

Office of Inspector General

Semiannual Report
to the Congress

April 1, 1999
through
September 30, 1999



October 31, 1999

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

Dear Ms. Martin:

We are filing this semiannual report in accordance with the Inspector General Act of 1978, as amended (Act). It is the twenty-first report on the activities of the Farm Credit Administration's (FCA or Agency) Office of Inspector General (OIG) since creation of the office on January 22, 1989. Section 5(b) of the Act requires that this report be sent to the appropriate Congressional committees and subcommittees within 30 days after the date of this transmittal, with management's report on the status of audit recommendations.

Agency programs continue to improve through management's acceptance and implementation of OIG advice and recommendations. OIG will keep working with management to improve operations and contribute to the Board's vision that FCA has the best people, best practices and best products.

Respectfully,

Eldon W. Stoehr
Inspector General

REPORT HIGHLIGHTS

We issued one audit and one inspection report during this period. Because of these and earlier reports, management took the following actions:

- **Improved and documented Agency preparation for the Year 2000 rollover.**
- **Reviewed all Agency positions for proper classification of security clearances and addressed the backlog of background investigations.**
- **Began active oversight of FECA claims by FCA employees.**
- **Greatly increased the use of credit cards for making micropurchases and essentially all training costs are paid using this method.**
- **Improved policies and implemented written procedures to ensure Agency compliance with the Prompt Payment Act.**
- **Modified policies to better justify, safeguard and track funds spent on specialized training.**
- **Updated positions covered under the Agency's Drug Free Workplace program and incorporated random sampling procedures for testing.**
- **Improved controls over the Agency's supply room.**
- **Modified the exam manual and implemented procedures for examination of: Call Reports; Orders of Removal, Suspension, or Prohibition; and Specially Designated Nationals and Blocked Persons in Farm Credit System Institutions.**



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REPORTING REQUIREMENTS

<u>INSPECTOR GENERAL ACT CITATION AND REQUIREMENT</u>		<u>PAGE</u>
Section 4(a)(2)	Review of Legislation and Regulations	5
Section 5(a)(1)	Significant Problems, Abuses and Deficiencies	none
Section 5(a)(2)	Recommendations With Respect to Significant Problems, Abuses and Deficiencies.....	none
Section 5(a)(3)	Prior Recommendations Not Yet Implemented	3-4
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	none
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/Inspection Reports.....	2-3
Section 5(a)(7)	Summary of Each Particularly Significant Report	2-3
Section 5(a)(8)	Statistical Table on Management Decisions on Questioned Costs.....	8
Section 5(a)(9)	Statistical Table on Management Decisions on Recommendations That Funds Be Put to Better Use.....	9
Section 5(a)(10)	Summary of Each Audit Over Six Months Old for Which No Management Decision Has Been Made	3-4
Section 5(a)(11)	Significant Revised Management Decisions	none
Section 5(a)(12)	Significant Management Decisions With Which the Inspector General Disagrees	none
Section 5(a)(13)	Compliance of Agency Financial Management Systems	4

BACKGROUND

The Farm Credit Administration (FCA or Agency) 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, as amended. FCA is a non-appropriated agency with a fiscal year (FY) 1999 budget of \$36,017,177 for administrative costs of the Agency. The FY 1999 budget for the Office of Inspector General (OIG) is \$731,604.

FCA currently has 310 established positions, about half of which are examiners located at five field offices. Also included in the Agency positions are the five 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” (DFE) 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 (Chairman).

AUDIT AND INSPECTION REPORTS ISSUED

We conduct all audits in accordance with audit standards established by the Comptroller General of the United States for audits of Federal organizations, programs, activities, and functions. We issued one audit report during this reporting period, which is summarized below. Copies of these reports are available by contacting the Inspector General’s (IG) office on 703/883-4030 or by e-mail at BURRJ@FCA.GOV.

We have adopted a practice we identified during our benchmarking of the practices of Freddie Mac that should contribute to earlier correction of issues identified during audits and inspections. We will work with management during the audit or inspection and draft report dialogue so management’s acceptance of specific corrective actions is incorporated into the final report. Therefore, going forward, draft reports will propose “agreed upon actions” rather than the traditional “recommendations.”

CONTRACTED AUDIT

Analysis of the FCA IT Infrastructure

The OIG contracted with the consulting firm of Planning Technologies Incorporated (PTI), to perform an analysis of FCA’s information technology (IT) infrastructure focusing on the following issues:

- the ability of the current infrastructure to support future initiatives,
- business process improvement,
- current network infrastructure design,

- network monitoring tools being used to manage and proactively monitor the network,
- staffing level and organization, and
- network security policies and procedures.

Overall, the assessment found FCA's network infrastructure is well designed and documented. The networking technology is comparable to or better than that of other IT organizations throughout industry and government. In addition, FCA bought top of the line equipment from leading vendors that will provide FCA with a robust infrastructure for the foreseeable future.

However, PTI noted several areas that should be improved. The report detailed 20 recommendations to improve operations in the Agency's IT infrastructure. Of the 20 recommendations, management agreed with 15 and is committed to corrective actions, agrees in principle with three other recommendations but has not committed to take corrective action, and asserts that two others warrant further study.

INSPECTION

OIG continued to use inspection reports to provide a quick turnaround on issues important to management. During this period, the OIG issued one inspection report.

Dallas Field Office Inspection

The scope of the field office inspection included various administrative and program areas to assess compliance with external and internal guidance. We found that almost all the areas we reviewed had no obvious weaknesses. However, we found opportunities for improvement in three examination areas. Management has agreed with the recommendations and has already implemented appropriate corrective actions.

STATUS OF UNIMPLEMENTED RECOMMENDATIONS

During the reporting period, management implemented all but two recommendations in a timely manner. At the end of this reporting period, 20 recommendations remain open, 19 for audits and one for inspections. One open audit recommendation and the one open inspection recommendation exceed the 12-month criteria for completion of final corrective action established by section 5 of the Inspector General Act of 1978, as amended.

Audits

Management took final action on the following open audit recommendations: three from the audit report on FCA's Specialization/Certification Programs issued on January 5, 1999, and two from the audit report Analysis of the FCA IT Infrastructure issued on September 30, 1999.

The 19 open audit recommendations at the end of this reporting period are as follows: one from the audit report on FCA's IMPAC Program issued on August 11, 1998, and 18 from the audit report on the Analysis of FCA's Network Infrastructure which was not issued until the last day of this reporting period.

Inspections

Management took final action on three recommendations from the report on the Inspection of the Dallas Field Office issued on April 15, 1999, and two recommendations from the Inspection of FCA's Workmen's Compensation Program issued on September 30, 1998. One remaining recommendation from the Inspection of FCA's Workmen's Compensation Program is still open.

YEAR 2000

The Agency is making reasonable progress in addressing year 2000 (Y2K) issues, both within Agency operations and in the regulated institutions. OIG is making an on-going audit of the Agency's Y2K activities that will continue through the first half of Y2K with quarterly status reports to the FCA Board. The contract audit of FCA's network infrastructure complemented our review of the Agency's Y2K efforts.

AGENCY FINANCIAL MANAGEMENT SYSTEM

The Federal Financial Management Improvement Act of 1996 requires agencies to implement and maintain financial management systems that substantially comply with Federal financial management requirements, government accounting standards, and the United States government standard general ledger. This Act also requires the OIG to report on the Agency's compliance.

Management installed new financial management software (FINASST) as of October 1, 1999, to correct some systemic weaknesses that existed in the predecessor system. The replacement configuration, data conversion and testing of this replacement software began in early FY 1998 and were substantially completed during the summer of 1999. Management engaged a consultant to perform an independent validation and verification of the software in March 1999. The independent auditors engaged by the Inspector General to review the Agency's financial statements are also evaluating the integrity, controls and opening balances for FY 2000.

MANAGEMENT LETTERS

During this reporting period, we issued one management letter.

Personnel Security Program

We issued a management letter on FCA's Personnel Security Program on May 10, 1999. It contained six suggested actions related to improving the Agency's procedures and controls about deciding risk levels for employee positions and conducting the suitable background investigations according to those risk levels. Management has reviewed all FCA positions and taken appropriate action on each while also improving procedures and staff awareness stressing the importance of personnel security.

INVESTIGATIONS

There was one open investigation at the beginning of this reporting period. We opened three new investigations during this period. We closed one of the four open investigations during this six-month period.

The investigation closed during this period concerned two personal checks stolen from an Agency employee and subsequently forged and cashed. The OIG worked with the financial institution and a Federal law enforcement agency to find out the identity of the person responsible for the criminal actions. We were unable to discover the person's identity. However, through the investigative efforts on this case, the OIG identified weaknesses in Agency programs and procedures and reported them in management letters. Management has responded by tightening controls.

Most OIG Hotline calls dealt with FCS borrower complaints and were referred to the FCA division responsible for researching such matters. One call merited a preliminary review by OIG, but there was no support for the allegations.

LEGISLATION AND REGULATIONS

During this reporting period, we reviewed statutory and regulatory compliance issues as they arose in audits and investigations. We also reviewed several FCA regulations in both proposed and final form. We continued our review of legislation pending before Congress, which would affect the FCA and Federal government employees. Through the legislation committees of the PCIE and the ECIE, we have reviewed and commented on proposed legislation.

With regard to legislation that has been introduced to further amend the Inspector General Act of 1978, a group of Designated Federal Entity IGs worked cooperatively to prepare and

submit comments on the proposed changes. We were disappointed with the Supreme Court ruling that in effect affirmed a lower court decision premised on the assumption that for labor union purposes, employees of the OIG are considered to be part of agency management rather than independent within their agency. This premise appears to be in conflict with the original intention of the IG Act and may need legislative attention.

We responded to a request from the Office of Management and Budget to inform them of the OIG status under the Federal Activities Inventory Reform Act.

OTHER ACTIVITIES

Survey of Farm Credit System (FCS) Institutions

OIG administers an ongoing survey of the regulated institutions of the FCS. This survey program is designed to provide the FCA Board with independent feedback about how well FCA performs its examination and enforcement activities. OIG administers and reports the results of the survey to assure the confidential treatment of individual responses from FCS institutions. We survey the chairman of the board and the chief executive officer of each FCS institution following their receipt of FCA's report of examination to ask their voluntary feedback on the quality and consistency of the examination and enforcement processes. We mailed out 76 surveys during this reporting period and received 53 responses, a 70% response rate. Overall, the average rating for the questions answered this period was 1.63 (1=completely agree; 5=completely disagree).

OIG Performance Measures

OIG developed performance measures during FY 1995 and implemented them in FY 1996. We have refined the measures in each subsequent year and have issued performance reports for FY 1996 through 1998. We will issue the report for FY 1999 during the next reporting period.

Staff Participation in Activities of the Professional Community

OIG staff are encouraged to take part in organizations which contribute to the mission of the Inspector General community as well as their individual professional development. Most staff are actively involved in one or more professional organizations as well as ad hoc activities of the Executive Council on Integrity and Efficiency/President's Council on Integrity and Efficiency.

Staff Participation in Agency Organizations

OIG staff took part in several Agency workgroups and task forces. During this reporting period the OIG was represented on the Leadership Team, Compensation Workgroup, Benchmarking Team, Equal Employment Opportunity Advisory Committee, Strategic Message Workgroup, Employee Council, FCA's Mentoring Program, Administrative Burden Reduction Workgroup, Telecommuting Pilot Program, Federal Women's Program and the Farm Credit Club.

APPENDIX I

**AUDIT/INSPECTION REPORTS
ISSUED BY FCA OIG**

AUDIT/INSPECTION REPORTS	Number of Recommendations	Questioned Costs	Recommendations That Funds Be Put to Better Use
Analysis of FCA's Network Infrastructure	20	\$ 0	\$ 0
Dallas Field Office Inspection	3	\$ 0	\$ 0
Total	23	\$ 0	\$ 0

APPENDIX Ia

**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	1	1	\$ 31,892	\$ 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	1	1	\$ 31,892	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	1	1	\$ 31,892	0

APPENDIX Ib

**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. For which no management decision was made within six months of issuance	0	0	0