

Office of Inspector General

Semiannual Report
to the Congress

April 1, 1994
to
September 30, 1994



Memorandum

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



October 27, 1994

The Honorable Marsha P. Martin
Chairman of the Board and
Chief Executive Officer
Farm Credit Administration
McLean, Virginia

Dear Ms. Martin:

This semiannual report is submitted in accordance with the Inspector General Act of 1978, as amended (Act), and is the eleventh report on the activities of the Farm Credit Administration's (FCA) Office of Inspector General (OIG) since the office was created on January 22, 1989. The reporting period is from April 1, 1994 through September 30, 1994. 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.

As Inspector General, I have two distinct roles: to work with management to promote efficient and effective program management and deter future problems; and to find and report on current problems. I report jointly to you as the agency head and to the Congress. Although OIG plays an oversight role, we are not adversaries of program managers. OIG staff and program managers, within the differences of their roles, share a common goal of improving agency programs.

This report summarizes OIG's activities for the period and identifies issues yet to be resolved. It evidences continuing progress in improving the programs and operations of FCA through the joint efforts of OIG and management. The problems attendant to the essential downsizing of the agency and overcoming the administrative deficiencies of the agency will be a challenge to us all. I look forward to working with you in meeting those challenges.

Respectfully,

A handwritten signature in dark ink, appearing to read 'Eldon W. Stoehr', is written over the typed name.

Eldon W. Stoehr
Inspector General

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REPORTING REQUIREMENTS

<u>ACT CITATION AND REQUIREMENT</u>	<u>PAGE</u>
Section 4(a)(2) Review of Legislation and Regulations	7
Section 5(a)(1) Significant Problems, Abuses and Deficiencies	2
Section 5(a)(2) Recommendations With Respect to Significant Problems, Abuses and Deficiencies	None
Section 5(a)(3) Prior Recommendations Not Yet Implemented	4
Section 5(a)(4) Matters Referred to Prosecutive Authorities	7
Section 5(a)(5) and 6(b)(2) Summary of Instances Where Information Was Unreasonably Refused or Not Provided	None
Section 5(a)(6) List of OIG Audit Reports	9
Section 5(a)(7) Summary of Each Particularly Significant Report	3-4
Section 5(a)(8) Statistical Table on Management Decisions on 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 6 Months Old For Which No Management Decision Has Been Made	5
Section 5(a)(11) Significant Revised Management Decisions	None
Section 5(a)(12) Significant Management Decisions With Which the Inspector General Disagrees	6

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 of the agency of which \$852,895 was budgeted for OIG operations. There were 440 positions authorized in the FY 1994 budget of which seven were included in the OIG. Appendix II displays the current organizational structure of FCA and Appendix III displays the OIG 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 (Chairman).

SIGNIFICANT ISSUES AND DEFICIENCIES

The following areas continue to be high-risk or pose a significant current problem to agency management. OIG places a high priority on these issue areas when planning its activities and considerable effort was expended during this reporting period to assist management as they work to resolve these deficiencies.

Downsizing FCA to Adjust to a Shrinking Farm Credit System and to Meet the Administration's Objective to "Do More with Less" The FCA Board and management are faced with difficult personnel and organization issues related to reducing the size and cost of the agency while maintaining the necessary staff skills to carry out the agency's mission in a rapidly changing environment. Two voluntary separation incentive programs (buyouts) were offered to agency employees during FY 1994 with 16 employees accepting the offer. The approved agency FTE levels were reduced from 440 in FY 1994 to 398 in FY 1995 and additional downsizing is necessary. OIG will continue to provide input concerning the efficiency and effectiveness of proposals to change the organizational structure and monitor the fairness and equity of related personnel issues.

Deficient Financial Management Systems and Procedures During FY 1994, FCA management began implementing, with the assistance of the Department of Treasury, a new financial management system to correct fundamental deficiencies. FCA's financial management systems had not been integrated, lacked fundamental controls, and did not conform with Office of Management and Budget, General Accounting Office (GAO) and Treasury requirements. Hardware and software problems have contributed to a less than fully successful implementation. An agency reengineering task force was formed to address these deficiencies and the efforts of the task force and the interim work of the accounting firm engaged by OIG to audit FCA's FY 1994 financial statements have contributed to significant progress in addressing this high-risk area. OIG will continue to monitor and provide technical support to agency management and the task force as work continues.

Inadequate Internal Control Systems A significant number of actions have been initiated by the FCA Board and the Chief Operating Officer to correct deficiencies in planning and controls reported in prior periods. These efforts include the reengineering task force and performance of internal control reviews of selected assessable units by the independent public accounting firm (above). In addition, the agency has devoted considerable effort to the development of a 5-year strategic plan and annual performance plans which define strategic objectives and key performance goals that could improve the adequacy of internal control systems. OIG will continue to monitor and advise as these actions progress.

INSPECTIONS

Inspections were conducted in accordance with the "Quality Standards for Inspections" issued by the President's Council on Integrity and Efficiency. Going forward, OIG will no longer perform "inspections" but will perform limited scope audits to meet the same objectives.

Three inspection reports were issued during this period and are summarized below:

Inspection of FCA's Assessment of Receiverships

This inspection grew out of an OIG HOTLINE call that asserted that FCA had not properly assessed an institution in receivership. The inspection concluded: (1) FCA assessments of an institution in receivership in fiscal years 1990-1992 were equitable; (2) four institutions in receivership were not assessed for FCA administrative expenses in fiscal year 1994 as required by FCA Regulations; and (3) six institutions in receivership were not examined in fiscal years 1990-1992 as required by the Farm Credit Act of 1971. Management agreed with the four recommendations to improve FCA's assessment process and completed final action on two of the four recommendations before the end of the reporting period.

Inspection of the Board's Policy for FCA Examination Activities

This inspection was made at the request of the Chairman and measured whether or not the FCA Board had established sufficient policy and/or guidance for the examination process. We concluded that current FCA Board policies for guidance of FCA's examination practices were sufficient and we did not identify any new significant examination issues for which additional FCA board policies or guidance were needed. We did, however, identify some areas in which the Board may wish to consider increased involvement.

Inspection of FCA's Document Processing Branch Activities The Document Processing Branch (DPB) provides a wide variety of services to all FCA offices including: word processing, editing, graphics and design. Our review concluded that the services provided by DPB adequately address the needs of users, that users are satisfied with the services provided, but that opportunities exist to improve delivery of services. We also found that DPB's workload and staffing trends show a decrease, which offers an opportunity to reduce costs, and that the addition of an "information technology center" would address additional user needs.

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.

One audit report was issued during this reporting period and is summarized below.

Survey of Commissioned Examiners

This audit surveyed a random sample of FCA commissioned examiners and summarized issues and concerns around 9 issue areas to provide information regarding the examination function for management consideration and for further study by OIG.

PRIOR RECOMMENDATIONS NOT YET IMPLEMENTED

Illustration I summarizes the statistical results of management's audit followup actions during this reporting period. OIG has continued to serve as a resource and technical advisor as management makes final decisions on audit recommendations and implements and certifies completion of final corrective actions.

Modest progress was made in reducing the backlog of recommendations accumulated during prior periods.

Illustration I -- Audit and Inspection Recommendation Activity for Semi-Annual period of Apr. 1, 1994 through Sep. 30, 1994	Recs. without Decisions	Decisions without Final Action	Total
Outstanding at beginning of period	12	61	73
Recommendations made during the period	+4		+4
Decisions during period to accept/modify recommendation	-4	+4	
Decisions during period rejecting recommendation	0		0
Final Actions taken during period		-11	-11
Outstanding at end of period	12	54	66

**SUMMARY OF AUDITS OVER 6 MONTHS OLD
FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE**

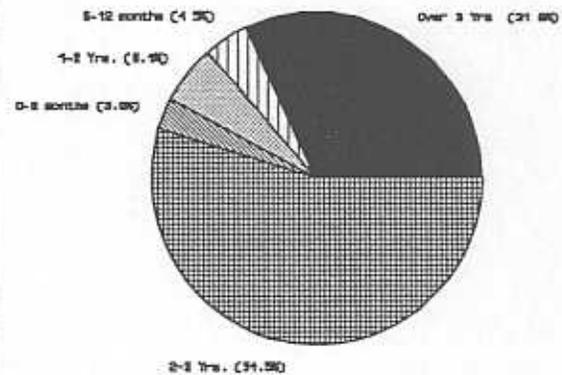
Management decisions have not yet been made on 12 recommendations included in two audits: three in the February 1992 report on Cash and Debt Management, and nine in the September 1992 report on FCA's Budget Process. Specific management decisions are pending the full implementation of the financial management system which began on October 1, 1993 and the results of the conformance review of the new financial management system and the audit of the agency's FY 1994 financial statements, both of which are currently in process.

Illustration II summarizes all open recommendations. Of the 12 recommendations lacking management decisions, all have been outstanding for 2-3 years. Of the 54 recommendations for which decisions have been made but final action has not yet occurred, 49 are over 1 year past the implementation date established in the management decision.

Illustration II:

Number of Recommendations outstanding at September 30, 1994 without Decisions and recommendations with decisions which have not had final action.

Time since Report was Issued	Recommendations Without		
	Decision	Final Action	Total
Less than six months	0	2	2
Six months to one year	0	3	3
One to two years	0	4	4
Two to three years	12	24	36
Over three years	0	21	21
TOTAL	12	54	66



The time periods shown in the above table and graph are computed from the date the report was issued to September 30, 1994.

FINAL ACTIONS TAKEN THIS PERIOD

Illustration III shows that most (73%) final actions taken during this period were on recommendations in audits issued more than two years ago. The oldest outstanding recommendations for which final action was taken this period were contained in OIG's 1989 audit of Purchasing and Contracting (1 recommendation) and the 1991 audit of Travel and Relocation (2 recommendations). Three final actions were on recommendations included in a February 1992 report on Cash and Debt Management. Actions were also taken on one recommendation each from the February 1992 report on the former Policy and Risk Analysis Division of the Office of Examination and the September 1992 report on Human Resource Programs.

Illustration III -- Aging of Final Actions Completed during Semi-Annual period of April 1, 1994 through September 30, 1994.	
Final action within:	
6 months of report issuance	2
1-2 years after report issuance	1
2-3 years after report issuance	5
Over 3 years after report issuance	3
Total Final Actions	11

INVESTIGATIONS

The semiannual reporting period began with seven open investigations carried forward and five additional investigations were opened during the period. Of the twelve investigations, seven were closed during this six-month period.

None of the cases closed during this reporting period substantiated criminal violations involving FCA employees or programs.

During the last semiannual reporting period, the OIG reported that a senior management official had committed a prohibited personnel practice and a violation of merit system principles which constituted unethical behavior. This report was provided to management on January 12, 1994, but they did not take action until August 12, 1994. The OIG does not agree with management's decision concerning this case. The failure by management to take disciplinary action against this official gives tacit approval to such abuses. Even though

compensating controls were instituted to prevent the official from repeating the specific offense, OIG believes this control should not be necessary, and that it permits the offending official to continue to avoid accountability for an important area of responsibility.

In five of the seven cases closed the allegations were unsubstantiated. In another case, the evidence substantiated falsification of time and attendance records; however, there was no evidence of criminal intent so the case was referred for administrative action. The final case concerned a Farm Credit System borrower complaint. This case was coordinated with the Federal Bureau of Investigation and was referred but subsequently declined for prosecution. At the close of this reporting period, five investigations remain open and active.

The OIG Hotline received 135 calls. Nine of the calls alleged fraud in programs other than those under FCA's responsibility and were referred to the appropriate agency. Twenty calls dealt with Farm Credit System borrower complaints and were either referred to the FCA division responsible for investigating such matters or we are awaiting further information from the complainant. Three calls concerned allegations that FCA officials had violated personnel rules and regulations; one was closed after preliminary work was done and two resulted in the opening of investigations. The remainder of the Hotline calls required no action by the OIG.

LEGISLATION AND REGULATIONS

Currently the Farm Credit Administration Board members also serve as the Board for the Farm Credit System Insurance Corporation (FCSIC) and many of FCSIC's administrative functions are provided by FCA on a reimbursable arrangement. The Farm Credit Banks and Associations Safety and Soundness Act of 1992 (1992 Act), scheduled to take effect on January 1, 1996, will change that arrangement by establishing a new FCSIC Board, independent of FCA, made up of three full time presidentially appointed board members. This revised structure is expected to more than double the FCSIC budget, which is \$1.8 million for FY 1995. This expansion of the total oversight structure for Farm Credit System institutions seems inconsistent with the objective of the National Performance Review to create a government that works better and costs less.

Significant legislation was considered and/or passed during this reporting period which impacts the agency or OIG.

Audit followup was strengthened by passage of the Federal Acquisition Streamlining Act of 1994 (Act) which requires Federal agencies to take corrective action or resolve all OIG audit report findings within a maximum of six months after their issuance. This Act also gives OIG the responsibility to investigate reprisal against employees of contractors who reveal a substantial violation of law related to a contract. Another section of this law requires the Comptroller General of the United States to conduct a review of the independence of legal services provided to IGs.

The Law Enforcement Availability Pay Act of 1994 was passed on the final day of this reporting period. OIG budgeted for the costs of availability pay for FY 1995 and has taken steps to implement the availability pay provision for our only investigator.

H.R. 4679, the "Inspector General Reform Act of 1994" and H.R. 4680, the "Whistleblower Protection Enhancement Act of 1994" were introduced during this period. While there was little formal activity on these bills this session, both bills are expected to be re-introduced next session. The Inspector General has provided his generally favorable comments.

The passage of the Buyout Bill, H.R. 3345, significantly benefited the agency's efforts to downsize during this reporting period. Two voluntary separation incentive proposals (VSIPs) were offered during this period and a total of 16 employees exercised this option. Continued use of this buyout option is expected during the upcoming reporting period.

The passage of the Government Performance and Results Act of 1993 (GPRA) was a stimulant for preparation of strategic plans for FY 1995 through FY 1999 by both the agency and OIG. Strategic planning has been emphasized by FCA during recent years and OIG's efforts were also spurred by recommendations in the GAO's audit report of January 3, 1994, Inspectors General: Action Needed to Strengthen OIGs at Designated Federal Entities. OIG expects to be a catalyst for developing and validating the GPRA required performance measures both for the agency and our own office.

During this period, OIG reviewed 7 regulations or regulatory projects and offered substantive comments on 9 internal agency policies and procedures.

AUDIT/INSPECTION REPORTS ISSUED BY FCA OIG
 April 1, 1994 to September 30, 1994

AUDIT/INSPECTION REPORTS	Number of Recommendations	Questioned Costs	Recommendations That Funds Be Put to Better Use
FCA Assessment of Receiverships (May 31, 1994)	4	\$ 0	\$ 0
Board Policy for FCA Examination Activities (May 16, 1994)	0	\$ 0	\$ 0
FCA's Document Processing Branch Activities (July 15, 1994)	0	\$ 0	\$ 0
Survey of Commissioned Examiners (September 29, 1994)	0	\$ 0	\$ 0
Total (4 Reports)	4	\$ 0	\$ 0

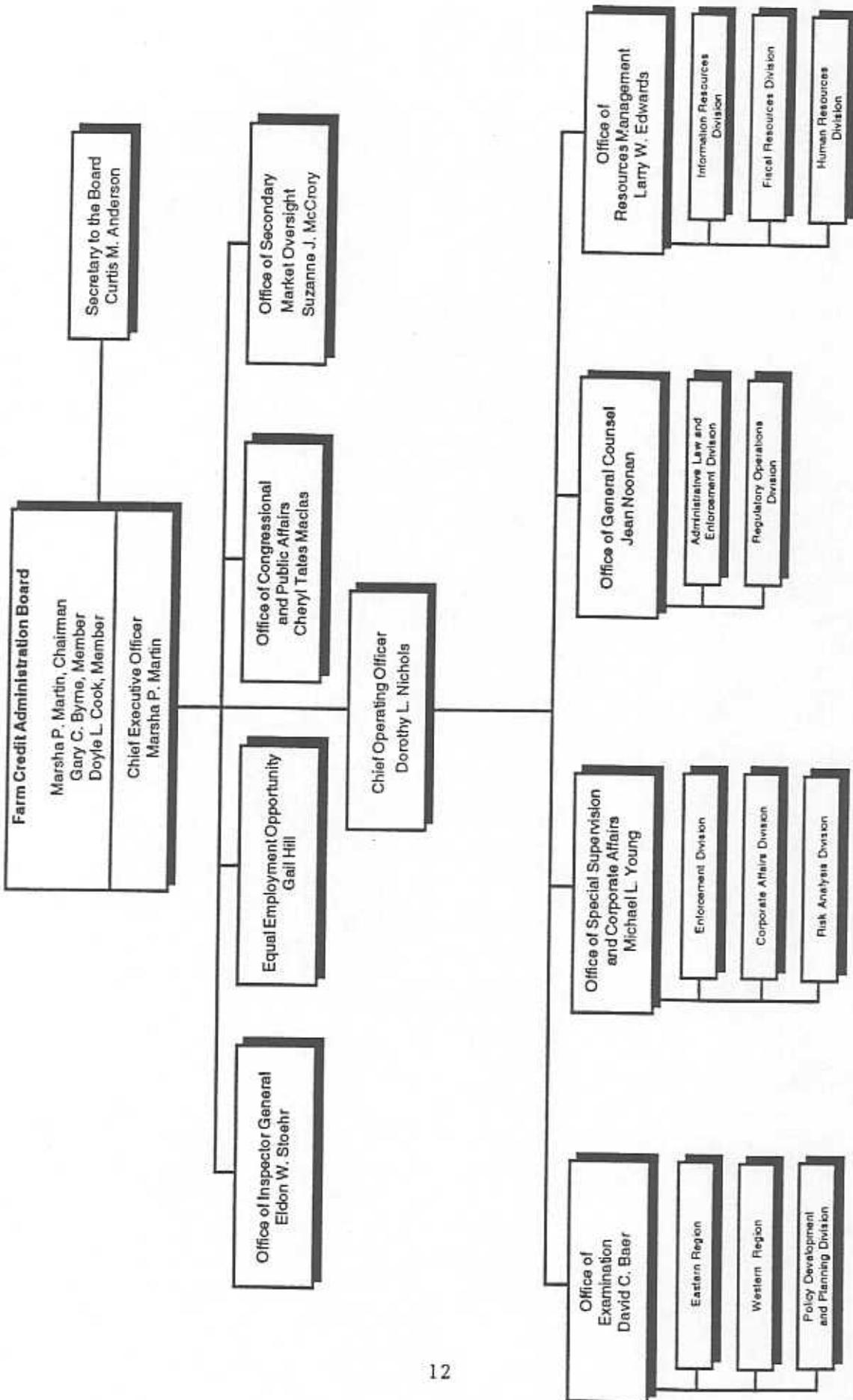
**INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED COSTS**

	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	0	0	\$ 0	\$ 0
B. Which were issued during the reporting period	0	0	0	0
Subtotals (A + B)	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

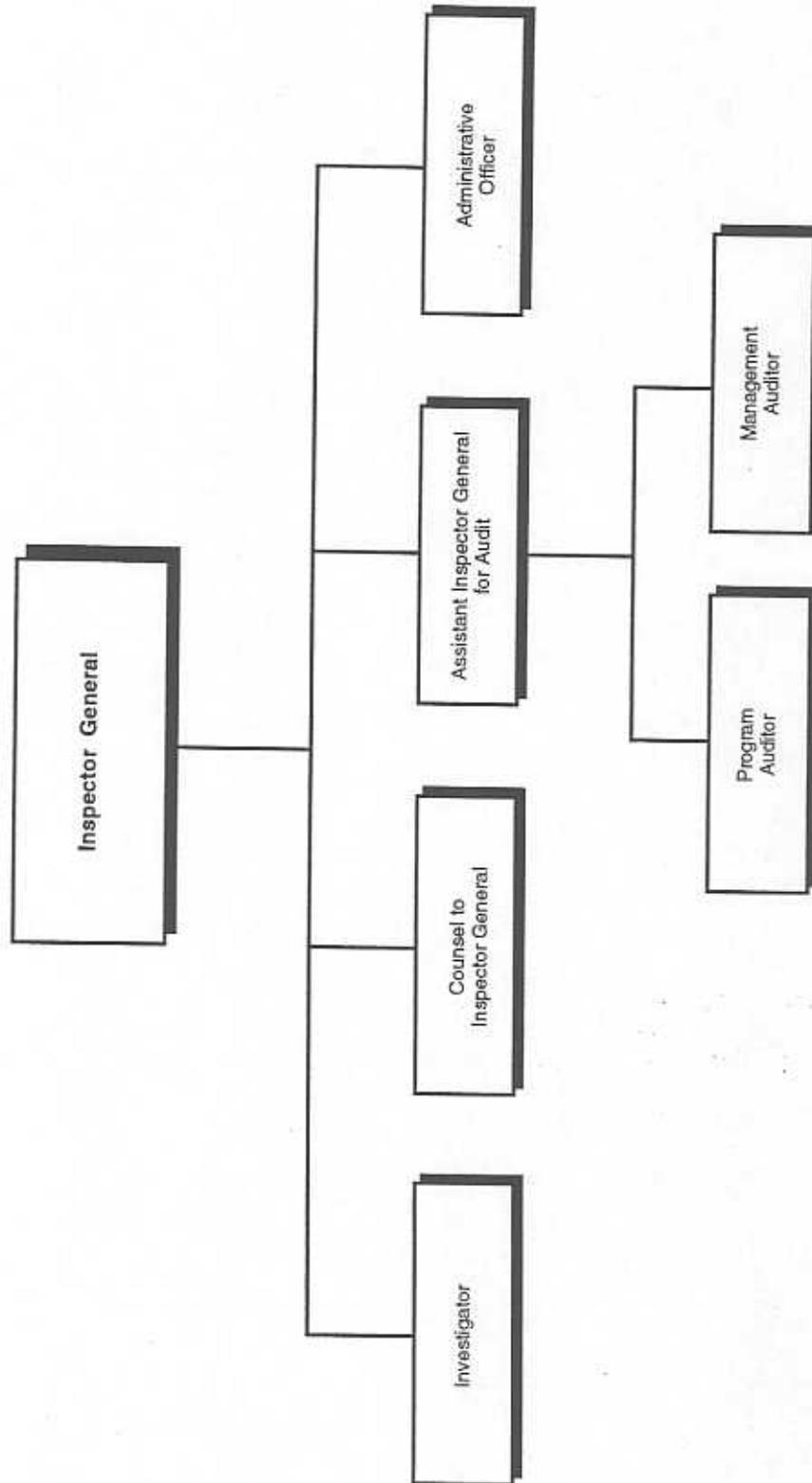
**INSPECTOR GENERAL ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	Number		Dollar Value
	Reports	Recs.	
A. For which no management decision has been made by the commencement of the reporting period	0	0	\$ 0
B. 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

Farm Credit Administration



Office of Inspector General



Kelvin Steen

Inspector General
September 30, 1994