

Office of Inspector General

Semiannual Report
to the Congress

October 1, 1991
through
March 31, 1992



Farm Credit Administration

Office of Inspector General
1501 Farm Credit Drive
McLean, Virginia 22102-5090
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April 30, 1992

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 sixth report on the activities of the Farm Credit Administration's Office of Inspector General (OIG) since the office was created on January 22, 1989. The reporting period is from October 1, 1991 through March 31, 1992. 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.

This report demonstrates that OIG continues to maintain a productive operation. The General Accounting Office report received during this period confirms that OIG audit practices and products comply with professional standards. Our audit reports have identified numerous opportunities for management to improve program performance and integrity in a more efficient and effective manner. OIG could be even more effective if the CEO and agency management would constructively consider OIG conclusions and recommendations.

My staff and I will continue to provide you with our best professional analysis and judgement 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', 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 operating under an FY 1992 congressionally imposed spending limitation of \$40,290,000, and currently has 513 established positions. Approximately half of FCA's personnel are examiners located 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 (Inspector General Act). The Inspector General is appointed by and is under the general supervision of the Chairman of the FCA Board.

RETALIATION AGAINST THE INSPECTOR GENERAL

The Chairman and certain managers have been unwilling to accept the Inspector General's role and authority and have retaliated against the Inspector General. The last semiannual report described punitive actions taken by the Chairman. Specifically, the Chairman used false information in rating the Inspector General's FY 1990 performance "minimally successful", significantly reduced the salary of the Inspector General compared with other FCA office directors, and reduced the OIG FY 1991 budget when all other office budgets were increased. To date, those issues have not been resolved.

The Chairman has not withdrawn his FY 1990 evaluation of the Inspector General's performance even though a General Accounting Office (GAO) audit report concluded that the evaluation was invalid. The Chairman has failed to evaluate the Inspector General's FY 1991 performance at all and, based upon that failure, did not adjust the Inspector General's salary when FCA's new compensation program was implemented.

The gap between the Inspector General's salary and salaries of other FCA office directors has significantly widened. Prior to the Chairman's FY 1990 evaluation, only one of the five other FCA office director's salary was higher (by \$2,200) than the Inspector General's. Now, the Inspector General's salary is \$16,120 to \$41,760 (average \$25,516) below those of other FCA office directors. The salaries of at least fourteen other FCA staff have also been raised above the Inspector General's salary.

The OIG budget for FY 1992 is adequate; however, OIG has been prevented from filling the new investigator position approved by that budget. OIG was not notified of its approved budget (including position authority) until December of 1991; then the agency put the processing of all new positions on hold until FCA's new compensation program was implemented; and now the Chairman has put a hiring freeze on all vacant positions until he decides how to implement the recommendations of the congressionally requested management report described below. The Chairman has not acted on an OIG request for an exemption

from this freeze even though the management report made no recommendations that effect OIG. This restriction on filling an established OIG position infringes on the independent personnel authority contemplated by the Inspector General Act.

OIG ACCESS TO RECORDS

The past two semiannual reports have described problems in carrying out the intent of the Inspector General Act because the Chairman and certain agency managers have delayed and obstructed audit and investigative activities of the OIG. This delay and denial of OIG access to agency records and information has continued into this reporting period. The majority of the Inspector General's monthly status reports and bi-weekly briefing memoranda to the Chairman during this period reported broad areas or specific incidences in which FCA management was not providing requested information to OIG.

The Chairman did finally issue a memorandum to agency office directors requesting office directors to cooperate with OIG in furnishing requested information and, separately, directed them to route draft FCA regulations to OIG for review and comment. He also interceded to resolve a specific problem involving a program manager's refusal to provide documents requested by OIG. These are positive actions by the Chairman which should prospectively alleviate this problem. The Chairman must now monitor the manager's actions and hold them accountable to provide OIG with information as intended by the Inspector General Act. It is too early to judge whether or not the problem has been cured.

The Chairman also arranged with the President's Council on Integrity and Efficiency for a panel of three Inspectors General to meet with FCA managers to discuss the role and authorities of Inspectors General under the Inspector General Act.

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.

Four final audit reports were issued during this reporting period and are summarized below:

Examination Planning This audit found that the Office of Examination (OE) has a well organized planning function, reliable management information system, and adequate controls over examination resources and operations. However, we concluded that examination planning would improve if management would more clearly define and communicate examination priorities, and, in some cases, examination plans should include more specific objectives, steps and procedures and, conversely, less general language and redundancy.

Sensitive Payments This audit evaluated the FCA Board and senior management's compliance with appropriate legal and ethical considerations in contracting and consulting services, travel, official entertainment funds, gifts and honoraria, and FCA's relationship with the Farm Credit System Building Association. We found that a lack of controls over non-competitively awarded consulting contracts created the appearance of a conflict of interest; non-compliance with Federal procurement regulations; and no assurance that the agency received the best price from the most qualified individuals. We also found that 1) additional documentation, policies and procedures and oversight of Board travel is needed to ensure that expenses are necessary and proper; 2) poor controls over the Board's official reception and representational expenses resulted in the agency exceeding the FY 1990 spending limitation; and 3) the current landlord/ tenant relationship between FCA and Farm Credit System Building Association is not supported by a written agreement establishing the rights and responsibilities of the parties, nor does it document the nature and value of services furnished to FCA by the Building Association.

Policy and Risk Analysis Division (PRAD) This audit was requested by management to refine the ongoing structure, policies, procedures and controls for this newly established division. We found that the PRAD structure was generally appropriate, although some inconsistencies existed. More importantly, sufficient internal operating procedures had not yet been implemented to permit meaningful analysis of the actual use of staff resources or project results. Recommendations were made to adopt written operating policies and procedures already drafted; amend regulations to eliminate contradictions in organizational duties; and, improve planning and monitoring activities through more specific time and project records.

Cash and Debt Management This audit concluded that FCA could reduce its regulatory cost to the Farm Credit System by at least \$150,000 annually by improving its investment practices. Additional savings could be realized if FCA defined its liquidity requirements and revised the assessment collection process. We also found that FCA's debt collection process is fragmented and the agency has not promulgated debt collection regulations; the agency is not in full compliance with the Prompt Payment Act; the agency's internal control review over cash and debt management was superficial; internal controls over cash receipt and disbursements need improvement; and a previous OIG audit recommendation for segregation of incompatible duties concerning cash had not been implemented as agreed to by management.

MANAGEMENT STUDY

Committee reports from both the House and the Senate accompanying the FY 1992 appropriations requested FCA to arrange for an independent review of the agency's operational and management structure with an emphasis on the efficient use of resources. Those requests were the result of complaints from Farm Credit System institutions about FCA's cost as a regulator because those institutions ultimately bear the costs. The report

from the consulting firm which performed this review was received by the agency on March 2, 1992. That report found that FCA was generally a well run organization but included the following recommendations:

- o Twenty-five positions can be eliminated which would save \$1.7 million per year beginning in FY 1992.
- o A major study should be made of the application of computer technology at FCA because, currently, FCA derives only limited benefits from the \$4.7 million it spends on computer technologies. The limited benefits stem essentially from the fact that hardware and software purchasing decisions are not supported by cost/benefit analyses; and, computer investment decisions are made without adequate consideration for how computer technologies can constructively affect FCA's activities.
- o A Chief Operating Officer position should be established and management systems controlling the use of agency resources should be enhanced. FCA is not subject to the usual external Government oversight mechanisms and FCA's internal accountability is diminished by weaknesses in planning and budgeting, and in management and control systems.

IMPLEMENTING CORRECTIVE ACTIONS

Management's failure to take timely action to implement audit recommendations has continued. The backlog of 87 unimplemented audit recommendations reported in the previous semiannual report has not been significantly reduced as there are still 76 open recommendations, 47 of which are now past the implementation date established by the management decision.

Certain managers have unilaterally amended due dates established by the management decision on audit recommendations as reported in our previous semiannual report. OIG is currently auditing the agency's audit followup program and practices and this issue will be addressed.

Two corrective actions are conspicuously overdue: 1) the development of a financial management system to remedy the serious and pervasive deficiencies in accounting, budgeting and reporting described in a 1989 audit report; and, 2) the development of a property management system, even though the management decision on this recommendation called for corrective action to be completed by October 1989.

The March 1992 consultant report requested by Congress highlights management's lack of response to OIG audit recommendations. An OIG audit report issued in May 1991 found that the development of major information systems by FCA were generally unsuccessful due to ineffective planning; that significant funds (about \$300,000) were wasted by unnecessary purchasing of hardware and software; and, that there was inadequate management control over personal computer hardware, software and components. FCA management disagreed with OIG's findings, denied that funds had been wasted and have been unresponsive to our

recommendations. Ten months later, the management consultant report questioned whether FCA benefits in any significant way from the \$4.7 million in annual expenditures for computer technology. The report states: 1) FCA hardware and software purchasing decisions are not being supported by cost/benefit analyses; and, 2) purchasing decisions are being made without adequate consideration for how those purchases will affect FCA activities. The consultant's report cited an additional \$300,000 year-end purchase of unneeded high speed printers to illustrate the problem.

MANAGEMENT DECISIONS ON AUDIT RECOMMENDATIONS

Management's failure to take timely corrective action on audit recommendations is rooted, at least partially, in FCA's decision making process, beginning with management's responses to the audit report. Audit responses have frequently lacked the required elements defined in OMB Circular A-50 which specifies: 1) comments indicating agreement on final reports shall include planned corrective actions and, where appropriate, dates for achieving actions; and, 2) comments indicating disagreement shall explain fully the reasons for disagreement. Where disagreement is based on interpretation of law, regulation, or the authority of officials to take or not take action, the response must include the legal basis. Even when management accepts the recommendation, it is frequently very difficult to track corrective action or determine when final action has occurred because management has not defined its action plan or committed itself to that plan.

The current audit followup official appointed by the Chairman does not meet OMB Circular A-50 criteria as a "top management official." Further, the audit followup official has personal responsibility for numerous administrative functions and is supervised by an FCA office director who has been particularly uncooperative and confrontational in dealing with the OIG.

INVESTIGATION OF MATTERS RELATING TO FCA PERSONNEL, PROGRAMS AND OPERATIONS

Seven preliminary investigations were initiated by OIG during this reporting period with the following results: 1) two of these matters were referred to the FCA office which routinely reviews borrower complaints; 2) one allegation of abuse of time and attendance rules by FCA employees was referred to management for disposition; 3) one allegation was referred to another Federal agency which had jurisdiction over the type of complaint involved; and, 4) one allegation did not include sufficient information to warrant an investigation but will be incorporated into an OIG audit.

Two of the remaining investigations initiated during this period remain open and active. One of these investigations involves pay and benefit compensation, and the other involves an automobile accident which occurred while an FCA employee was in official travel status.

Three investigations opened during previous semiannual reporting periods were closed during the current period. Seven investigations opened during prior periods remain open.

An investigation closed during the last reporting period disclosed improprieties and unfair advantage to a specific individual in FCA's use of its temporary hiring authority. At OIG's recommendation, this report was referred to the Office of Personnel Management for its further review. OPM agreed with the OIG conclusions but, both because the temporarily appointed employee was not at fault and because the agency asserted it had made program changes, declined further review of the matter. However, OPM stated that it will monitor subsequent temporary appointments by FCA.

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

REVIEW OF REGULATIONS AND LEGISLATION

Legislation

The OIG has continued to review and coordinate comments on pending legislation circulated through the legislative committee representative of the President's Council on Integrity and Efficiency. OIG has reviewed legislation concerning amendment to the Qui Tam statute. Also, OIG reviewed and commented on legislation concerning whistleblower protection for employees of federally regulated financial institutions. Finally, OIG reviewed two pending bills which would amend the Freedom of Information Act in a way which may hamper the investigative function as well as make the agency's role as a financial regulator more difficult.

Regulations

The OIG drafted a proposed regulation to exempt OIG criminal investigative files and investigative files of a nature other than criminal from provisions of the Privacy Act. The FCA Board approved this proposal and it was published in the Federal Register on March 13, 1992 for a 30-day comment period. We expect the system of records and the exemptions to the Privacy Act will be firmly in place for OIG investigative files during the upcoming semiannual period. 12 C.F.R. Part 603.

The following draft final regulations of the FCA were reviewed and comments furnished, as appropriate.

- o Conservatorships and Receiverships, 12 C.F.R. Part 611.
- o Appraisal Standards, Loan Participations and Lending Limits, 12 C.F.R. Parts 614 and 619.
- o Investments and Other Funding, 12 C.F.R. Part 615.
- o Eligibility and Scope of Financing; Nondiscrimination in Lending, 12 C.F.R. Part 613.

We also reviewed and commented on the issue paper on the proposed revision of OMB Circular A-50. Our comments on this draft expressed our concern that the audit followup official be at an appropriate level in the agency.

OTHER ACTIVITIES

An OIG information tracking system (ITS) was developed, tested and implemented. This system tracks: 1) the status of management's implementation of audit recommendations, 2) staff time for OIG's audit, investigation and special project activities; and 3) the continuing education credits earned by OIG staff. The system generates routine management reports and special reports for use in the semiannual report.

Policies and procedures for OIG's internal quality assurance over audit products (peer review) were developed and implemented.

A brochure describing OIG's audit processes as they relate to other FCA personnel was prepared, printed and the process of distribution to all FCA staff has begun.

The Inspector General continues to serve as the Chairman of the PCIE/Designated Agency OIG Committee on Peer Review and completed one review of another OIG during this period.

AUDIT REPORTS ISSUED BY FCA OIG
October 1, 1991 to March 31, 1992

Reports	Questioned Costs	Recommendations That Funds Be Put To Better Use
OE Examination Planning (November 25, 1991)	<u>0</u>	<u>0</u>
Sensitive Payments (December 11, 1991)	<u>0</u>	<u>0</u>
Review of the Policy Risk and Analysis Division (February 4, 1992)	<u>0</u>	<u>0</u>
Cash and Debt Management (February 14, 1992)	<u>0</u>	<u>150,000</u>
Total (4 Reports)	<u>0</u>	<u>\$ 150,000</u>

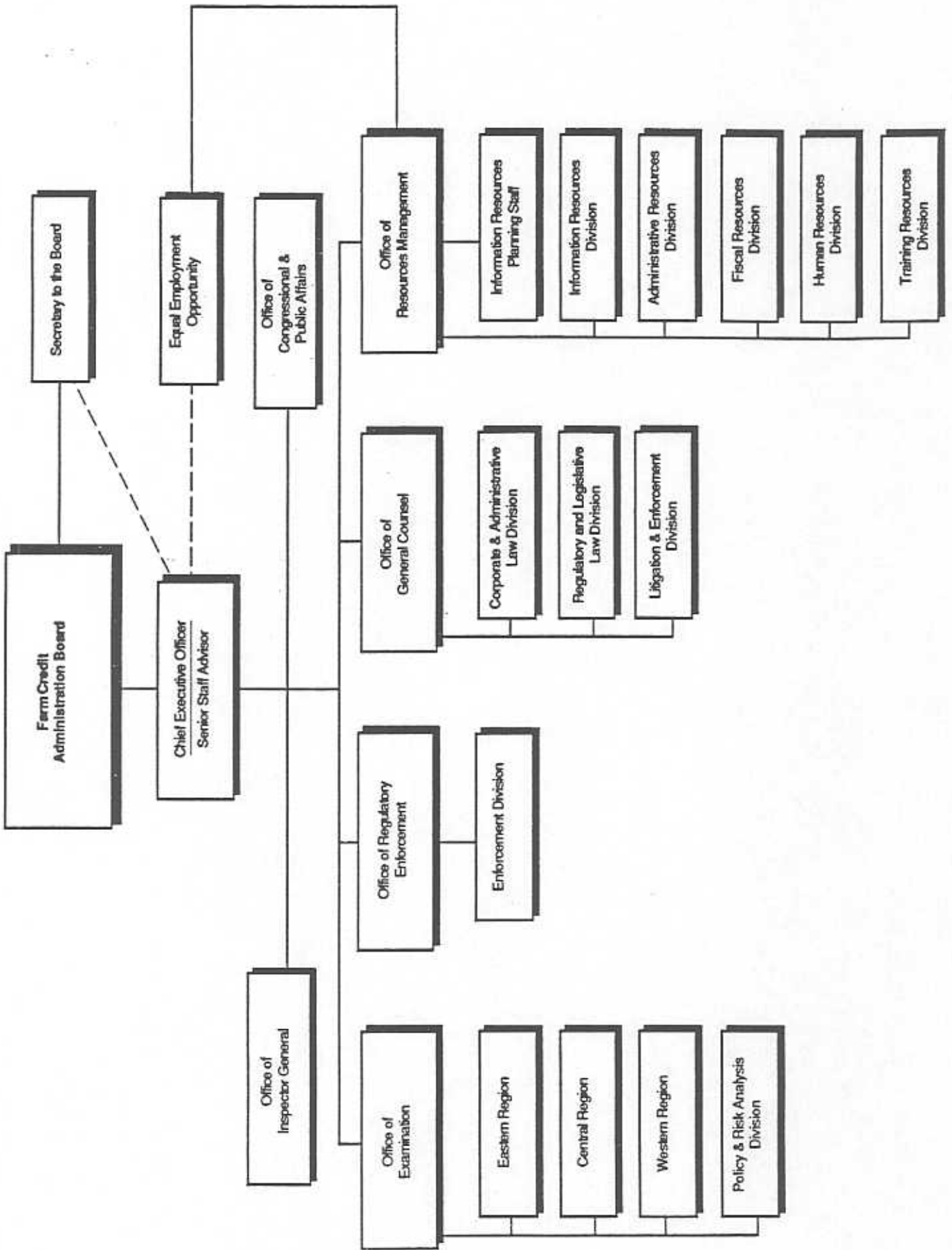
**INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED COSTS**

	<u>Number</u>	<u>Dollar Value</u>	
		<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>1</u>	<u>773,634</u>	<u>773,634</u>
B. Which were issued during the reporting period	<u>0</u>	<u>0</u>	<u>0</u>
Subtotals (A + B)	<u>1</u>	<u>773,634</u>	<u>773,634</u>
C. For which a management decision was made during the reporting period	<u>0</u>	<u>35,767</u>	<u>35,767</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>35,767</u>	<u>35,767</u>
D. For which no management decision has been made by the end of the reporting period	<u>1</u>	<u>736,867</u>	<u>736,867</u>
Reports for which no management decision was made within six months of issuance	<u>1</u>	<u>736,867</u>	<u>736,867</u>

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

	<u>Number</u>	<u>Dollar Value</u>
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>1</u>	<u>150,000</u>
Subtotals (A + B)	<u>1</u>	<u>150,000</u>
C. For which a management decision was made during the reporting period	<u>0</u>	<u>0</u>
(i) dollar value of recommendations that were agreed to by management	<u>0</u>	<u>0</u>
-- based on proposed management action	<u>0</u>	<u>0</u>
-- based on proposed legislative action	<u>0</u>	<u>0</u>
(ii) dollar value of recommendations that were not agreed to by management	<u>0</u>	<u>0</u>
D. For which no management decision has been made by the end of the reporting period	<u>1</u>	<u>150,000</u>
Reports for which no management decision was made within six months of issuance	<u>0</u>	<u>0</u>

Farm Credit Administration

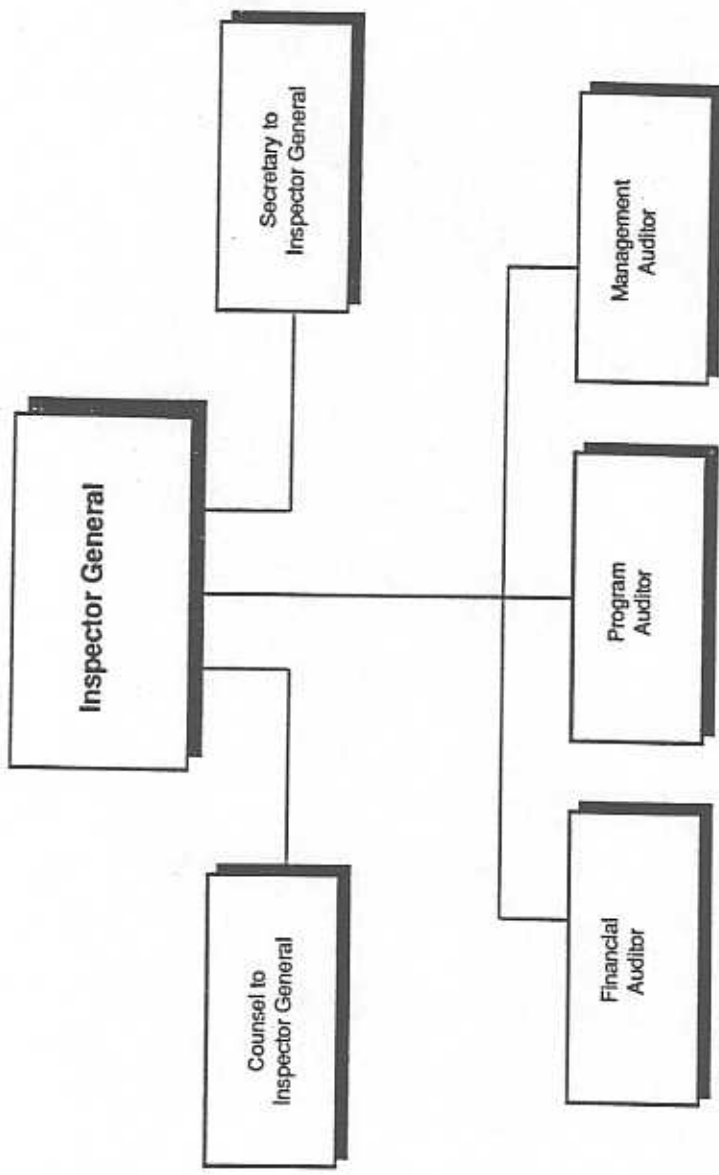


Harold S. Seel
 Chairman
 March 4, 1992

Eldon W. Stoehr

Eldon W. Stoehr, Inspector General
October 25, 1990

Farm Credit Administration
Office of Inspector General



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INFORMATION IS CONFIDENTIAL

REPORT: FRAUD, WASTE, ABUSE, MISMANAGEMENT

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However, each caller is encouraged to assist the Inspector General by supplying information as to how they may be contacted for additional information.