Credit Administration  
Office of Inspector General  
1501 Farm Credit Drive  
McLean, Virginia 22102-5090



October 31, 1991

The Honorable Harold B. Steele  
Chairman of the Board and  
Chief Executive Officer  
Farm Credit Administration  
McLean, Virginia

Dear Mr. Steele:

This semiannual report is submitted in accordance with the Inspector General Act of 1978, as amended in 1988 (Act) and is the fifth report on the activities of FCA's Office of Inspector General (OIG) since the office was created on January 22, 1989. The reporting period is from April 1, 1991 through September 30, 1991. The Act requires that you submit this report to the appropriate congressional committees and subcommittees within 30 days, together with your report as prescribed by Section 5(b) of the Act.

I am pleased to report that OIG was successful in performing its statutory functions and continued to progress in refining and defining OIG policies and practices. Regrettably, our achievements were made more difficult than should have been necessary because OIG has not had full cooperation or support. You have chosen to impede OIG's statutory role and authorities by creating a climate of hostility and non-cooperation between management and the OIG.

The OIG will not reach its maximum potential without your leadership and support for the Act as well as management's acceptance of our role and authorities. Constant challenges and confrontation waste the energy and resources of OIG and other offices of FCA. I urge you to work with me to establish a more constructive relationship.

Respectfully,

A handwritten signature in cursive script, appearing to read 'Eldon W. Stoehr', is written over a light-colored background.

Eldon W. Stoehr  
Inspector General

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## INTRODUCTION

The Farm Credit Administration (FCA) 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. FCA is a non-appropriated agency with a FY 1992 spending limitation of \$40,290,000 and 513.02 positions. Approximately half of FCA's personnel are examiners located at nine field offices throughout the country. Appendix II displays the current organizational structure of FCA and the Office of Inspector General (OIG) within that structure.

FCA is a "designated Federal entity" within the meaning of the Inspector General Act of 1978, as amended in 1988 (Act). The Inspector General is appointed by and is under the general supervision of the Chairman of the FCA Board.

### MANAGEMENT'S CONTINUING FAILURE TO ACCEPT AND SUPPORT OIG'S ROLE AND AUTHORITY

Our last semiannual report noted that some agency managers neither understood nor accepted OIG's role, and that delays and obstruction caused by management's persistent challenges to OIG's authorities had detracted from the efficiency and effectiveness of audit and investigative activities. That semiannual report also noted that these matters had been discussed with the Chairman and that he had stated that he supported the independence of the Inspector General and was interested in taking action to increase FCA managers' understanding and acceptance of the role and authorities of OIG. However, the Chairman's subsequent actions have not improved management's acceptance of OIG's role and authorities; indeed, there is less acceptance and cooperation than ever.

OIG has been impeded in carrying out its statutory duties through management's persistent challenges to our statutory authority as well as delays in furnishing information and access to information. In some instances, documents or information requested by OIG were not furnished to the auditor but were produced after the final report was issued to impeach the report's accuracy. The Inspector General has brought these problems to the attention of the Chairman but, rather than causing improved cooperation, the Chairman has criticized the Inspector General. Further, the Chairman retaliated by making misguided and mistaken allegations of deficiencies in OIG performance, reduced the salary comparability of the Inspector General with other FCA office directors, and OIG's budget was reduced when all other FCA office budgets were increased.

The General Accounting Office (GAO) reviewed issues identified by committees and members of the Congress who were concerned that OIG independence not be compromised and that the intent of the Act be carried out. During a prior reporting period, a consultant hired by the Chairman concluded that the Inspector General had demonstrated impressive leadership ability and the OIG audit function was generally carried out in compliance with GAO audit standards. That report also noted that some key FCA officials interviewed during the study were not fully aware of the broad responsibilities and authority of the Inspector General.

## AUDIT REPORTS ISSUED

Audits are conducted in accordance with audit standards established by the Comptroller General of the United States for audits of Federal organizations, programs, activities and functions.

Four final audit reports were issued during this reporting period and are summarized below:

1. Information Resources Division This audit evaluated FCA's decisions and actions in the acquisition, installation, application and maintenance of personal computer hardware and software. We found that users are generally satisfied with issues of day-to-day maintenance and servicing. We also found that 1) major information systems development was relatively unsuccessful due to lack of effective planning; 2) nearly \$286,100 was wasted because personal computer hardware and software were purchased beyond users needs and applications; 3) contracts for purchase of computers and computer related assets resulted in costs greater than otherwise available; and, 4) there is inadequate management control over personal computer hardware, software and related components.
2. Implementation of Borrower Rights This audit concluded that Farm Credit System (FCS) institutions regulated by the FCA have generally made good faith efforts to comply with borrower rights legislation and regulations promulgated in 1988. However, we identified inconsistencies in interpretation and application of borrower rights regulations by both FCS institutions and FCA examiners which are attributed to insufficient guidance from FCA. Recommendations focused on specific areas in which additional FCA guidance is needed to assure full and consistent implementation of borrower rights. We also identified areas in which FCA's internal operations pertaining to borrower rights need to be strengthened.

3. Travel and Relocation Expenses This evaluation of practices related to travel and relocation expenses found that, while improvements were made in some areas, significant problems existed. There was a general lack of documented internal operating procedures, the agency is not in full compliance with the Federal Travel Regulations and internal control deficiencies were not properly addressed. Impacts of those deficiencies were: 1) travel advances were excessive and not adequately controlled; 2) relocation obligations were improperly recorded; 3) one relocation was paid without sufficient support; 4) other relocation expenses were paid without prior travel authorizations and signed service agreements; 5) the relocation contract was not adequately monitored; and, 6) opportunities exist for savings in car rentals. We questioned relocation costs of \$772,634.
4. Health Benefit Claim This audit was undertaken as part of a government-wide audit to determine the validity of a claim against the Office of Personnel Management that monies were due a carrier because premiums were underpaid. Our work at FCA identified certain non-compliance with procedures by FCA staff which resulted in underpayment of health premiums.

### IMPLEMENTING CORRECTIVE ACTIONS

Problems continue unabated with regard to the timeliness of management's correction of deficiencies reported in audits. The number of recommendations for which management has not yet taken final action has grown from 49 as of the date of the last semiannual report to 87 as of this report. Additionally, management's process for audit resolution and followup has been revised to: (1) significantly diminish OIG's awareness of the management decision; (2) exclude OIG from the communication of the specific management decision, and (3) exclude OIG from the documentation of final action. Finally, the person designated to be audit followup official (AFO) was replaced at the beginning of this reporting period by an individual who is not a "top management official" (as prescribed by OMB Circular A-50) but is supervised by an office director who has been an uncooperative and unresponsive auditee. The AFO also has direct responsibility for programs audited by the OIG.

In some instances, management has unilaterally extended time deadlines for action plans and final actions without any evidence that such extensions have been properly approved. For example, the management decision on a recommendation that a property management system should be developed called for final action by October 1989. There is no indication that the management decision was amended; however, as of this date, the development of that system apparently has not even begun.

The Chairman has not met his responsibilities under OMB Circular A-50 to "assure that management officials throughout the agency understand the value of the audit process and are responsive to audit recommendations." He has frequently been contentious about and unresponsive to OIG audit recommendations and, more and more, the cooperation and responsiveness of FCA office directors has diminished. Written responses to audits have become argumentative and focus more on finding fault with the auditor and audit process than in addressing how the problems identified by audits will be corrected.

### INVESTIGATION OF MATTERS REGARDING FCA PERSONNEL PROGRAMS AND OPERATIONS

Nine preliminary investigations were opened during this semiannual reporting period, two of which were referred from other agencies. Six of these matters have been closed during this reporting period. Additionally, one matter opened during the third semiannual reporting period (April 1, 1990 through September 30, 1990) and one opened during the fourth semiannual reporting period (October 1, 1990 through March 31, 1991) have been closed during the current reporting period.

The nature of the nine preliminary investigations opened during this reporting period is described below in accordance with Section 8E(h)(2)(c) of the Inspector General Act:

- Four allegations involved improper transactions within the Farm Credit System institutions. OIG has requested assistance from other programmatic offices within the FCA on these matters.
- Two allegations involved waste and mismanagement within the FCA.
- Two allegations involved conflict of interest/standard of conduct issues.
- One allegation involved a violation of law.

There are presently ten open investigations. None have been referred to the Department of Justice for prosecutorial consideration; however, three of these matters have been coordinated with the Department of Justice.

## REVIEW OF REGULATIONS AND LEGISLATION

A variety of regulations, laws and legislative initiatives are reviewed by the Counsel to the IG on a daily basis including:

- The proposed revisions to the Standards of Conduct and Ethics in Government regulations by the Office of Government Ethics. If implemented in the proposed form, government-wide change will take place.
- The Farm Credit Administration Legislative Recommendations of 1991 which were presented to Congress in May 1991.
- Draft final regulations of the FCA concerning:
  1. Personnel Administration, 12 CFR Part 612. These regulations delete requirements for approval of FCS CEO compensation and FCA prior approval for bank employee salary scales.
  2. Disclosure to Shareholders (Phase I) 12 CFR Part 621. These changes amend existing disclosure regulations regarding annual and quarterly reports to shareholders.
  3. Assessment and Apportionment of Operation Expenses, 12 CFR Parts 607 and 618. These regulations apportion FCA's cost of annual administrative costs among FCS institutions. The FCA Board decided further evaluation and analysis of public comments is necessary.

## OTHER ACTIVITIES

OIG developed agency policy and procedure directives on the following subjects:

- Reporting and Investigating Illegal Acts and Abuses
- Use of Non-Federal Auditors
- Audit Report Issuance Procedures
- OIG Charter
- Audit Followup

Policies and procedures for the internal operation of OIG were also developed and implemented on the following subjects:

- Investigation Procedures
- Contracting and Procurement Procedures

The planning activities of OIG were organized in a strategic planning document which completely and formally presents the annual goals and objectives.

The Inspector General continued to serve as the Chairman of the PCIE/Designated Agency OIG Committee on Peer Review and, with the assistance of two other Peer Review Committee members, performed the first peer review of a Designated Agency OIG.

## APPENDIX I

AUDIT REPORTS ISSUED BY FCA OIG  
April 1, 1991 to September 30, 1991

<u>Reports</u>	<u>Questioned Costs</u>	<u>Recommendations That Funds Be Put To Better Use</u>
Information Resources Divisions (May 15, 1991)	<u>0</u>	<u>286.1</u>
Implementation of Borrower Rights	<u>0</u>	<u>0</u>
Travel and Relocation Expenses	<u>773</u>	<u>0</u>
Health Benefit Claim	<u>0</u>	<u>0</u>
Total (4 reports)	<u>773</u>	<u>286.1</u>

**INSPECTOR GENERAL ISSUED REPORTS  
WITH QUESTIONED COSTS**

	<u>Number</u>	<u>Dollar Value</u> (in thousands)	
		<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision has been made by the commencement of the reporting period	<u>0</u>	<u>0</u>	<u>0</u>
B. Which were issued during the reporting period	<u>1</u>	<u>773</u>	<u>773</u>
Subtotals (A + B)	<u>1</u>	<u>773</u>	<u>773</u>
C. For which no management decision was made during the reporting period	<u>0</u>	<u>0</u>	<u>0</u>
i) dollar value of disallowed costs	<u>0</u>	<u>0</u>	<u>0</u>
ii) dollar value of costs not disallowed	<u>0</u>	<u>0</u>	<u>0</u>
D. For which no management decision has been made by the end of the reporting period	<u>0</u>	<u>0</u>	<u>0</u>
Reports for which no management decision was made within six months of issuance	<u>0</u>	<u>0</u>	<u>0</u>

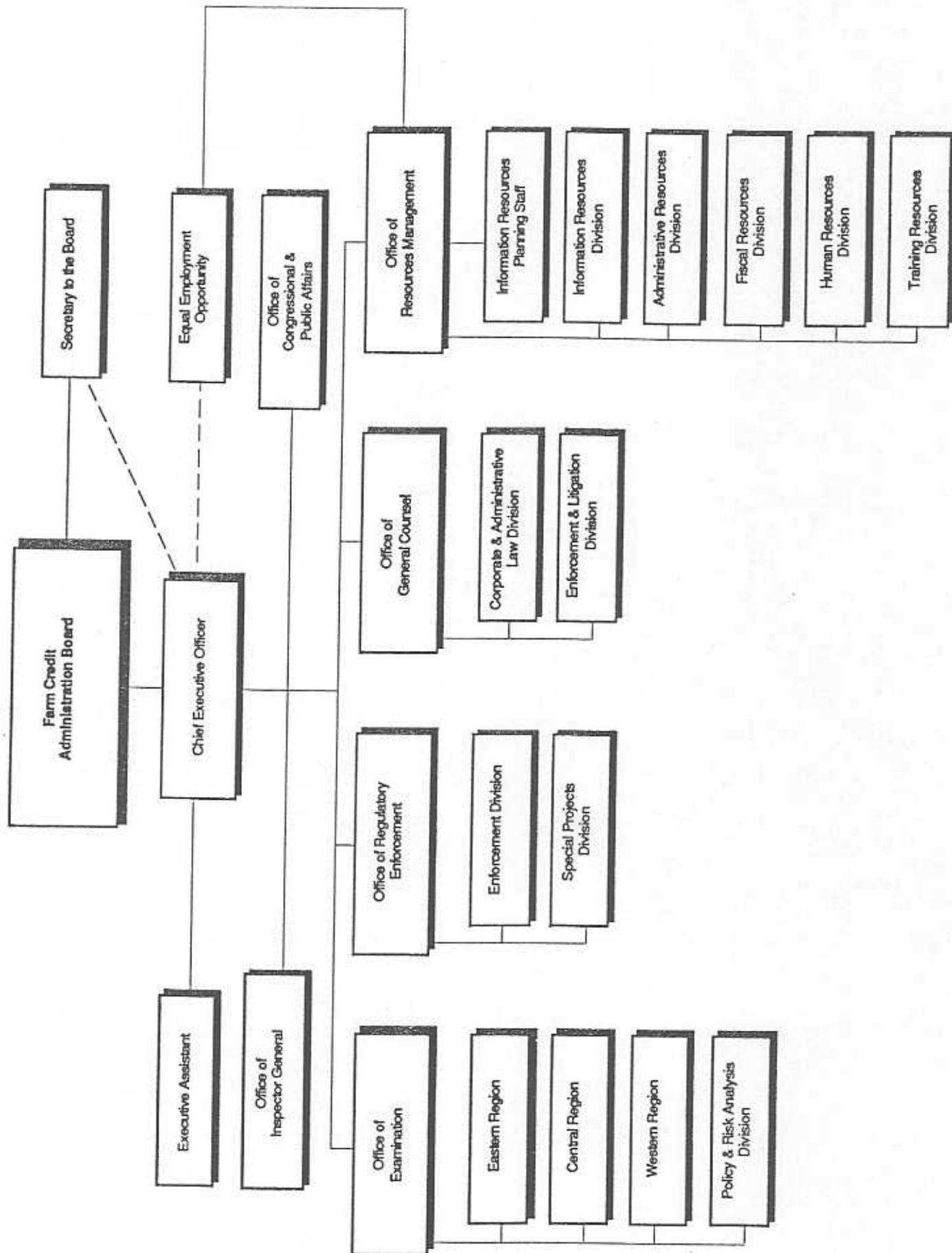
**INSPECTOR GENERAL ISSUED REPORTS  
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	<u>Number</u>	<u>Dollar Value</u> <u>in thousands)</u>
A. For which no management decision has been made by the commencement of the reporting period	<u>0</u>	<u>0</u>
B. Which were issued during the reporting period	<u>1</u>	<u>286.1</u>
Subtotals (A + B)	<u>1</u>	<u>286.1</u>
C. For which no management decision was made during the reporting period	<u>0</u>	<u>0</u>
i) dollar value of disallowed costs	<u>0</u>	<u>0</u>
ii) dollar value of costs not disallowed	<u>0</u>	<u>0</u>
D. For which no management decision has been made by the end of the reporting period	<u>0</u>	<u>0</u>
Reports for which no management decision was made within six months of issuance	<u>0</u>	<u>0</u>

*James B. Seach*

Chairman  
October 1, 1990

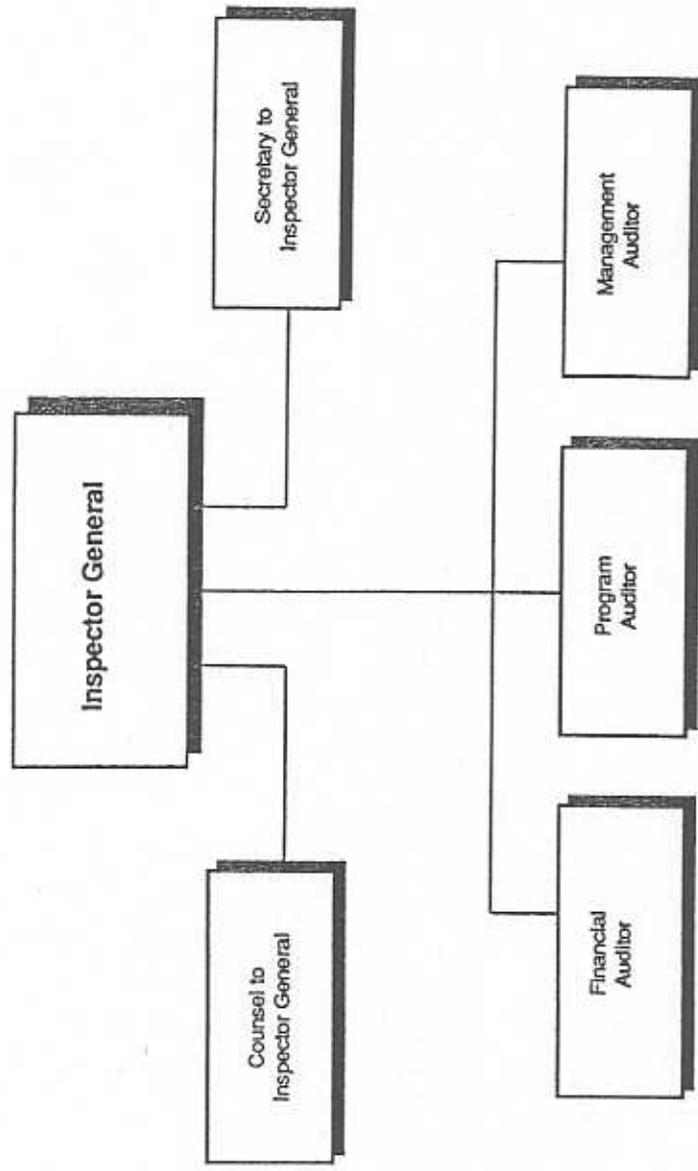
# Farm Credit Administration



*Eldon W. Stoehr*

Eldon W. Stoehr, Inspector General  
October 25, 1990

Farm Credit Administration  
**Office of Inspector General**



# **HOTLINE**

**800-437-7322**

Toll Free 24 Hour Answering Service  
703-883-4316 Washington, DC Area

or write

**FCA Inspector General**  
1501 Farm Credit Drive  
McLean, Virginia 22102-5090

**INFORMATION IS CONFIDENTIAL**

**REPORT: FRAUD, WASTE, ABUSE, MISMANAGEMENT**

**CALLER CAN BE ANONYMOUS**

However, each caller is encouraged to assist the Inspector General by supplying information as to how they may be contacted for additional information.