

Office of Inspector General

Semiannual Report
to the Congress

October 1, 1990
through
March 31, 1991



Farm Credit Administration

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



April 30, 1991

The Honorable Harold B. Steele
Chairman of the Board and
Chief Executive Officer
Farm Credit Administration
McLean, Virginia

Dear Mr. Steele:

This semiannual report is submitted in accordance with the Inspector General Act of 1978, as amended in 1988, (Act) and is the fourth report on the activities of FCA's Office of Inspector General (OIG) since the office was created on January 22, 1989. The reporting period is from October 1, 1990 through March 31, 1991. The Act requires that you submit this report to the appropriate congressional committees and subcommittees within 30 days, together with your report as prescribed by Section 5(b) of the Act.

The policies, procedures and practices of OIG have continued to evolve during this period and our present interdisciplinary audit staff is now appropriate to meet our audit objectives. During this reporting period, however, our ability to efficiently perform audits and investigations was diminished by misunderstanding and non-acceptance of the role of OIG within FCA by certain managers. I have elevated my concerns about these problems to you and we have opened a dialogue which I anticipate will lead to an appropriate resolution.

Our mutual goal is that FCA be an effective regulator and a good steward of all its resources. The OIG's independent evaluations are vital to effective management of FCA and the public's trust in FCA's programs. Your understanding and support is vital to OIG's ability to fulfill its mission. I look forward to the continued development of our working relationship as we strive for the highest levels of integrity and efficiency in FCA's programs and activities.

Respectfully,

A handwritten signature in cursive script, appearing to read 'Eldon W. Stoehr', is written over a horizontal line.

Eldon W. Stoehr
Inspector General

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INTRODUCTION

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 with a FY 1991 budget of \$40,290,000 and approximately 550 employees. Approximately half of FCA's personnel are examiners who are stationed at nine field offices throughout the country. Appendix II displays the current organizational structure of FCA and the Office of Inspector General (OIG) within that structure.

FCA is a "designated Federal entity" within the meaning of the Inspector General Act of 1978, as amended in 1988 (Act). The Inspector General is appointed by and reports to the Chairman of the FCA Board.

MISUNDERSTANDING OF OIG'S ROLE AND AUTHORITY

OIG's role within FCA is neither understood nor accepted by some agency managers. Delays and inefficiencies resulting from challenges to OIG's authorities have impaired the efficiency and effectiveness of OIG during the performance of audit and investigative activities.

During OIG evaluations and investigations, some FCA management and employees have delayed, interfered with and/or obstructed OIG's audit activities through: 1) frequent challenges of OIG's authority to audit or investigate certain FCA programs or activities; 2) frequent challenges to OIG's authority to obtain records or interview FCA employees; and 3) failure to meet with OIG to discuss a draft audit report to validate its factual accuracy.

OIG has discussed these matters with the Chairman who has stated that he supports the independence of the Inspector General and is interested in taking action to increase FCA managers' understanding and acceptance of the role and authorities of OIG.

AUDIT 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.

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

FCA's Monitoring of System Institutions. This evaluation concluded that the Office of Examination had appropriately emphasized the importance of on-going monitoring of Farm Credit System institutions; however, more formal guidance to examiners was needed to assure that expectations are consistently met. The Office of Regulatory Enforcement needed to strengthen its procedures and practices for, and documentation of, monitoring activities. Coordination of monitoring activities between these offices should also be improved.

Management decisions have been reached on each of the four recommendations contained in this report.

PROGRESS IN IMPLEMENTING CORRECTIVE ACTIONS

It has become more apparent during this reporting period that there are some problems with management's timely correction of audit recommendations. There are, as of March 31, 1991, seven audit reports containing a total of 51 open recommendations. Management decisions have not been made for the following two audit recommendations even though the report on FCA's Accounting System was issued on June 27, 1990:

- Create a chief financial officer/controller position reporting directly to the Chairman with responsibility for all financial accounting, budgeting and reporting by the agency.
- Prepare FCA's financial statements on a GAAP basis and have them audited by an independent CPA firm.

The Chairman has indicated that he is considering these two recommendations together but has deferred making a management decision on them pending the decision about the Farm Credit System Insurance Corporation's (FCSIC) administrative relationship with FCA. That decision was made at FCSIC's December 18, 1990 board meeting.

Corrective action for 25 of the remaining open recommendations was scheduled for completion during this reporting period; however, only 4 of the 25 actions were actually completed. Office directors unilaterally rescheduled later completion dates for 10 of those recommendations without consultation with the Inspector General nor is there any evidence that the Chairman or Audit Followup Official approved those date changes. Corrective action on 5 open recommendations is not due until after this reporting period. The management decision for corrective action on 21 recommendations does not specify a due date.

Some of the above open recommendations are directed at significant weaknesses in FCA's accounting system and property management system which we have noted in the past two semiannual reports. Some progress has been made towards completing the accounting system; however, there is no evidence of any progress to develop and implement a property management system even though the office director was committed by the management decision to implement that system by October 1989.

INVESTIGATION OF MATTERS INVOLVING FCA PERSONNEL, PROGRAMS AND OPERATIONS

Six preliminary investigations were opened during this semiannual reporting period. A review of one of these matters resulted in our referring it to another agency for investigation. Another of these matters was referred to our office from the Inspector General of the National Guard and we have requested the complainant to furnish additional information.

Three investigative matters which were opened during the second semiannual reporting period have been closed. One was investigated but the evidence failed to substantiate the allegations. The other two matters were closed because the original complaints were too general to pursue and the complainants have failed to respond to our request for specific information. The investigations will be reopened if we subsequently receive sufficient information to warrant further investigation.

There are presently nine open investigations. The nature of the five preliminary investigations opened during this reporting period and which are being actively pursued, are summarized below in accordance with Section 8E(h)(2)(C) of the Act:

- a) Two separate allegations involved FCA personnel believed to be involved in violations of Standards of Conduct. One of these investigations is complete and a report has been sent to the agency ethics official for appropriate action. The other investigation is ongoing.
- b) Two allegations involved insider dealings or improper transactions within Farm Credit System institutions. Information is being sought with respect to these allegations. OIG has requested FCA examiners to assist by gathering documents from the regulated institution.
- c) One issue involving a potential violation of merit system principles and personnel regulations was raised during an ongoing audit and is being investigated.

To date, no investigations have been referred to the Department of Justice for prosecutorial consideration.

REVIEW OF PROPOSED LEGISLATION AND REGULATIONS

Legislation

The Office of Inspector General strongly supports and endorses the concept of the chief financial officer for Federal agencies and has made an audit recommendation that FCA establish such an office. The Chief Financial Officers Act, Public Law 101-576, November 15, 1990, did not include FCA among the named agencies required to establish this office; however, we believe that FCA and other designated agencies should also be required to establish a chief financial officer to achieve the same financial management objectives.

The Food, Agriculture, Conservation and Trade Act of 1990, Public Law 101-624, November 28, 1990, had a significant impact on the FCA:

- Section 1840 of this Act amended the Farm Credit Act of 1971 to authorize the regulation, through examination and general supervision of the Federal Agricultural Mortgage Corporation and its affiliates, as defined.

- Section 1841 excluded the FCA from the Senior Executive Service.
- Section 1842 mandated a study by the Comptroller General of the United States to look at certain matters related to the cost and availability of credit in rural America. The OIG will volunteer to coordinate in this endeavor.
- Section 1838 allowed a specific institution to exit the Farm Credit System without regard to specific provisions of the Farm Credit Act of 1971, as amended.

Regulations

During this reporting period, the OIG reviewed proposed FCA regulations concerning: (1) apportionment of assessments of Farm Credit System institutions for annual FCA administrative expenses; and, (2) a draft regulation to delete a requirement for the FCA to prior approve salaries for Farm Credit System banks chief executive officers, salary ranges for bank senior officers, and compensation plans other than retirement and thrift plans.

AUDIT REPORTS ISSUED BY FCA OIG
October 1, 1990 to March 31, 1991

<u>Reports</u>	<u>Questioned Costs</u>	<u>Recommendations That Funds Be Put To Better Use</u>
Monitoring of System Institutions November 11, 1991	<u>0</u>	<u>0</u>
Total (1 Report)	<u>0</u>	<u>0</u>

**INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED COSTS**

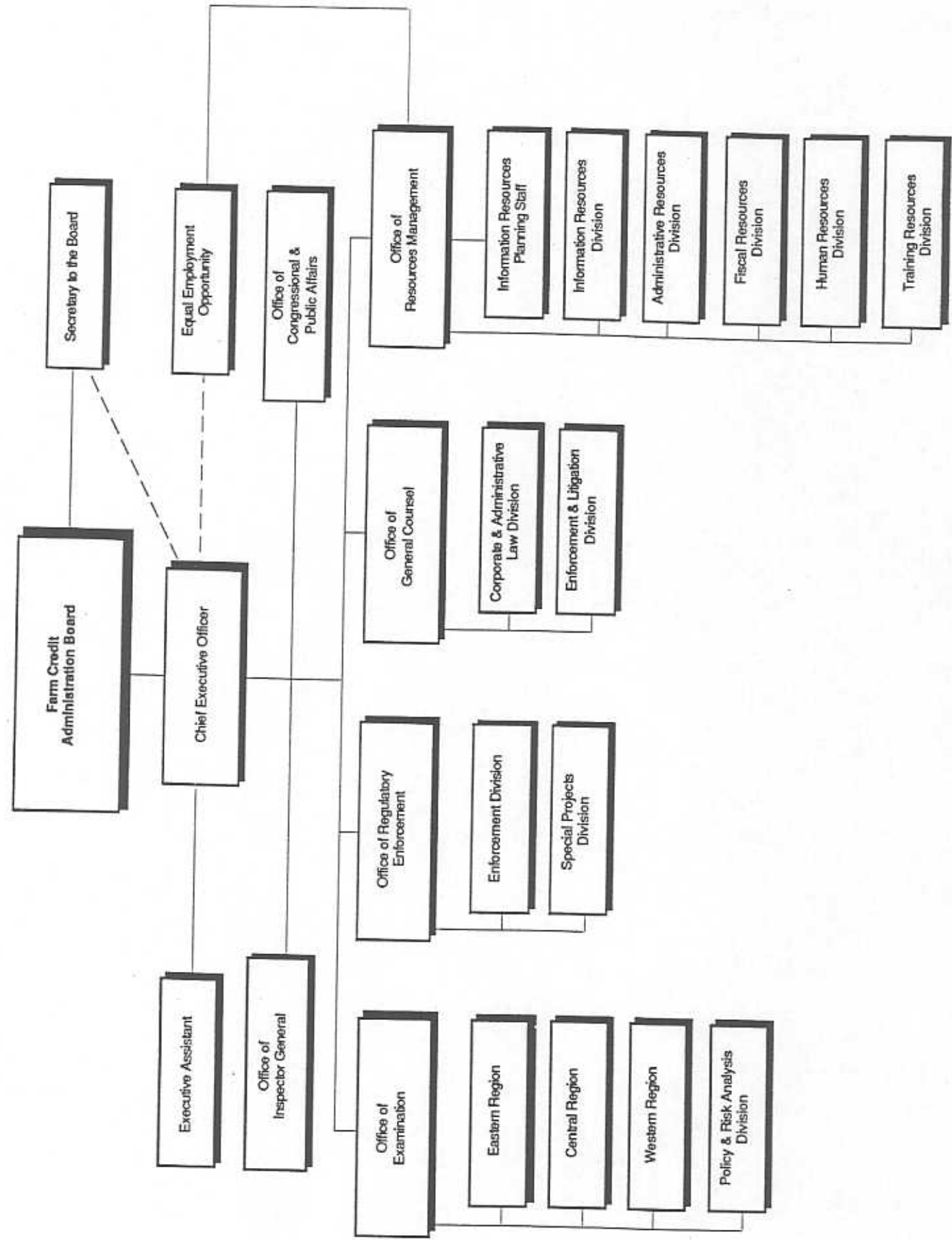
	<u>Number</u>	<u>Dollar Value</u> (in thousands)	
		<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision has been made by the commencement of the reporting period	<u>0</u>	<u>0</u>	<u>0</u>
B. Which were issued during the reporting period	<u>0</u>	<u>0</u>	<u>0</u>
Subtotals (A + B)	<u>0</u>	<u>0</u>	<u>0</u>
C. For which a management decision was made during the reporting period	<u>0</u>	<u>0</u>	<u>0</u>
i) dollar value of disallowed costs	<u>0</u>	<u>0</u>	<u>0</u>
ii) dollar value of costs not disallowed	<u>0</u>	<u>0</u>	<u>0</u>
D. For which no management decision has been made by the end of the reporting period	<u>0</u>	<u>0</u>	<u>0</u>
Reports for which no management decision was made within six months of issuance	<u>0</u>	<u>0</u>	<u>0</u>

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

	<u>Number</u>	<u>Dollar Value</u> (in thousands)
A. For which no management decision has been made by the commencement of the reporting period	<u>0</u>	<u>0</u>
B. Which were issued during the reporting period	<u>0</u>	<u>0</u>
Subtotals (A + B)	<u>0</u>	<u>0</u>
C. For which a management decision was made during the reporting period	<u>0</u>	<u>0</u>
i) dollar value of disallowed costs	<u>0</u>	<u>0</u>
ii) dollar value of costs not disallowed	<u>0</u>	<u>0</u>
D. For which no management decision has been made by the end of the reporting period	<u>0</u>	<u>0</u>
Reports for which no management decision was made within six months of issuance	<u>0</u>	<u>0</u>

James B. Seach
Chairman
October 1, 1990

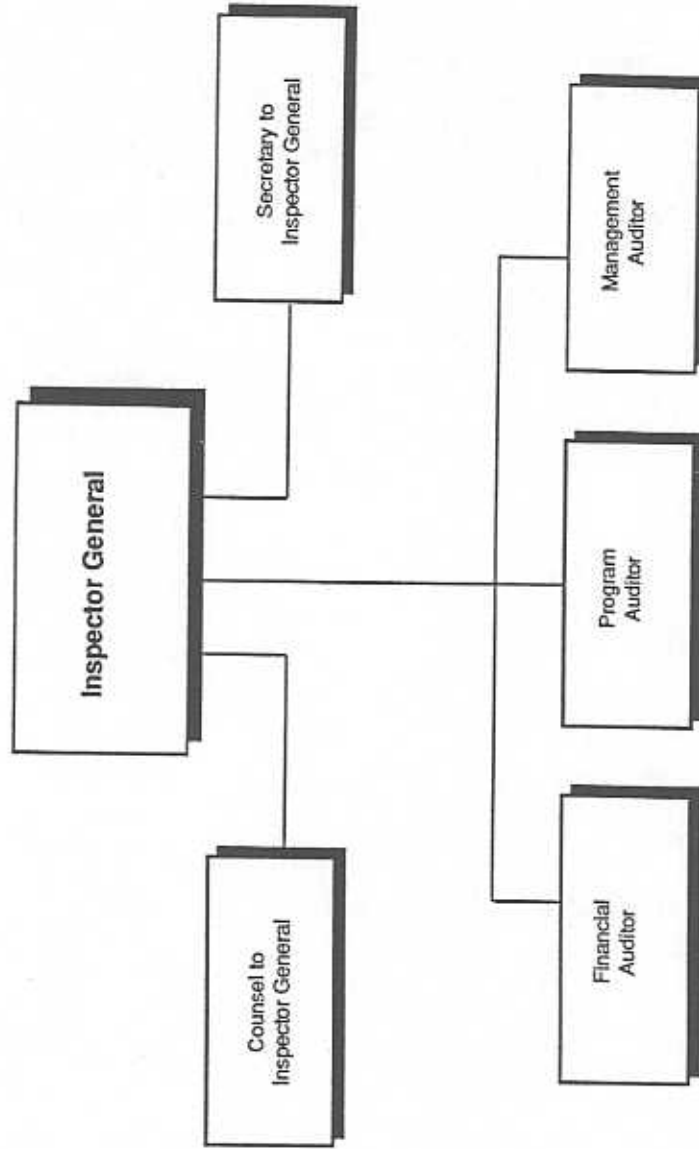
Farm Credit Administration



Eldon W. Stoehr

Eldon W. Stoehr, Inspector General
October 25, 1990

Farm Credit Administration
Office of Inspector General



HOTLINE

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or write

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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.