

Office of Inspector General

Semiannual Report
to the Congress

April 1, 1993
through
September 30, 1993



Farm Credit Administration

Office of Inspector General
1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4030



October 29, 1993

The Honorable Billy Ross Brown
Chairman of the Board and
Chief Executive Officer
Farm Credit Administration
McLean, Virginia

Dear Mr. Brown:

This semiannual report is submitted in accordance with the Inspector General Act of 1978, as amended (Act), and is the ninth report on the activities of the Farm Credit Administration's Office of Inspector General (OIG) since the office was created on January 22, 1989. The reporting period is from April 1, 1993 through September 30, 1993. Section 5(b) of the Act requires that you submit this report to the appropriate congressional committees and subcommittees within 30 days, together with your report.

I have shared with you the draft document titled New Directions for Offices of Inspector General that is currently evolving within the Inspector General community in response to the National Performance Review. One of its basic proposals is that Inspectors General should place more emphasis on working with management to design good programs and prevent problems. That emphasis cannot occur unilaterally; there is a corresponding need for management to reciprocate by improving communication with the Inspector General and by accepting the Inspector General's reports and advice in an open, constructive manner.

I look forward to working with you to make this a reality at FCA.

Respectfully,

A handwritten signature in cursive script, appearing to read 'Eldon W. Stoehr', is written over a faint, larger version of the same signature.

Eldon W. Stoehr
Inspector General

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BACKGROUND

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 operating under a congressionally imposed spending limitation of \$40,426,000 for FY 1994 administrative costs. The Office of Inspector General (OIG) has an authorized budget level of \$852,895 for FY 1994.

FCA currently has 440 established positions, about half of which are examiners located at nine offices throughout the country. Also included in the established agency positions are 7 approved positions for the OIG. Appendix II displays the current organizational structure of FCA and Appendix III displays the Office of Inspector General within that structure.

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

A NEW BOARD CHAIRMAN OFFERS AN OPPORTUNITY TO IMPROVE MANAGEMENT'S COOPERATION WITH OIG

On August 31, 1993, FCA Board member Billy Ross Brown was designated Chairman of the FCA Board, replacing former Chairman Harold B. Steele. Mr. Brown is expected to give impetus to management's improving cooperation with OIG which began during the last reporting period.

The last semiannual report described two events which occurred during that reporting period, suggesting that progress had been made in overcoming longstanding problems with agency management's unwillingness to accept the role and authority of the OIG. First, the FCA Board adopted a formal policy which evidenced its commitment to and involvement in resolving audit issues. Second, a chief operating officer (COO) was appointed. The COO improved management's communication with OIG, created an audit followup official position at a senior staff level, began the process of revising audit followup policies and procedures, and expressed a willingness to assist in overcoming management's reluctance to provide OIG with access to information. The actual benefits that were anticipated from the above events have been disappointing, as described in the next section.

AUDIT FOLLOWUP ISSUES

Tangible progress in agency audit followup practices has been slow.

Even though overt problems between OIG and management have subsided and formal working relationships are improving, several critical, tangible events have been slow to materialize.

- The new senior level audit followup position remains unfilled.
- The quality of management's audit followup activities has not improved nor has there been noticeable improvement in actually correcting deficiencies identified in OIG reports.
- The revision of management's audit followup policies and procedures that began almost one year ago has not yet been issued.
- The COO did not respond to the Inspector General's February 1, 1993 request that OIG staff be given access to FCA databases until the last day of this reporting period.

FCA violated the Antideficiency Act for both FY 1989 and FY 1990.

During OIG's 1992 audit of FCA's Budget Development and Execution, OIG requested a Comptroller General's opinion on the applicability of the Antideficiency Act to FCA and the appropriate accounting for FCA's annual obligations under the annual spending limitations imposed by Congress. GAO responded to OIG on April 21, 1993 (after the audit report was issued) and ruled that the Antideficiency Act does apply to FCA. Based on that ruling, the former Chairman was notified on May 19, 1993 that FCA had violated the Antideficiency Act in both FY 1989 and FY 1990. Although the Act requires immediate reporting of such violations by the agency head to the President and the Congress, the former Chairman failed to do so during his tenure which ended on August 31, 1993. The violations were reported on October 27, 1993; however, the letter distorts the facts and circumstances relevant to the violation.

FCA management has established a pattern by rejecting audit recommendations as a means of closing reports.

Since the establishment of OIG, 107 of 320 management decisions rejected the OIG recommendations as did 10 of the 24 management decisions made during this period. OIG statistics are unlikely to reconcile with management's statistics because OIG disagrees with management on some actions taken which do not correct the conditions identified in the

finding. The conditions reported by OIG that remained uncorrected by management have frequently resurfaced as findings in other reports made by OIG, GAO, independent auditors, consultants hired by FCA management, and by evaluative units of other Federal departments such as OMB, OPM and Treasury. These rejections most often occur in administrative operations where significant known weaknesses exist and continue to detract from agency performance.

OMB Circular A-50 and FCA PPM 100 both require management to explain fully the reasons for any disagreement, including any legal basis believed to prevent officials from taking or not taking the recommended action. Officials have frequently failed to provide such explanations when recommendations have been rejected. Illustration 1 summarizes the activity on recommendations for this period.

Illustration 1 - Recommendation Summary

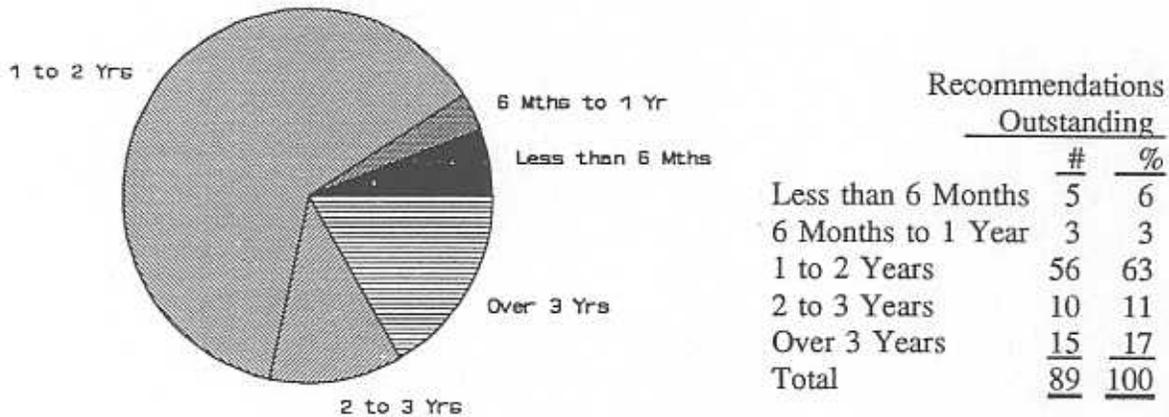
Audit/Inspection Recommendation Activity during Semiannual Period	Recom- mendations without Management Decisions	Management Decisions without Final Action	Total
Outstanding at beginning of period	51	51	102
New recommendations made during period	+8		8
Decisions made during period to implement recommendations	-14	+14	0
Decisions made during period to reject recommendations	-10		-10
Recommendations implemented during the period		-11	-11
Outstanding at end of period	35	54	89

Timeliness of management decisions and final actions are a chronic problem at FCA.

Currently, 35 recommendations, all of which have been open more than one year, have not yet received a management decision. Of the 24 management decisions made during this semiannual reporting period, 13 occurred more than six months after the report was issued.

Of the 11 corrective actions completed during this period, only 3 were within the time period established in the management decision. Finally, of the 54 management decisions for which final action has not yet occurred, 26 are more than 6 months past the implementation date established by the management decision and 20 are more than one year past the implementation date established by the management decision. Illustration 2 displays the aging of open OIG recommendations as of September 30, 1993.

Illustration 2 - Age of Recommendations Outstanding at September 30, 1993



OMB Circular A-50 provides that resolution (management decisions) should be made within 6 months and corrective action (final action) should proceed as rapidly as possible. The Inspector General Act requires separate reporting of any corrective actions which have not occurred within one year, implying that corrective action should normally be taken within one year.

AUDITS

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. Two audit reports were completed by OIG during this reporting period and are summarized below

FCA's Examination and Monitoring of Asset/Liability Management by Farm Credit System Institutions

This audit concluded that FCA's Office of Examination (OE) had appropriately increased examination emphasis on asset/liability management practices by Farm Credit System institutions but that monitoring and examination practices varied widely between each OE field office. The audit reported a need for increased examiner training and examination

guidelines for asset/liability management and for monitoring systemwide interest rate risk on a comparative basis. Management's response indicated agreement with the recommendations and provided a brief discussion of planned actions for implementation.

FCA's Health and Life Insurance Programs

This audit concluded that it is no longer feasible for FCA to offer agency-specific health insurance benefits. The cost of FCA's health insurance plan greatly exceeds the cost of Federal Employee Health Benefit programs due to the shrinking agency workforce, escalating medical costs, and large claims emanating from a small number of major illnesses. We also reported that FCA must recognize a liability for post-retirement benefits in FCA's financial statements. Management's written response agreed with the recommendations and included proposed plans of corrective action.

A draft GAO report entitled FARM CREDIT SYSTEM: Farm Credit Administration Addresses Identified Problems followed up on the Office of Examination's implementation of program recommendations made by OIG in three separate reports. The draft report noted that OE has generally addressed deficiencies reported by OIG, and credited the success of OE programs, in part, to its implementation of OIG's recommendations. The GAO report also recommended that the Farm Credit System Insurance Corporation be subject to the oversight of the FCA Inspector General.

OIG is contracting for an independent auditor to perform an audit of FCA's financial statements for FY 1994. FCA has committed to producing financial statements for FY 1994 and OIG will have them audited by an independent public accountant. The notice of solicitation has been published and proposals are due in December. Preliminary audit work should begin early in the fiscal year and final reports issued by March 1, 1995, including the opinion on the financial statements, report on compliance, and a report on the internal control structure.

INVESTIGATIONS

The semiannual reporting period began with 17 open investigations carried forward. An additional 10 investigations were opened during the period. Of the 27 investigations, 15 were closed during this six-month period. At the close of this reporting period, 12 investigations remain open.

Two of the closed cases substantiated criminal violations involving FCA employees and were referred to the Department of Justice (DOJ). DOJ declined prosecution in both cases in lieu of administrative action by the agency. The violations cited were false statements and theft or conversion.

An investigation of alleged prohibited personnel practices was referred directly to the Office of Special Counsel. Four other cases were investigated, but the allegations were determined to be unsubstantiated. Two investigations were handled through the audit followup process since those cases evolved out of findings in recent audit reports. The six remaining cases closed during the period concerned borrower complaints. These complaints were referred to the Office of Examination for investigation into whether borrower rights were violated or if Farm Credit System banks violated any rule or regulation.

The OIG received two allegations which were outside the jurisdiction of this office. Both allegations were referred to the appropriate Federal agencies with jurisdiction.

The OIG Hotline received 123 calls. Eight of the calls concerned fraud in programs outside FCA's jurisdiction and were referred to the appropriate agencies. Forty-six calls concerned Farm Credit System borrower complaints and were referred to the FCA office responsible for investigating such matters. Three Hotline calls resulted in the opening of two investigations. The remainder of Hotline calls did not warrant action by the OIG.

LEGISLATION AND REGULATIONS

The OIG reviewed 12 legislative proposals and 18 proposed regulations relating to FCA programs and operations. We also reviewed all FCA draft policy and procedure directives (PPMs) circulated for comment within the agency.

Substantive written comments were provided on 7 of the 18 FCA regulatory proposals reviewed. Additionally, extensive comments were offered on 21 draft PPMs, many of which were developed in response to particular OIG audit and investigatory findings and recommendations.

Of particular significance to the agency was the passage of the Government Performance and Results Act of 1993. This law provides for the establishment, testing, and evaluation of strategic planning and performance measurements throughout the Federal Government. Although not yet mandated to have performance measurements in place, the FCA Board has required FCA offices to develop and submit performance measures as a part of the FY 1994 agency budget process. OIG is currently inspecting the agency's planning process to evaluate what adjustments should be made to bring the agency's current practices into conformance with the requirements of this Act.

AUDIT REPORTS ISSUED BY FCA OIG
April 1, 1993 to September 30, 1993

AUDIT REPORTS	Number of Recommendations	Questioned Costs	Recommendations That Funds Be Put To Better Use
Examination and Monitoring of Asset/Liability Management (July 6, 1993)	2	\$ 0	\$ 0
FCA's Health and Life Insurance Programs (August 18, 1993)	6	\$ 0	\$ 0
Total (2 Reports)	8	\$ 0	\$ 0

**INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED COSTS**

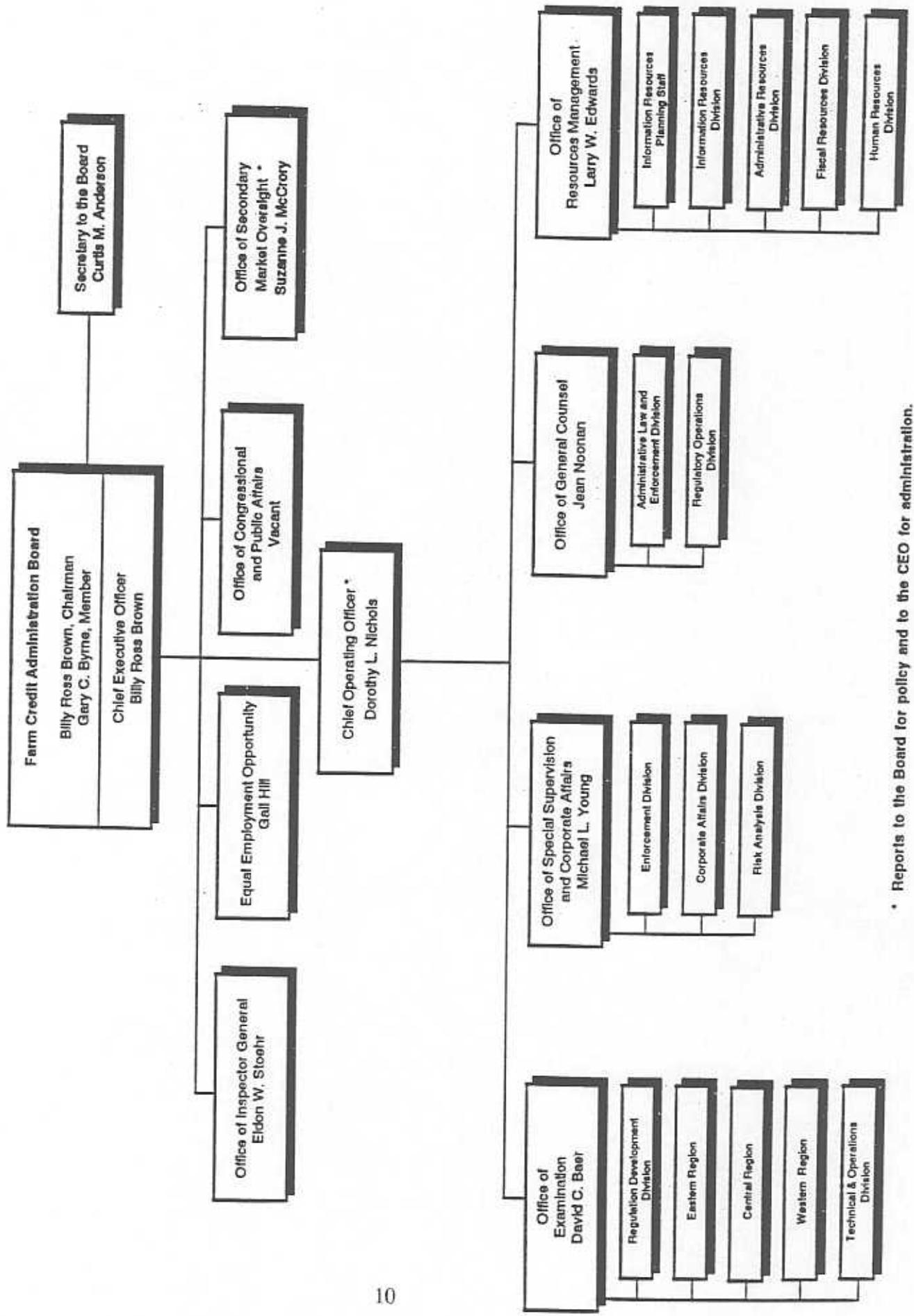
	Number		Dollar Value	
	Reports	Recs.	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period	2	2	\$ 134,337	\$ 35,337
B. Which were issued during the reporting period	0	0	0	0
Subtotals (A + B)	2	2	134,337	35,337
C. For which a management decision was made during the reporting period	1	1	99,000	0
(i) dollar value of disallowed costs	0	0	0	0
(ii) dollar value of costs not disallowed	1	1	99,000	0
D. For which no management decision has been made by the end of the reporting period	1	1	35,337	35,337
E. For which no management decision was made within six months of issuance	1	1	\$ 35,337	\$ 35,337

**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
Which were issued during the reporting period	0	0	0
Subtotals (A + B)	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
Reports for which no management decision was made within six months of issuance	0	0	\$ 0

Billy Ross Brown
 Chairman
 August 31, 1993

Farm Credit Administration

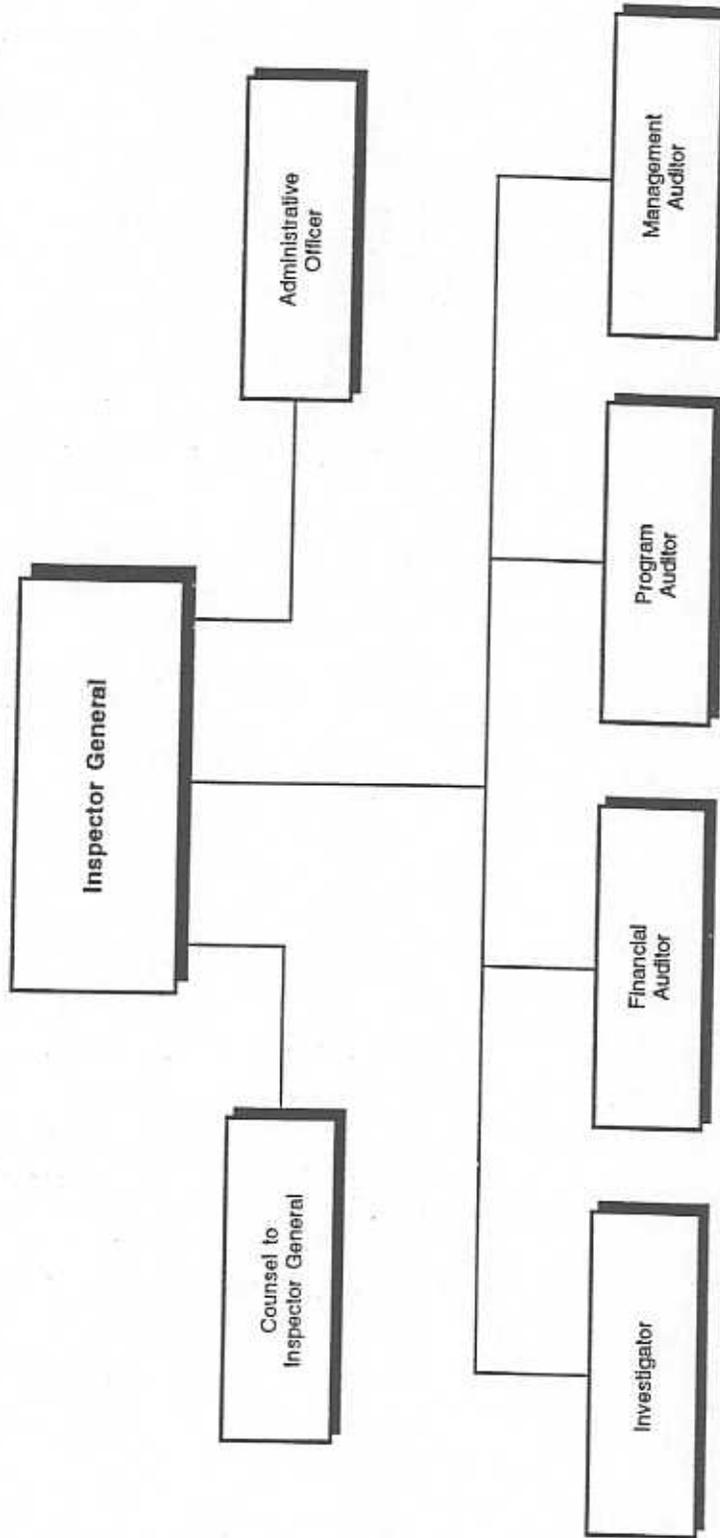


* Reports to the Board for policy and to the CEO for administration.



Inspector General
September 8, 1993

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.