

FARM CREDIT ADMINISTRATION OFFICE OF INSPECTOR GENERAL



Semiannual Report to Congress

April 1, 2018 through September 30, 2018



Message from the Inspector General

I am pleased to submit this Semiannual Report to Congress, which addresses the activities and accomplishments of the Office of Inspector General (OIG) in the Farm Credit Administration (FCA or Agency) for the period from April 1, 2018 through September 30, 2018.

This year marked the 40th anniversary of the Inspector General Act and the creation of the original 12 Offices of Inspector General. The FCA OIG was established in 1989. Since that time, we have been part of a community that has grown to include 73 statutory Inspectors General who collectively oversee the operations of nearly every aspect of the federal government. Every six months, we provide Congress with a report detailing our independent oversight of FCA during the reporting period. In the years to come, we look forward to continuing our efforts to provide independent and effective oversight of the FCA and working with the Council of Inspectors General on Integrity and Efficiency (CIGIE) on important issues that cut across our government.

During this reporting period, the audit, inspection, and evaluation activities of our office focused on Agency physical security in two FCA field offices and at headquarters, and an evaluation study that benchmarked our information technology spending and use of contractors against the other federal financial regulators. Our investigator completed two preliminary investigations and one extensive formal investigation.

Our office continued to use the shared legal and investigative services of the Treasury Inspector General for Tax Administration (TIGTA). This arrangement is working out well, as the exceptional TIGTA staff has been very responsive to our requests for advice and support. Given that the costs of this arrangement have been minimal and the benefits substantial, we have renewed the agreement with TIGTA for another year.

Our office conscientiously carries out its reporting duties to the FCA Board and Congress. We held two quarterly briefings with each of the three members of the FCA Board and are scheduling meetings with our oversight committees in both the Senate and the House this fall.

Message from the Inspector General

We continued our outreach efforts by publishing two issues of the *dIG*, our quarterly internal newsletter, and giving presentations about our office and its mission to new FCA employees and to the entire staff of the Office of Examination, FCA's largest office. Though we are a staff of only five, we actively participate in CIGIE committees and workgroups, including the Inspections and Evaluations peer review workgroup and the committee to commemorate the 40th anniversary of the Inspector General Act of 1978. Two of our senior auditors also developed and taught a course on interviewing techniques for auditors and inspectors for CIGIE's training institute.

With a full complement of FCA Board members, we look forward to continued cooperation with the Board and Agency staff as we strive to improve Agency operations and programs.



Wendy R. Laguarda
Inspector General



Abbreviations

Agency	Farm Credit Administration
IGIE	Council of the Inspectors General on Integrity and Efficiency
EXIM	U.S. Export-Import Bank
Farmer Mac	Federal Agricultural Mortgage Corporation
FCA	Farm Credit Administration
FISMA	Federal Information Security Modernization Act of 2014
FLRA	Federal Labor Relations Authority
FY	Fiscal Year
HRK	Harper, Rains, Knight & Company, P.A.
IAA	Inter-Agency Agreement
IG	Inspector General
IG Act	Inspector General Act of 1978, as amended
IT	Information Technology
OCPA	Office of Congressional and Public Affairs
OE	Office of Examination
OGC	Office of General Counsel
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
Pub. L.	Public Law
ROI	Report of Investigation
System	Farm Credit System
TIGTA	Treasury Inspector General for Tax Administration
U.S.	United States

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Mission, Vision, Values, Goals

Our Mission

The OIG's independent eyes, ears, and voice serve to protect, inform, and advance Agency programs and operations.

Our Vision

Harvesting Change

Our Values

Relevant, Respectful, Trustworthy, and Objective

Our Goals

- 1. Detect and Deter Fraud, Waste, and Abuse*
- 2. Investigate and Protect Against Wrongdoing*
- 3. Promote Quality and Value*
- 4. Advance FCA's Future*

GOAL 1	GOAL 2	GOAL 3	GOAL 4
Perform risk-based audits, inspections, and evaluations	Guard confidentiality	Create benchmarks for improved Agency decision making	Recruit, retain, and empower a diverse workforce
Reinforce the OIG as a safe zone for reporting fraud, waste, and abuse	Produce timely, clear, focused, and factual reports of investigation	Ensure the OIG and FCA are models for good government	Promote leadership, vision, and expertise
Listen to and understand the needs, challenges, and interests of our stakeholders	Provide outreach on how to prevent fraud, waste, and abuse	Produce OIG products that are timely, relevant, reasonable, and helpful	Leverage technology

Source: FCA OIG's [Strategic Plan](#)

Background

Farm Credit Administration

The Farm Credit Administration (FCA or Agency) is an independent federal agency of the United States government responsible for the regulation and examination of Farm Credit System (System) institutions chartered under the Farm Credit Act of 1971, as amended.

As a non-appropriated agency, FCA funds its expenses primarily by assessing System institutions. FCA's fiscal year (FY) 2018 budget limitation set by Congress was \$70,600,000.

As of the end of this reporting period, FCA had 307 full-time equivalent employees, about half of whom are examiners located in the Agency's five field offices as shown below.



Background

Farm Credit System

The System is a government-sponsored enterprise comprised of the following entities:

- 3 Farm Credit Banks, 1 Agricultural Credit Bank, and 69 Associations that primarily make loans to agriculture in all 50 states and Puerto Rico. The System raises funds by selling securities in the national and international money markets through its special purpose entity, the Federal Farm Credit Banks Funding Corporation. These securities are not guaranteed by the U.S. government.
- The Federal Agricultural Mortgage Corporation (Farmer Mac), is a stockholder-owned, federally chartered instrumentality of the United States. Created in 1988, Farmer Mac provides a secondary market for agricultural real estate mortgage loans, rural housing loans, and rural utility cooperative loans. Farmer Mac is publicly traded and issues its own debt securities.
- Five active service corporations that provide services to System to entities and eligible borrowers.

Background

Office of Inspector General

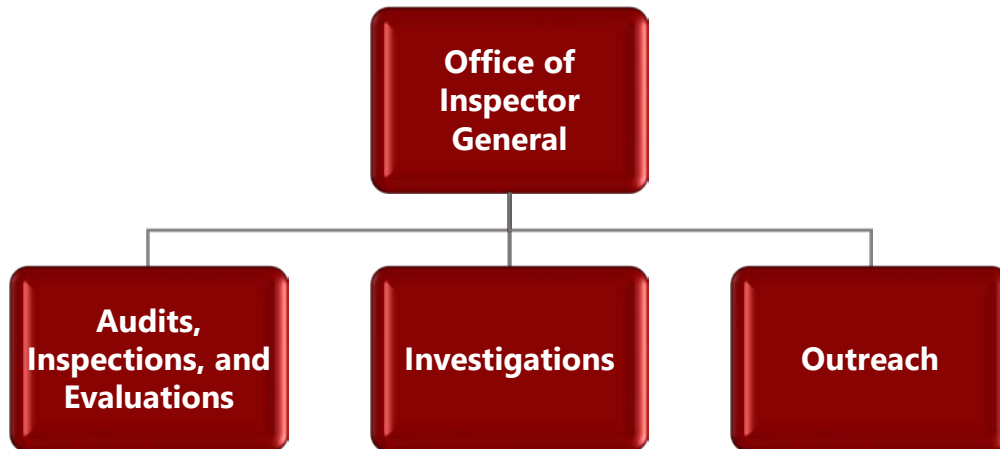
The mission of the Office of Inspector General (OIG) is as follows:

The OIG's independent eyes, ears, and voice serve to protect, inform, and advance Agency programs and operations.

The Inspector General Act of 1978, as amended (IG Act), established the FCA OIG in 1989. The Inspector General (IG) is appointed by the FCA Board without regard to political affiliation and solely based on integrity and demonstrated ability in accounting, auditing, financial analysis, management analysis, investigations, law, or public administration.

While the OIG is under the general supervision of the FCA Board, it operates with independent hiring, contracting, and budget authority. The IG reports both to the FCA Board and to Congress.

The three major components of the OIG include audits, inspections, and evaluations of programs and operations, investigations, and outreach.



Background

Office of Inspector General

OIG Staff

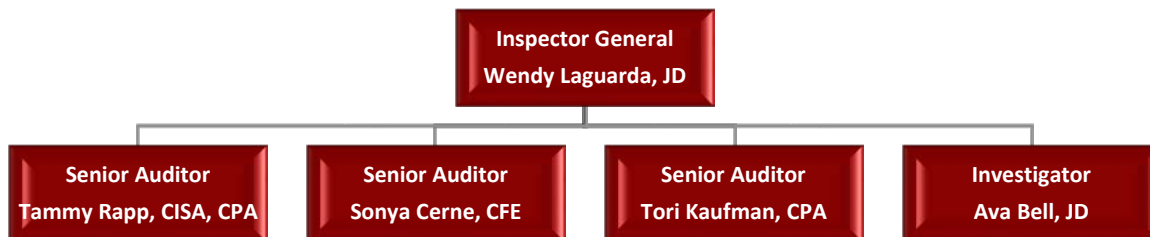
With only five staff members (four full time and one part time), the OIG at FCA may be small in numbers, but our impact on FCA and the IG community is strong. Our three senior auditors have spent their careers in the IG community, and bring their knowledge, skills, and experience from other IG shops in the federal government to their current positions at FCA. Our newly trained investigator brings her legal background and knowledge of human resources to her position and has already had several opportunities to use her investigative skills. And the IG, with her legal and ethics background, has tackled her new duties this past year with enthusiasm and purpose.

Our staff is continually improving its skills and knowledge by fulfilling continuing education requirements and participating in various committees, workgroups, cross-training opportunities, and other initiatives of the IG community. We are all deeply conscious of our oversight roles and the responsibility that comes with such authority. Hence, we strive always to be a model of good government and to ensure that our office follows best practices.

Shared Service Agreement with TIGTA

In November 2017, our office executed an Inter-Agency Agreement (IAA) with the Treasury Inspector General for Tax Administration (TIGTA) to obtain legal and investigative services, as necessary. The shared service arrangement with TIGTA provides us with vital support at minimal cost. The lawyers and investigators at TIGTA have been exceptionally responsive to, and helpful with, all our requests. Consequently, we renewed the IAA with TIGTA for fiscal year (FY) 2019 and are most grateful for their support.

The following organizational chart shows the OIG as of September 30, 2018:



Strategic Goals

To accomplish our mission, the OIG identified four strategic goals in our [Strategic Plan](#). The following summarizes our strategic goals and related outcomes during this reporting period.

Detecting and deterring fraud, waste, abuse, and mismanagement is critical to the OIG's mission. We employ a multi-faceted approach in support of this goal:

- Performs risk-based audits, inspections, and evaluations
- Reinforces the OIG as a safe zone for reporting fraud, waste, and abuse
- Listens to and understands the needs, challenges, and interests of our stakeholders

During this reporting period, we issued three inspection and evaluation reports, with four reviews in progress. The in-progress reviews include an evaluation of FCA's compliance with the Federal Information Security Modernization Act of 2014 (FISMA), FCA's financial audit, an Office of Examination (OE) benchmarking study, and a physical security inspection of headquarters. We also completed our internal quality assurance review and an external peer review report.

The OIG hotline is available 24/7 to confidentially receive tips and complaints about fraud, waste, or abuse relating to FCA programs and operations. The OIG has telephone and fax numbers, as well as an independent hotline email account available to the public. Only OIG staff have access to these avenues that allow individuals to report allegations to the OIG directly and confidentially.

Communication with Agency stakeholders is another key aspect of the OIG's oversight. During our reviews, we continually meet with Agency officials to keep them informed of our progress, results, and areas for improvement. The IG meets quarterly, or as needed, with FCA Board Members to discuss work products, priorities, and concerns. The IG and OIG staff also frequently interact with Agency staff and managers to obtain an understanding of their needs and challenges and to explain our oversight interests.

An OIG goal is to work diligently with Agency management to obtain agreement on planned actions addressing any recommendations resulting from an audit, inspection, or evaluation. Management identifies planned actions they will take to address any recommendations before we issue a final report. Once the OIG is satisfied with management's planned actions, we convert our "recommendation" to an "agreed-upon action" before issuing our final report. In some instances, corrective action is completed prior to issuing a final report. We are pleased to recognize completed actions in the final report. During this reporting period, Agency management agreed with all our recommendations and developed corrective action plans.

Goal 1: Detect & Deter Fraud, Waste & Abuse

Strategic Goals

Goal 2: Investigate & Protect Against Wrongdoing

The OIG conducts timely, relevant, and high-quality investigations. Our investigative reports fairly and accurately report our findings and may offer actions for Agency consideration to correct and deter future misconduct, fraud, waste, or abuse.

The OIG employs the following actions in support of this goal:

- Guards confidentiality
- Produces timely, clear, focused, and factual reports of investigation
- Provides outreach on how to prevent fraud, waste, and abuse

Our investigative procedures and internal controls are designed, to the extent possible, to guard the confidentiality of all complainants and persons involved in the investigative process. As provided by the IG Act, the OIG will not disclose the identity of a complainant without the consent of the complainant, unless the IG determines that such disclosure is unavoidable during an investigation or unless the complainant waives anonymity. To ensure all relevant aspects of the investigation are accurately and objectively addressed in our reports, our investigations manual describes, in part: the process for developing an investigation plan and obtaining IG approval; legal requirements during an investigation; communications and case management; reporting procedures; and referrals to FCA. The OIG follows the Council of Inspectors General on Integrity and Efficiency (CIGIE) *Quality Standards for Investigations* as guidance for all its investigative activity.

OIG evaluates all complaints, examining jurisdictional issues, the nature of the allegation, and other factors in determining whether to open an investigation. The OIG also assesses availability of records and other factors to determine whether the complaint includes allegations of criminal, civil, or administrative violations that necessitate a formal investigation. We also receive complaints from borrowers or potential borrowers in the System regarding their lending rights or alleged wrongdoing in a System institution. We refer these complaints to the FCA Office of Congressional and Public Affairs (OCPA), as required by Agency policy, and follow up, as appropriate. During this reporting period, the OIG reviewed 20 complaints and conducted one formal investigation and two preliminary investigations.

The OIG participates in FCA's new employee training to discuss our investigative program, and we distribute posters identifying hotline contact information, as well as Office of Special Counsel notices on whistleblowing protections.

Strategic Goals

Goal 3: Promote Quality & Value

As the safety and soundness regulator of the System, FCA ensures the well-being and future of agricultural producers and rural communities. OIG is committed to promoting FCA's quality of oversight and maximizing the value of funds invested in such oversight.

The OIG performs the following actions in support of this goal:

- Creates benchmarks for improved Agency decision making
- Ensures the OIG and FCA are models for good government
- Produces OIG products that are timely, relevant, reasonable, and helpful

During this reporting period, the OIG completed a benchmarking study of information technology (IT) spending and use of contractors. The purpose of this benchmarking study was to determine the changes in IT spending and use of contractors over the past three years and compare FCA's IT budget and use of contractors to other federal financial regulators.

The OIG is continuously working to ensure compliance with standards, improve internal processes, and advance professional competencies. During this period, we completed an internal quality assurance review and continued to review and update our office directives. We put a priority on staff training to meet requirements for professional education and gain new skills.

OIG products are generally completed in six months or less. Our audit, inspection, and evaluation work is risk based to align with the top management and performance challenges at the Agency.

Strategic Goals

Goal 4: Advance FCA's Future

The OIG continuously strives to advance excellence and innovation in our own organization and operations.

The OIG employs the following actions in support of this goal:

- Recruits, retains, and empowers a diverse workforce
- Promotes leadership, vision, and expertise
- Leverages technology

The OIG continuously works to retain and empower a diverse workforce. Although the OIG did not recruit for positions during this reporting period, the IAA with TIGTA and cross-training opportunities in the IG community provide opportunities for diversity in our workforce.

OIG staff assume leadership roles in the IG community by participating on various CIGIE committees, workgroups, and initiatives. Two senior auditors taught a class on interviewing techniques for CIGIE. Another auditor participated in the workgroup that planned the 40th Commemoration of the IG Act. The IG conducted several mediations for the sharing neutrals program in the government. All OIG staff maintain various professional certifications in different areas of expertise, including: auditing, IT auditing, accounting, investigations, fraud, law, and mediation.

One example of the OIG leveraging technology is our revised OIG website page, which we revamped to increase the usability and transparency of our information for the public. In addition, the OIG continued its exploration of other software solutions to increase the efficiency of our audits, inspections, evaluations, and investigations. We are closely following the efforts of the CIGIE audit committee regarding obtaining group license fees for such automated solutions at a discount. We want to ensure that the benefits of any new software solution will justify the cost.

Performance Measures

The following discussion describes the performance measures of our office, as set forth in our Strategic Plan for FYs 2018-2019, and the actions we have taken to meet these measures.

Measuring Our Performance

Performance Measure

Actions Taken

Efficiencies

Have been gained by using shared services with TIGTA.

Completion time of OIG work assignments

Has been appropriate based on the complexity or unique nature of each assignment. Most of our audit, inspection, and evaluation reports are completed within six months or less. All our required reports have been completed on time. We conducted two preliminary investigations and completed both within one month of receiving the initial complaint. We conducted one formal investigation and issued the report of investigation within five months of the initial complaints.

Audit, inspection, and evaluation recommendations

Have been 100 percent accepted by the Agency and converted to agreed-upon actions.

Complaints activity

Has increased significantly in this reporting period, indicating employees have confidence in the OIG and its ability to investigate wrongdoing while guarding their confidentiality.

Interaction with Congress

Continues with our semiannual reporting to Congress. Our congressional agricultural oversight committees in both the Senate and House had no questions or concerns about the most recent report.

Communication with the FCA Board and management

Is an ongoing priority of our office. We held quarterly briefings with each FCA Board Member and their executive assistants. We regularly communicate with FCA management through our audit, inspection, evaluation, and investigative work. We met with OE management and attended the all-staff OE conference this fall in Seattle to present the mission and philosophy of the OIG.

Performance Measures

Measuring Our Performance

Performance Measure

Actions Taken

Aligning audit planning with FCA’s top management and performance challenges

Is important to ensure that our work is risk based and that it addresses the most significant challenges of the Agency. In this report, we cite the relevant management and performance challenge in discussing each audit, inspection, and evaluation.

Outreach efforts

Have included two quarterly issues of the *dIG*, our office newsletter with articles about what we do, how we do it, and why we do it, as well as examples of fraud, waste and abuse in government. We met with the OE management team where the IG and the investigator presented their perspectives on the roles of the OIG and investigator and answered questions. The IG and investigator made this same presentation at the all-staff OE conference this fall in Seattle.

Participation in CIGIE

Is an integral part of our office objectives. Every staff member is active on one or two CIGIE committees or initiatives, including participating in CIGIE’s training program and conducting peer reviews. Interacting with the wider IG community is a necessary and beneficial part of our mission.

Training taken

This reporting period included audit, investigative, IT, and legal training. Staff members are cognizant of the required training they must take to keep up their skills and ensure that all their training requirements have been met.

Diversity of OIG staff when hiring opportunities arise

Is a goal of our office; however, we have had no hiring this reporting period. Our shared services agreement with TIGTA and cross-training initiatives in the IG community provide opportunities to work with a diverse staff.

Audits, Inspections, and Evaluations

Summary

This reporting period, the OIG continued to provide FCA with high-quality products. We issued three inspection and evaluation reports, with a total of three agreed-upon actions with FCA management. We also have four reviews in progress.

- The OIG found no significant problems, abuses, or deficiencies relating to the administration of programs and operations.
- The OIG did not identify any questioned costs, unsupported costs, or disallowed costs during this reporting period.

The OIG conducts all audits in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States for audits of federal organizations, programs, activities, and functions. We conduct inspections and evaluations in accordance with CIGIE's *Quality Standards for Inspection and Evaluation*.

Copies of most OIG reports are available on our [website](#), by contacting the OIG at (703) 883-4030, or by [email](#). We offer a free [subscription service](#) that provides automatic notification by email when a new report or other information is posted to the OIG website. Finally, we post all our public reports and information on [Oversight.gov](#). Oversight.gov is a publicly accessible, searchable website containing the work of federal Offices of Inspectors General.

Below is a listing of the audit, inspection, and evaluation reports issued during this reporting period.

Reports Issued

Table 1: Audit, Inspection, and Evaluation Reports Issued	
Report Title	Number of Agreed-upon Actions/ Recommendations
Information Technology Benchmarking Study	0
Inspection of Physical Security in the Farm Credit Administration's Sacramento Field Office	3
Inspection of Physical Security in the Farm Credit Administration's Dallas Field Office	0
Total	3

Audits, Inspections, and Evaluations

Information Technology Benchmarking Study

Reports Issued

Evaluation Justification

IT spending, including the use of IT contractors, has increased at FCA over the past few years. The purpose of this benchmarking study is to determine the IT budget changes over the past three years and compare FCA's IT budget and use of contractors to other federal financial regulators.

Evaluation Objective

The objective of this evaluation is to compare FCA's IT budget and use of contractors to other federal financial regulators.

Management Challenge

The OIG identified **Information Technology** as one of four top management and performance challenges at FCA. This challenge is the ability to leverage investments in IT while maintaining a secure environment.

While cybersecurity threats are increasing, FCA is increasingly reliant on IT software to identify and analyze potential risks from the sensitive financial data that the Agency receives from the System. Hence, it is imperative that FCA has the necessary IT tools and staff to protect its systems and data from cybersecurity threats and to operate more efficiently and effectively. At the same time, the Agency must be prudent and responsible with its spending.

Conclusions

Our benchmarking study reveals that the budget of FCA's Office of Information Technology (OIT) has grown at a much higher percentage over the past three years than all other FCA office budgets.

Of the benchmarked federal financial regulators, FCA has the smallest overall agency budget, IT budget, and number of employees. However, when compared to the IT budgets of the other federal financial regulators, FCA's IT budget, as a percentage of the Agency's budget, falls in the middle of the benchmarked agencies, and its use of contractors was the lowest of all the other agencies.

This report does not contain any recommendations or agreed-upon actions. Since the full report contains sensitive information about other agencies, the OIG released publicly a redacted version of the report.

Milestones

The [Information Technology Benchmarking Study](#) report was issued on September 6, 2018.

Audits, Inspections, and Evaluations

Reports Issued

Inspection of Physical Security in FCA's Sacramento Field Office

Inspection Justification	Physical security controls safeguard FCA employees and assets. Physical security is unique in different locations and buildings, and the strongest controls cannot eliminate security risks. However, strong controls and preparedness can improve overall security. For this inspection, we reviewed the Sacramento field office. Our review focused on controls related to access, computers and other equipment, emergency preparedness, and personnel records.
Inspection Objective	The objective of the inspection was to determine the effectiveness of controls related to physical security in the Sacramento field office.
Management Challenge	This inspection addresses the management challenge on Human Capital . This challenge entails FCA's need to maintain a well-trained, sustainable workforce in the face of retirement eligibilities, workforce retention, and diversity, and the need to invest in its employees and their development. To address this management challenge, this inspection looked at physical security controls in the workplace.
Conclusions	We found controls were in place and generally effective. However, we identified opportunities to further improve physical security in the Sacramento field office. In response to our inspection, Agency management completed three actions that will improve physical security. The report contains sensitive information about FCA and potential vulnerabilities. Therefore, we did not release this report publicly.
Milestones	We issued the final report, Physical Security in FCA's Sacramento Field Office , on June 19, 2018.

Audits, Inspections, and Evaluations

Reports Issued

Inspection of Physical Security in FCA's Dallas Field Office

Inspection Justification	Physical security poses a continuous challenge for federal agencies. The OIG initiated physical security inspections of FCA field offices during 2018. To date, we have completed inspections of the Denver, Bloomington, Dallas, and Sacramento field offices.
Inspection Objective	The objective of the inspection was to determine the effectiveness of controls related to physical security in the Dallas field office.
Management Challenge	This inspection addresses the management challenge on Human Capital . This challenge entails FCA's need to maintain a well-trained, sustainable workforce in the face of retirement eligibilities, workforce retention, and diversity, and the need to invest in its employees and their development. To address this management challenge, this inspection looked at physical security controls in the workplace.
Conclusions	We found controls were in place and generally effective in the Dallas field office. However, we identified opportunities to further improve physical security. The Agency initiated corrective actions based on the review and previous physical inspections. Therefore, we did not make any recommendations in the report. The report contains sensitive information about FCA and potential vulnerabilities. Therefore, we did not release this report publicly.
Milestones	We issued the final report, Physical Security in FCA's Dallas Field Office , on April 19, 2018.

In Progress

Inspection of Physical Security in FCA’s Headquarters

Inspection Justification Physical security poses a continuous challenge for federal agencies. The OIG initiated physical security inspections of FCA field offices during 2018.

Inspection Objective The objective of the inspection is to determine the effectiveness of controls related to physical security in Headquarters.

Management Challenge This inspection addresses the management challenge on **Human Capital**. This challenge entails FCA’s need to maintain a well-trained, sustainable workforce in the face of retirement eligibilities, workforce retention, and diversity, and the need to invest in its employees and their development. To address this management challenge, this inspection looked at physical security controls in the workplace.

Milestones Our draft report was issued in September 2018.

In Progress

Office of Examination Benchmarking Study

Evaluation Justification	The Office of Examination is responsible for examining and supervising the System and uses examination staff to accomplish its mission. The purpose of this evaluation is to compare FCA to other federal financial regulators through a survey with questions about examination staff, locations, hiring, and supervision.
Evaluation Objective	The objective of this evaluation is to compare FCA's examiner career structure and organization within the Office of Examination to other federal financial regulators.
Management Challenge	This inspection addresses the management challenge on the Examination and Supervision Program . This challenge included identifying and addressing risks in the System through effective examination and supervision to ensure the System remains safe and sound. This evaluation will provide management with information about how other federal financial regulators' examination staff structure and organization compare to FCA.
Milestones	We plan to issue our evaluation during the next reporting period.

FY 2018 Evaluation of the Farm Credit Administration's Compliance with the Federal Information Security Modernization Act of 2014 (FISMA)

Evaluation Justification	FISMA requires IGs or an independent external auditor to perform an annual evaluation of their agencies' security program and practices.
Evaluation Objective	The objectives of this evaluation are to determine the effectiveness of FCA's information security programs and practices and to provide the OIG with the ability to report the results to the Office of Management and Budget (OMB) and the U.S. Department of Homeland Security.
Management Challenge	The OIG identified Information Technology as one of FCA's top management and performance challenges in FCA's FY 2017 Performance and Accountability Report. This challenge is the ability to leverage investments in IT while maintaining a secure environment. The OIG performs an annual evaluation of FCA's compliance with FISMA to address this management challenge.
Milestones	Results of OIG assessments are reported to OMB through CyberScope, a web portal designed for federal agencies' FISMA reporting. The FY 2018 annual reports are due by October 31, 2018.

Audit of FCA's Financial Statements Fiscal Year 2018

Audit Justification	The Accountability of Tax Dollars Act of 2002 requires FCA to submit to Congress and OMB audited financial statements each fiscal year. The OIG contracted with Harper, Rains, Knight & Company, P.A. (HRK), an independent public accounting firm, to perform the audit of FCA's financial statements for FY 2018. The OIG monitors the work of HRK.
Audit Objective	The objective of the audit was for the auditors to express an opinion on FCA's financial statements.
Management Challenge	The financial statement audit is a required audit and is therefore not designed to address any specific FCA management and performance challenge. However, this audit indirectly addresses the management challenge on Organizational Structure and Governance , which entails FCA's need to align its organizational structure, in part, to the goals and priorities of the FCA Board while remaining a strong safety and soundness regulator.
Milestones	The FY 2018 financial statement audit will be issued in November 2018.

Audits, Inspections, and Evaluations

The Agency issued three reports during this reporting period with three agreed-upon actions. In addition, at the beginning of the period, eight carry-over actions were still open. As of September 30, 2018, two agreed-upon actions remained open.

Before the commencement of and during this reporting period, there were no questioned costs, unsupported costs, disallowed costs, or recommendations that funds be put to better use for which no management decision had been made.

Agreed-upon Actions

Table 2: Audit, Inspection, and Evaluation Agreed-Up On Actions					
Report Title	Date Issued	Carryover from Prior 6-Month Period	New During This 6-Month Period	Final Management Actions During This 6-Month Period	Open on 9/30/18
FCA's Position Management and Job Evaluation Program	9/23/2016	1	0	1	0
Physical Security in FCA's Denver Field Office	9/29/2017	4	0	4	0
FY 2017 Evaluation of FCA's Compliance with FISMA	10/27/2017	2	0	0	2
FCA's Office of Secondary Market Oversight	3/20/2018	1	0	1	0
Physical Security in FCA's Dallas Field Office	4/19/2018	0	0	0	0
Physical Security in FCA's Sacramento Field Office	6/19/2018	0	3	3	0
Information Technology Benchmarking Study	9/6/2018	0	0	0	0
Total		8	3	9	2

Audits, Inspections, and Evaluations

Open Agreed-upon Actions

The following chart shows open agreed-upon actions for reports issued as of September 30, 2018.

Table 3: Open Audit, Inspection, and Evaluation Agreed-Upon Actions			
Report Title	Date Issued	Agreed -upon Action #	Summary of Agreed-upon Action
FY 2017 Evaluation of FCA's Compliance with FISMA	10/27/2017	1 2	To OIT (not released publicly) ¹ To OIT (not released publicly) ¹

¹ Protected by 44 U.S.C. 3555(f).

Other Reports

Summary

This reporting period, the OIG issued three reports on the quarterly survey to the Chief Examiner and FCA Board. The reports summarize survey results and stakeholder opinions on the quality and issues involved in the examination function. Additionally, the OIG issued a management advisory on compensation. The OIG also completed our internal quality assurance review and an external peer review of the U.S. Export-Import Bank (EXIM) OIG's inspection and evaluation organization.

Survey of Farm Credit System Institutions

Survey Justification

The OIG administers a quarterly survey of System institutions regarding the quality and consistency of the Agency's examination function, including the examiners' performance.

Survey Objective

The objective of the survey is to obtain feedback from System institutions about FCA examiners and the examination process without identifying the responding institutions.

Management Challenge

The OIG identified the **Examination and Supervision Program** as one of four top management and performance challenges at FCA. This challenge identifies and addresses risks in the System through effective examination and supervision to ensure the System remains safe and sound.

Conclusions

The consistent trend in numerical ratings and narrative comments indicates that the System has a positive view of the examination program and staff.

Milestones

Each quarter the OE identifies numerous System institutions that could provide meaningful survey responses for that period. The OIG sends surveys to those institutions for the quarter.

During this reporting period, the OIG issued three reports to the FCA Board and Chief Examiner summarizing survey response data as follows:

- [First Quarter FY 2018](#), issued April 10, 2018 – 8 out of 9 institutions responded.
- [Second Quarter FY 2018](#), issued June 21, 2018 – 10 out of 12 institutions responded.
- [Third Quarter FY 2018](#), issued September 28, 2018 – 14 out of 16 institutions responded.

Management Advisory on the Farm Credit Administration Compensation Policy

Justification	The OIG completed an advisory memorandum to discuss the pay exception and grade and pay retention aspects of the Agency's compensation policy.
Objective	The objective of the advisory was to discuss the Agency's compensation policy and provide the FCA Board an analysis of certain compensation factors.
Management Challenge	The OIG identified Human Capital as one of four top management and performance challenges at FCA. This challenge is maintaining a well-trained, sustainable workforce while facing challenges in retirement eligibilities, workforce retention, and diversity.
Conclusions	FCA has compensation flexibilities granted under the Farm Credit Act of 1971, as amended. Although flexibilities within the compensation program are needed, the OIG found that the Agency may have opportunities to improve controls over the compensation process. These improvements could help ensure that pay exceptions and pay and grade retention policies are adequately justified, consistently and fairly applied, and in furtherance of FCA's pay-for-performance compensation system.
Milestones	A final memorandum was issued to the Board on April 17, 2018.

Internal Quality Assurance Review

Justification	The OIG completes an internal quality assurance review each year, as is outlined in our office’s internal directives, to identify systemic issues needing improvements and recommendations for corrective actions.
Objective	The objective of this review is to determine whether internal procedures were established, implemented, and operating effectively within the OIG.
Management Challenge	This review is part of the OIG’s internal quality assurance process and does not align with a management challenge.
Conclusions	While conducting this review, no systemic issues or weaknesses were noted. Our report did not make recommendations but included four considerations to increase efficiency and effectiveness and improve operations.
Milestones	The final report was issued August 15, 2018.

Investigations

The OIG investigator has responsibility for developing and implementing an investigative program that furthers OIG's goals. The investigator's primary responsibilities include:

- Investigating possible violations of criminal statutes relating to FCA's programs and activities.
- Investigating allegations of waste, fraud, abuse, mismanagement, or misconduct by FCA employees.
- Interfacing with the Department of Justice on OIG-related criminal matters.
- Coordinating investigations and OIG initiatives with other federal, state, and local investigative agencies and other OIGs through the Assistant IGs for Investigations Committee.
- Protecting whistleblowers and providing whistleblower training.

Summary

Investigations cover a broad range of allegations concerning criminal wrongdoing or administrative misconduct affecting various FCA programs and operations. Investigations may be initiated because of allegations or referrals from:

- FCA employees or contractors
- Congress
- OIG audits, inspections, or evaluations
- OIG Hotline
- The public
- OIG's proactive efforts directed at areas bearing a high potential for fraud, waste, abuse, and mismanagement

The OIG conducts all investigations in accordance with CIGIE's *Quality Standards for Investigations*. Closing memoranda for OIG investigations are available on our [website](#). This reporting period we processed 20 complaints, including five borrower rights-type complaints, which we referred to the OCPA or the Office of General Counsel (OGC). We conducted two preliminary investigations and one formal investigation. The formal investigation was based on complaints received during the prior reporting period.

- The OIG had no reported allegations of whistleblower retaliation.
- No investigative matters were referred to prosecutorial authorities that resulted in prosecutions or convictions.

Investigations

Investigations

Priorities

The OIG is committed to conducting fair, thorough, and timely investigations. Our work products will be clear, focused, and factual reports of investigation. It is also our goal to guard the confidentiality of all with whom we interact in the investigative process to the extent possible permitted by the law.

The OIG renewed its shared services IAA with TIGTA for investigative support services for FY 2019. Our priorities are focused on enhancing our outreach to the Agency through training and townhall meetings, and updating our investigations manual, procedures, and files.

Outreach

This reporting period we presented to OE management and staff the role of the OIG, our approach to investigations, and ways to report suspected fraud, waste, abuse, and gross mismanagement.

Complaint Activity

We received 20 complaints this reporting period as follows:

- Five complaints were from System borrowers and were referred to the OCPA or the OGC.
- Twelve complaints involved matters outside the jurisdiction of the OIG and were closed or referred to other federal agencies. A “no jurisdiction” response was sent to each of the complainants.
- One complaint alleged a potential breach of FCA data by parties outside the Agency and was found to be unsubstantiated.
- One complaint alleged the Agency did not properly respond to a borrower rights complaint. We conducted a preliminary investigation and found the complaint to be unsubstantiated, finding the Agency substantially followed policy and procedures in responding to the borrower rights complaint.
- OIG received an anonymous complaint regarding dual compensation waivers being used for certain positions in the Agency. We conducted a preliminary investigation and found the complaint to be unsubstantiated, finding appropriate authorities were in place for the waivers.

Investigations

Investigative Activity

We conducted and closed one formal investigation concerning a senior government employee based on two complaints with similar allegations that we received during the prior reporting period. We investigated eight allegations concerning the performance of the subject's official duties, including: creating a hostile work environment through harassment and retaliation, engaging in prohibited personnel practices, violating provisions of the Federal Travel Regulations, instructing staff to disregard the instructions of a contracting officer in a competitive procurement, and purchasing and abandoning IT software that amounted to a gross waste of Agency funds. One finding of potential criminal violations involving voucher reimbursements was declined by the U.S. Department of Justice on July 20, 2018. The OIG issued Report of Investigation (ROI) #18-01 on August 3, 2018 to management for consideration of administrative or disciplinary action. We requested a response within 90 days, which is due from the Agency on November 1, 2018. We did not disclose the findings of the investigation to the public. After we issued the ROI, we posted a closing memorandum on our website summarizing the allegations that we investigated.

The table below is a summary of investigative activity during the reporting period.

Table 4: Investigative Activity	
A. Total number of investigative reports issued during the reporting period	1
B. Total number of persons referred to the Department of Justice for criminal prosecution during the reporting period	1
C. Total number of persons referred to state and local prosecuting authorities for criminal prosecution during the reporting period	0
D. Total number of indictments and criminal informations during the reporting period that resulted from any prior referral to prosecuting authorities	0

Legislative and Regulatory Reviews

Summary

As required by section 4(a)(2) of the IG Act, the OIG routinely reviews existing and proposed legislation and regulations relating to programs and operations of FCA. The OIG makes recommendations concerning the impact of such law on the economy and efficiency in the administration of programs and operations or the prevention and detection of fraud, waste, abuse, and mismanagement.

This past reporting period, the OIG continued to review and provide comments and analysis on existing and proposed cross-cutting legislation and regulations through our participation in the Legislation Committee and various CIGIE committees.

Legislation

Through our participation in the Legislation Committee, we tracked various legislative initiatives, including IG testimonial subpoena authority; an appropriation for Oversight.gov and other related IT services; a bill aimed at improving the government's customer service; a bill requiring agencies to report information about open recommendations in their budget justifications; a proposal to require IGs to disclose subjects of ongoing investigations in their semiannual reports to Congress; a bill reauthorizing and amending the OIG whistleblower ombudsman position; and how IGs oversee and report on improper payments. We also tracked recommendations to reform the Program Fraud Civil Remedies Act.

Legislative and Regulatory Reviews

FCA Board Approved Actions

- Final Rule on Farmer Mac Investment Eligibility (September 13, 2018)
- Revised Bookletter on Farm Credit Bank and Association Nominating Committees (September 13, 2018)
- FCA Revised FY 2019 and FY 2020 Budgets (September 5, 2018)
- Revised FCA Board Policy Statement on Equal Employment Opportunity and Diversity (September 4, 2018)
- FCA 2018 Abstract of the Unified Agenda of Regulatory and Deregulatory Actions and Fall 2018 Regulatory Project Plan (July 20, 2018)
- Proposed Rule on Eligibility Criteria for Farm Credit System Bank and Association Outside Directors (July 12, 2018)
- FCA Strategic Plan for FYs 2018-2023 (June 27, 2018)
- Final Rule on Farm Credit System Banks and Associations Investment Eligibility (May 10, 2018)
- Proposed Rule on Farm Credit System Banks and Associations Standards of Conduct (May 10, 2018)

Reporting and Outreach

Congress

We had no interaction with Congress this reporting period.

IG Community

OIG staff members are encouraged to take part in organizations that contribute to the mission of the IG community and their individual professional development.

The IG is a member of CIGIE and serves on the CIGIE Legislation Committee and the Small and Unique Agency IGs working group. She attended the Annual CIGIE IG Conference on *Leveraging Diverse Talents in a Changing Federal Environment* in May 2018, which was held in Lancaster, Pennsylvania. The conference was educational and provided a welcoming forum to get to know other Inspectors General.

The senior auditors and investigator also participate in CIGIE workgroups. One auditor attends local Information Systems Audit and Control Association (ISACA) meetings and participates on CIGIE's Audit Committee and the IT Subcommittee of the Federal Audit Executive Council. Another auditor is a member of the CIGIE Roundtable on Inspections and Evaluations and is an adjunct instructor for CIGIE's Training Institute. Another auditor served as a member of the IG Act Commemoration Working Group. Our investigator participates in the Assistant IG for Investigations Committee.

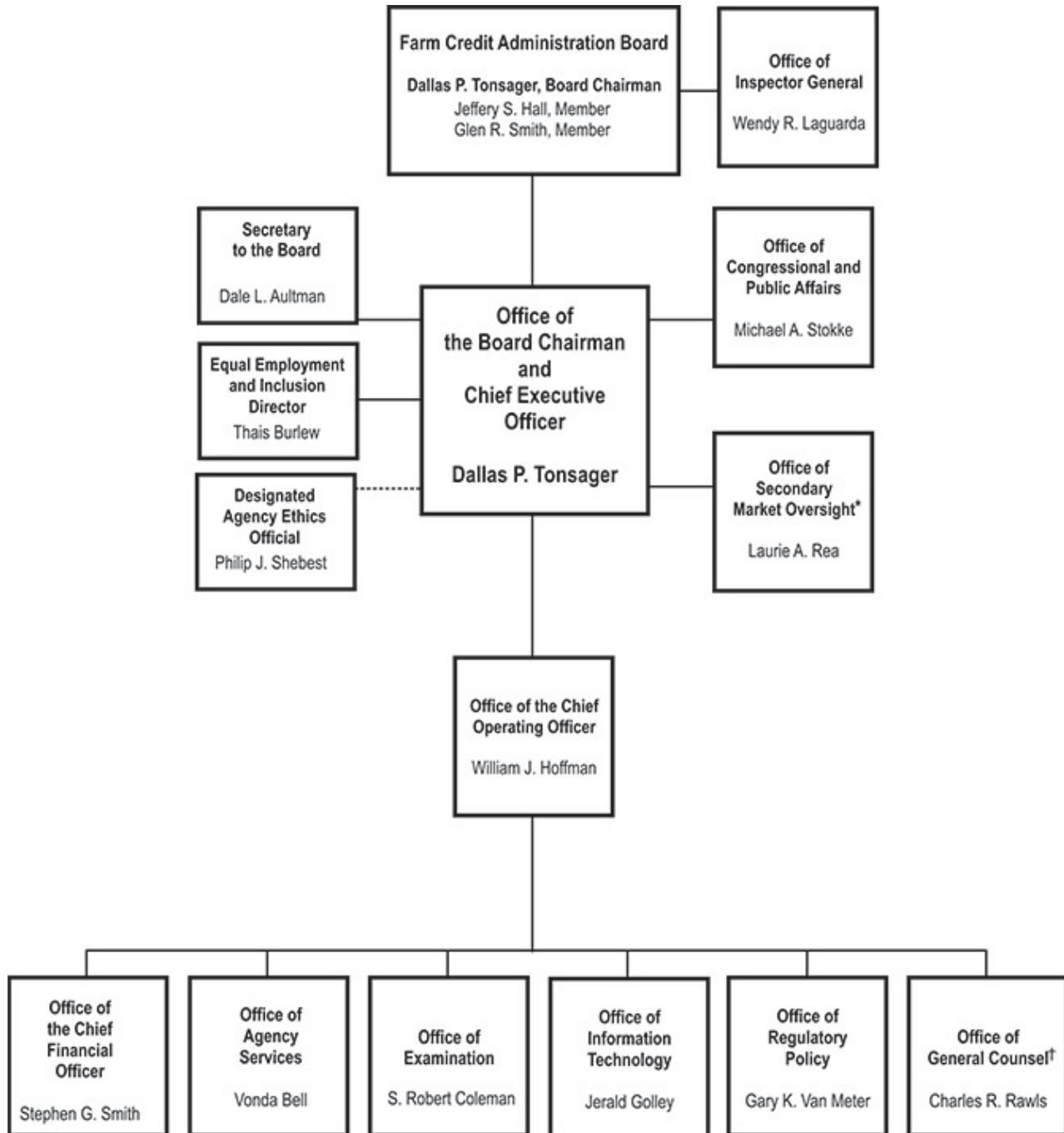
FCA

The OIG started a new outreach initiative by launching an internal, quarterly newsletter, the *dIG*, to FCA employees explaining the role of the OIG and how the OIG performs its work, including examples of fraud, waste, abuse, and mismanagement in government, and other topics. We issued two quarterly newsletters this reporting period. The IG also reports quarterly to the FCA Board and as needed.

The OIG participated in two new employee training sessions, met with the OE management team, and presented at the all-staff OE conference this September in Seattle. All presentations focused on the OIG mission and philosophy.

Appendix A: FCA Organizational Chart

FCA ORGANIZATIONAL CHART



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

†Maintains a confidential advisory relationship with each of the Board members.

Appendix B: Peer Review

Summary

Periodically, the audit, inspection, evaluation, and investigation programs of OIGs are peer reviewed by external OIG members. The purpose of these external reviews is to provide an additional level of assurance that every OIG conducts its audits, inspections, evaluations, and investigations in compliance with applicable professional standards. This reporting period, the OIG completed an external peer review of the EXIM OIG's inspection and evaluation program.

Audit

Government Auditing Standards require an external peer review every three years. During this reporting period, the FCA OIG did not have an external peer review of its audit function. The [last peer review of our audit operations](#) was completed by the Federal Labor Relations Authority (FLRA) OIG in August 2016 for the year ending on March 31, 2016. The FLRA OIG concluded that our system of quality control for the audit organization was suitably designed and complied with to provide reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. We received the highest rating of *pass*, and FLRA OIG did not make any recommendations for improvement.

The next audit peer review of our office is scheduled for the period ending March 31, 2019. We did not complete any audit peer reviews of other OIGs during this reporting period.

Inspections & Evaluations

Recently, CIGIE membership adopted a new peer review requirement for OIGs that perform inspections and evaluations in accordance with CIGIE's *Quality Standards of Inspection and Evaluation* (Blue Book). One senior auditor assisted CIGIE in implementing this new requirement. The senior auditor is a member of the peer review implementation team.

During this reporting period, we completed an inspection and evaluation peer review of the EXIM OIG. The review team included a lead from our office and a team member from the Corporation for National and Community Service OIG. The review team determined that the EXIM OIG's policies and procedures generally met the seven Blue Book standards addressed in the external peer review. In addition, the two reports reviewed by the review team generally met the Blue Book standards and complied with EXIM OIG's internal policies and procedures. The review team made five recommendations in the report, which are all closed based on actions implemented in response to the peer review.

The first inspection and evaluation peer review of our inspection and evaluation function is scheduled for the period ending June 30, 2019.

Appendix B: Peer Review

Investigations

CIGIE's *Qualitative Assessment Review Guidelines for Investigative Operations of Federal Offices of Inspector General* established an independent external evaluation process for investigative operations. The objective of the investigation peer review is to determine whether internal control systems are in place and operating effectively to provide reasonable assurance that an OIG's investigative operations comply with CIGIE's *Quality Standards for Investigations*.

FCA OIG is reinitiating the investigative peer review process of our investigation program. We have volunteered to participate in a peer review of our investigation function within the next few years.

Appendix C: Management Decisions

Management Decisions

Status of Recommendations with No Management Decisions

All recommendations were agreed upon by management. Therefore, there were no recommendations more than six months old with outstanding management decisions.

Significant Revised Management Decisions

There were no significant revised management decisions during this reporting period.

Agreement with Significant Management Decisions

All recommendations were agreed upon by management. Therefore, there were no significant management decisions with which the OIG disagreed during this reporting period.

Reports for Which No Agency Comment Was Returned Within 60 Days

There were no audit, inspection, or evaluation reports issued where comments were received after 60 days of providing the report to the Agency during this reporting period.

Instances Where the Agency Unreasonably Refused or Failed to Provide Information to the OIG or Attempted to Interfere with OIG Independence

There were no instances where the Agency unreasonably refused or failed to provide information to the OIG or attempted to interfere with the independence of the OIG during this reporting period.

Appendix D: Index of Reporting Requirements

SECTION	REQUIREMENT	PAGE
4(a)(2)	Review of legislation and regulations	28-29
5(a)(1)	Significant problems, abuses, and deficiencies	12
5(a)(2)	Recommendations for corrective action	12-15
5(a)(3)	Prior recommendations not yet implemented	20-21
5(a)(4)	Matters referred to prosecutive authorities	27
5(a)(5)	Information unreasonably refused or not provided	34
5(a)(6)	List of audit, inspection, and evaluation reports issued	12
5(a)(7)	Summaries of significant reports issued	13-19, 22-24
5(a)(8)	Management decisions with respect to questioned costs	20
5(a)(9)	Management decisions on recommendations that funds be put to better use	20
5(a)(10)(A)	Audit reports for which no management decision has been made	34
5(a)(10)(B)	Audit reports for which Agency comments were not received within 60 days of report issuance	34
5(a)(10)(C)	Audit reports with unimplemented recommendations	20-21
5(a)(11)	Significant revised management decisions	34
5(a)(12)	Significant management decisions with which the IG disagreed	34
5(a)(13)	Compliance of Agency financial management system	19
5(a)(14)(15)	Peer reviews conducted of this OIG	32-33
5(a)(16)	Peer reviews conducted by this OIG	32
5(a)(17)(18)	Statistical tables for investigations and referrals	26-27
5(a)(19)	Investigations involving a senior government employee where allegations of misconduct were substantiated	25
5(a)(20)	Instances of whistleblower retaliation	25
5(a)(21)	Instances of attempts to interfere with IG independence	34
5(a)(22)(A)	Closed audits, inspections, and evaluations not disclosed to the public	14-15
5(a)(22)(B)	Closed investigations involving a senior government employee not disclosed to the public	27
845	Significant contract audits required to be reported under National Defense Authorization Act for FY 2008 (Pub. L. 110-181)	N/A ²

² FCA OIG does not conduct contract audits. Therefore, we did not include this annex.

**FARM CREDIT ADMINISTRATION
OFFICE OF INSPECTOR GENERAL**



Phone: Toll Free (800) 437-7322; (703) 883-4316

Fax: (703) 883-4059

E-mail: fca-ig-hotline@rcn.com

Mail: Farm Credit Administration
Office of Inspector General
1501 Farm Credit Drive
McLean, VA 22102-5090