

Office of Inspector General

Semiannual Report
to the Congress

April 1, 1995
to
September 30, 1995



Farm Credit Administration

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

October 30, 1995



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 thirteenth 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. Section 5(b) of the Act requires that you submit this report to the appropriate Congressional committees and subcommittees within 30 days, together with management's report on the status of audit recommendations and any comments you may wish to make.

I am pleased that you and I have been able to work constructively on a variety of issues and opportunities related to FCA's internal operations. However, as you and I have discussed, I am concerned that the progress in improving financial management and internal controls reported in previous semiannual reports has lost its momentum. Some Agency officials have relegated the correction of deficiencies reported in OIG audits and investigations to an inappropriately low priority.

My staff and I will continue to provide you with our best professional analysis and judgment as a part of our statutory oversight of Agency programs and operations.

Respectfully,

A handwritten signature in cursive script, appearing to read "Eldon W. Stoehr".

Eldon W. Stoehr
Inspector General

TABLE OF CONTENTS

	<u>Page</u>
Reporting Requirements.....	1
Background.....	2
Audit and Inspection Reports Issued.....	2
Management Decisions and Final Actions on Audit Recommendations.....	4
Final Actions Taken This Period.....	6
Investigations.....	7
Legislation and Regulations.....	8
Peer Review.....	9
Other Activities.....	9

APPENDICES:

Appendix I -- Audit Reports Issued by FCA OIG.....	10
Appendix Ia -- Inspector General Issued Reports with Questioned Costs.....	11
Appendix Ib -- Inspector General Issued Reports with Recommendations That Funds Be Put to Better Use.....	12
Appendix II -- Farm Credit Administration Organization Chart.....	13
Appendix III -- FCA Office of Inspector General Organization Chart.....	14

REPORTING REQUIREMENTS

<u>ACT CITATION AND REQUIREMENT</u>	<u>PAGE</u>
Section 4(a)(2) Review of Legislation and Regulations.....	8 - 9
Section 5(a)(1) Significant Problems, Abuses and Deficiencies.....	7
Section 5(a)(2) Recommendations With Respect to Significant Problems, Abuses and Deficiencies.....	7
Section 5(a)(3) Prior Recommendations Not Yet Implemented.....	4 - 6
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.....	10
Section 5(a)(7) Summary of Each Particularly Significant Report.....	2 - 3
Section 5(a)(8) Statistical Table on Management Decisions on Questioned Costs.....	11
Section 5(a)(9) Statistical Table on Management Decisions on Recommendations That Funds Be Put to Better Use.....	12
Section 5(a)(10) Summary of Each Audit Over Six 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.....	none

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 \$40,864,305 for fiscal year (FY) 1995 for administrative costs of the Agency. The Office of Inspector General (OIG) has an authorized budget level of \$765,321 for FY 1995.

FCA currently has 404 established positions, about half of which are examiners located at seven field offices throughout the country. Also included in the established Agency positions are the seven approved positions for 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. The Inspector General is appointed by and is under the general supervision of the Chairman of the FCA Board.

AUDIT AND INSPECTION 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. Inspections were conducted in accordance with the "Quality Standards for Inspections" issued by the President's Council on Integrity and Efficiency.

One audit report and one inspection report were issued during this reporting period and are summarized below.

OIG STAFF AUDITS AND INSPECTIONS

The following audits/inspections were conducted by OIG staff.

Information Sources and Uses (Inspection S94-06). The objective of this inspection was to inventory all information sources available within the Agency for examining, supervising, regulating, and monitoring Farm Credit System (FCS) institutions. The objective was accomplished through use of a survey and/or interview of FCA staff from all organizational units and all geographical locations within FCA.

During the process of developing the inventory, we observed the following: FCA receives significant amounts of information for examining, supervising, regulating, and monitoring FCS institutions; the Agency has placed an increased focus on its information needs and the burden that those needs place on FCS institutions; and, opportunities may exist for additional uses of information.

Interagency Agreements (Audit A95-04). The OIG completed an audit survey of the interagency agreement (IA) process. An IA is a written transaction that allows a department/agency to get needed goods and services from another department/agency as an alternative to procuring goods and services from the private sector. The audit objectives were to: (1) identify franchising opportunities to meet the Agency's streamlining objectives; (2) determine whether there is a mechanism in place to implement interagency outsourcing and/or franchising initiatives that may arise from the Agency's streamlining efforts; and (3) evaluate the effectiveness and efficiency of the Agency's process for using IAs.

We identified numerous providers of services that are available for franchising and more are being developed. IAs could provide the mechanism to implement possible franchising and outsourcing which Agency managers may wish to pursue either as a recipient or servicing agency. In addition, improvements could be made to the Agency's process for using IAs that could result in greater efficiency and effectiveness. Specifically, we found that little guidance or criteria exists for planning, executing and administering IAs and the responsibility for IAs was not centralized nor were roles adequately delineated.

We recommended that a central point be established to provide expertise, discipline, and oversight of IAs and that FCA staff develop guidance that provides a framework for planning, approving, executing and administering these agreements. Management agreed and has implemented corrective action.

SPECIAL AUDIT PROJECT

Survey of Farm Credit System Institutions. As part of its strategy to continue to provide high quality examinations and enforcement actions that consistently adhere to FCA policies and regulations, the FCA will begin surveying Farm Credit System (FCS) institutions at the conclusion of each examination to get their feedback on the quality and consistency of the examination/enforcement process. This effort is a follow-on to OIG Audit A94-01, Survey of Farm Credit System Institutions, reported in the last semiannual report. The OIG was instrumental in the development and testing of the survey instrument and OIG will administer and report the results of the survey to assure the confidential treatment of individual responses from FCS institutions. Quarterly, OIG will summarize results (quarter and year to date) into a report to senior management and the FCA Board. At year end, an annual report of results and conclusions will be prepared and changes made, as appropriate, to the survey instrument.

CONTRACTED AUDITS

The OIG has exercised the first option year to the contract with the independent accounting firm, Urbach Kahn & Werlin, to audit the FCA's September 30, 1995, financial statements and supporting schedules. Planning and internal control testing are underway and a report is expected by December 1995.

MANAGEMENT DECISIONS AND FINAL ACTIONS ON AUDIT RECOMMENDATIONS

Management's attention to correcting deficiencies reported in audits (audit followup) still needs improvement. Previous OIG semiannual reports had communicated progress in correcting long standing, fundamental weaknesses in the Agency's financial management systems and internal control systems. These issues were deleted from OMB's most recent high risk list at the recommendation of the Inspector General; however, there are still basic deficiencies in these areas. These remaining problems are not being effectively addressed and seem to be a low priority for those responsible for correcting them.

Twenty four of the uncorrected audit recommendations (Illustration I) are over three years old. That stands in stark contrast to the requirements of Section 6009 of the "Federal Acquisition Streamlining Act of 1994," requiring Federal agencies to resolve or take corrective action on all OIG audit recommendations within a maximum of six months after their issuance.

Illustration I - Number of Recommendations Outstanding at September 30, 1995 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	0	0
Six months to one year	1	15	16
One to two years	0	0	0
Two to three years	0	0	0
Over three years	0	24	24
TOTAL	1	39	40

The time periods shown in Illustrations I and III are computed from the date the report was issued to September 30, 1995.

Illustration II summarizes the statistical results of management's audit followup actions during this reporting period. Management and the audit followup official have certified that final action has been taken on four of the outstanding recommendations below, however, preliminary analysis by the OIG and the independent public accountants indicates that the underlying weaknesses still exist.

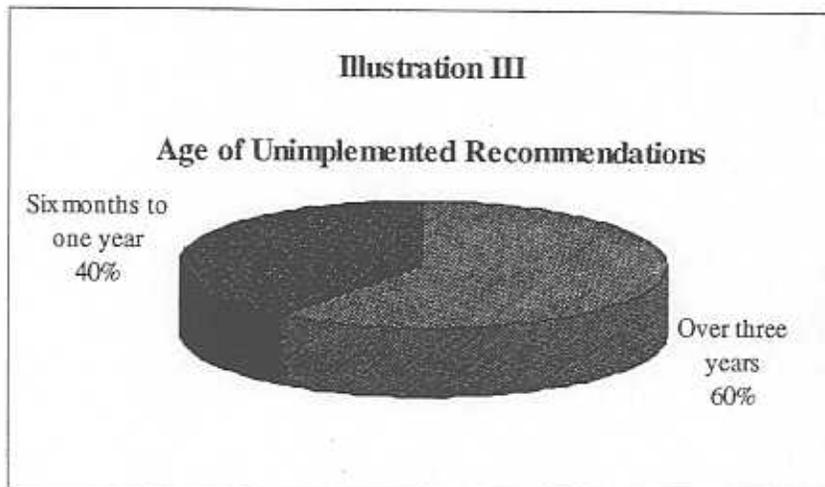
Three of these recommendations are from the Conformance Review of the Financial Management System audit which was issued on March 30, 1995, and one recommendation is from the Review of Internal Accounting and Administrative Controls audit which was issued on March 31, 1995. Further analysis will be completed during the current audit of FY 1995 financial statements.

Illustration II - Audit and Inspection Recommendation Activity for Semiannual Period of April 1, 1995 through Sept. 30, 1995	Recommendations without Decisions	Decisions without Final Action	Total
Outstanding at beginning of period	25	28	53
New recommendations made during the period	0	2	2
Decisions during period accept/modify recommendations	-24	+24	0
Decisions during period rejecting recommendations	0	0	0
Final actions taken during period	0	-15	-15
Outstanding at end of period	1	39	40

During this reporting period, management made decisions on 24 of the 25 recommendations that were outstanding at the beginning of the period and on the two new recommendations made during the period. Two of the decisions had been pending for over three years. The one recommendation outstanding without a decision at the end of the period is from the Review of Internal Accounting and Administrative Controls audit which was issued on March 31, 1995.

Illustration III summarizes the age of open recommendations as of September 30, 1995. Of the 24 recommendations outstanding without final action for more than three years at the end of the period, one recommendation is from the Relevance and Reliability of Historical FCS Financial Data audit which was issued on April 28, 1989, two recommendations are from the Audit of Purchasing and Contracting Functions issued February 12, 1990, two recommendations are from Audit of FCA's Security, four recommendations are from FCA's Accounting System audit issued June 27, 1990, two recommendations are from the Implementation of Borrower Rights audit issued May 10, 1991, two recommendations are from the Travel and Relocation Expenses audit issued September 27, 1991, two recommendations are from the Sensitive Payments audit issued December 11, 1991, four recommendations are from the FCA Budgeting Process audit issued September 22, 1992, three recommendations are from the Cash and Debt Management audit issued February 14, 1992, and two recommendations are from the Compliance with Regulations audit issued September 24, 1992. The remaining 16 recommendations outstanding without management decision or final action

include nine recommendations from the Conformance Review of Financial Management System audit which was issued on March 30, 1995, and seven recommendations are from the Review of Internal Accounting and Administrative Controls audit which was issued on March 31, 1995.



FINAL ACTIONS TAKEN THIS PERIOD

During the reporting period, management took final action on 15 audit recommendations. The age of the recommendations closed ranged from less than six months to over five years from the date of report issuance. Illustration IV shows that six of 15 final actions taken during this reporting period were on recommendations in audits issued more than two years ago. As previously noted, although management has made progress in reducing the backlog of old audit recommendations, there remains a significant backlog of recommendations accumulated during prior periods.

Illustration IV -- Aging of Final Actions Completed During Semiannual Period of April 1, 1995 through September 30, 1995	
Final Action Within:	
6 months of report issuance	9
6 months - 2 years after report issuance	0
2-5 years after report issuance	5
Over 5 years from report issuance	1
Total Final Actions	15

INVESTIGATIONS

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

One of the cases closed during this reporting period substantiated criminal violations involving an FCA employee. The offenses violated 18 USC 641, Theft of Government Property, and 18 USC 1029, Access Device Fraud. The subject employee was involuntarily removed from employment at FCA. The case was referred for prosecution and the U.S. Attorney for the Eastern District of Virginia offered the subject pre-trial diversion which the subject accepted. We conducted this investigation jointly with the Secret Service.

The second closed case substantiated violations of the Federal Records Act, Federal Acquisition Regulations and FCA's internal policies and procedures. The OIG found that inadequate records were maintained in the performance of a year-long consulting contract with an private sector company, the records that were maintained were not included in the Agency's official records depository, and closing procedures for the contract were not followed. The violations occurred more than three years ago and no disciplinary action is being sought. We are awaiting FCA management's response to the investigation and the resulting action it intends to take to ensure proper compliance in the future. No monetary or personal harm was evidenced as a result of the violations.

Another issue reported in the last semiannual reporting period remains unresolved. This investigation substantiated a violation of the Merit System Principles, Title 5, United States Code Section 2301(b), by a senior Agency official. The Inspector General has not yet received a written response from management concerning this investigation. The harmed employee notified the investigator that the temporary personnel action OIG was critical of in the previous semiannual report has now been made permanent by Agency management. Management has provided no response which either acknowledges or responds to the violation of Merit System Principles by the senior Agency official.

At the close of this reporting period, four investigations remain open and are being pursued.

The OIG Hotline received 78 calls or walk-ins during this reporting period. Three of the calls concerned fraud in programs other than those under FCA's responsibility and were referred to the appropriate agency. Five 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. Four allegations were internal to FCA; one was closed after preliminary work was done and three resulted in the opening of investigations. The remainder of the Hotline calls required no investigative action by the OIG.

LEGISLATION AND REGULATIONS

During this period, the Counsel to the Inspector General was appointed Chair of the Legislative Committee of the Council of Counsels to the Inspectors General. In this capacity, she and the Chairman of the Legislative Committee of the President's Council on Integrity and Efficiency, together with other interested officials, developed a system to coordinate and prioritize legislation of major significance to the IG community.

The Paperwork Reduction Act of 1995 became law on May 22, 1995 (Public Law 104-13). Since then, OMB has published final regulations to implement the Paperwork Reduction Act of 1995 (60 Fed. Reg. 44978-44996, August 29, 1995).

This office has been tracking a proposal which would change the impact of the Law Enforcement Availability Pay Act of 1994, effecting investigators in the 1811 series. The proposal, contained in S. 617, the Senate Supplemental Appropriations Rescissions Bill, Section 2002, provides that agencies with fewer than 5 investigators (1811s) and whose agents do not receive AUO (administratively uncontrollable overtime) have discretion concerning the implementation of availability pay after September 30, 1995. This bill is still pending. Additionally, the Office of Personnel Management is expected to publish final regulations implementing the Law Enforcement Availability Pay Act of 1994 in the near future.

A proposed Executive Order, addressing Administrative Allegations Against Inspectors General is in the very final stages of processing. This Executive Order sets up procedures for referral and investigation of allegations of wrongdoing against IGs and certain senior OIG staff members.

This office also tracked various bills containing Value Engineering provisions. An Information Technology Management Reform bill (S. 946) has also been introduced. This bill provides that IGs should have oversight in information technology acquisition. Another bill introduced, S. 1130, The Accounting Standardization Act of 1995, relates to financial management and would make the government responsible for adherence to FASB standards.

During this period, this office reviewed the Proposed Draft Bill on Rural Telephone Bank Privatization Act of 1995 and potential Farm Credit Act revisions. Legislation concerning FCA Retiree Health Insurance has been introduced and advanced in Congress. This legislation will allow FCA retirees and their dependents, formerly covered under the FCA Health Insurance Plan, to enroll in the Federal Employees Health Benefit program without a break in coverage.

Our office has become familiar with the final regulations concerning whistleblower protection for government contractor employees (60 Fed. Reg. 37774-37776, July 21, 1995). These regulations implement the Federal Acquisition Streamlining Act of 1994 (Public Law 103-355). Offices of Inspectors General are tasked with investigating such complaints.

This office reviewed four agency regulations or regulatory projects and commented as appropriate. We also commented on "Recommendations for Terminating and Amending Existing FCA Board Policies."

PEER REVIEW

The Inspector General for the National Endowment for Humanities has completed the external quality review (peer review) of this office and has issued the draft report which concludes that "...a system of internal quality controls is in place and operating effectively and that the audits performed by your office are being carried out in accordance with GAO Government Auditing Standards." The final report will be presented on November 7, 1995.

OTHER ACTIVITIES

OIG staff are encouraged to participate in organizations which contribute to the mission of the Inspector General community. Most staff are actively involved in one or more professional organizations in addition to ad hoc activities of the Executive Council on Integrity and Efficiency/President's Council on Integrity and Efficiency (PCIE/ECIE) including:

Counsel to the Inspector General chairs the Legislative Committee of the PCIE/ECIE Council of Counsels to Inspectors General.

The Assistant Inspector General for Audits was President of the DC Chapter of the Association of Government Accountants; serves on the Financial Systems Committee of the Chief Financial Officers Council; and, the Core Group for FinanceNet.

A senior auditor was detailed to the Inspector General Auditor Training Institute to serve as an instructor for one year.

The Administrative Officer served on the subcommittee of the PCIE Federal Training Network of Training Coordinators which developed proposed performance standards for investigators.

APPENDIX I

AUDIT/INSPECTION REPORTS ISSUED BY FCA OIG

April 1, 1995 to September 30, 1995

AUDIT REPORTS	Number of Recommendations	Questioned Costs	Recommendations That Funds Be Put to Better Use
Interagency Agreements	2	\$ 0	\$ 0
Information Sources and Uses	0	0	0
Total	2	\$ 0	\$ 0

APPENDIX 1a

**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

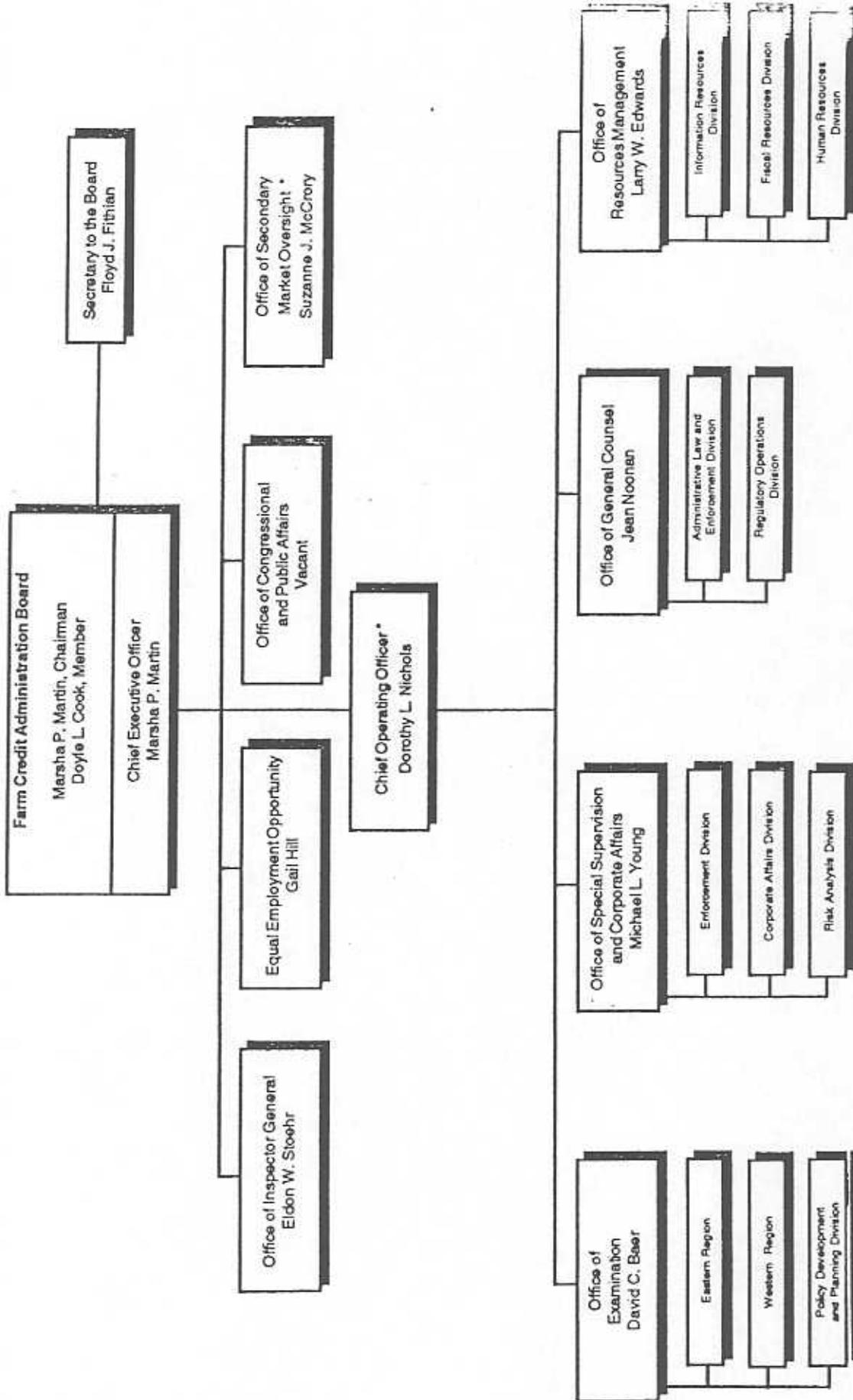
APPENDIX II

**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
E. Reports for which no management decision was made within six months of issuance	0	0	0

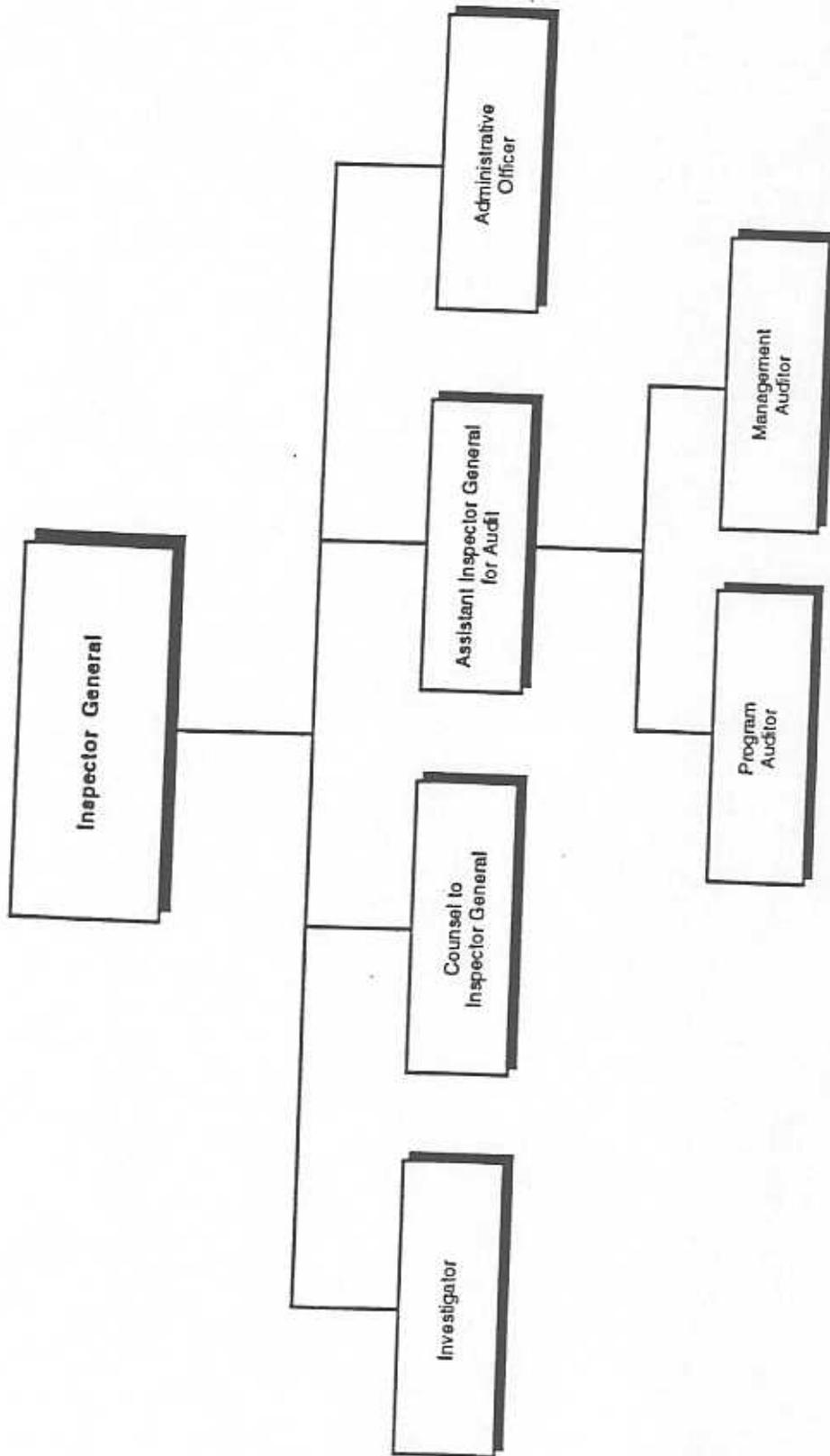
Farm Credit Administration

[Signature]
 Chairman
 August 1, 1995



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

Office of Inspector General



Delton H. Stoen

Inspector General
September 30, 1994

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.