

Office of Inspector General

Semiannual Report
to the Congress

October 1, 1993
through
March 31, 1994



Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000



April 26, 1994

The Honorable Billy Ross Brown
Chairman of the Board and
Chief Executive Officer
Farm Credit Administration
McLean, Virginia

Dear Mr. Brown:

This semiannual report is submitted in accordance with the Inspector General Act of 1978, as amended (Act), and is the tenth 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, 1993 through March 31, 1994. Section 5(b) of the Act requires that you submit this report to the appropriate congressional committees and subcommittees within 30 days, together with your report.

This report reflects the positive effects of your support in fostering a proper relationship between the OIG and the rest of the agency. It also demonstrates the benefits of bilateral contributions to improved cooperation and better communication by the Inspector General and the Chief Operating Officer. While much remains to be done, I am pleased with the progress we have already made.

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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REPORTING REQUIREMENTS

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Section 4(a)(2)	Review of Legislation and Regulations 6
Section 5(a)(1)	Significant Problems, Abuses and Deficiencies 3
Section 5(a)(2)	Recommendations With Respect to Significant Problems, Abuses and Deficiencies None
Section 5(a)(3)	Prior Recommendations Not Yet Implemented 4-5
Section 5(a)(4)	Matters Referred to Prosecutive Authorities None
Section 5(a)(5) and 6(b)(2)	Summary of Instances Where Information Was Unreasonably Refused or Not Provided None
Section 5(a)(6)	List of OIG Audit Reports 7
Section 5(a)(7)	Summary of Each Particularly Significant Report 3-4
Section 5(a)(8)	Statistical Table on Management Decisions on Questioned Costs 8
Section 5(a)(9)	Statistical Table on Management Decisions on Recommendations That Funds Be Put to Better Use 9
Section 5(a)(10)	Summary of Each Audit Over 6 Months Old For Which No Management Decision Has Been Made 5
Section 5(a)(11)	Significant Revised Management Decisions None
Section 5(a)(12)	Significant Management Decisions With Which the Inspector General Disagrees None

BACKGROUND

The Farm Credit Administration (FCA) is an independent Federal agency of the United States Government responsible for the regulation, examination and supervision of institutions chartered under the Farm Credit Act of 1971. FCA is a non-appropriated agency operating under a congressionally imposed spending limitation of \$40,426,000 for FY 1994 administrative costs of the agency. The Office of Inspector General (OIG) has an authorized budget level of \$852,895 for FY 1994.

FCA currently has 440 established positions, about half of which are examiners located at nine offices throughout the country. Also included in the established agency positions are the seven approved positions for the OIG. Appendix II displays the current organizational structure of FCA and Appendix III displays the Office of Inspector General within that structure.

FCA is a "designated Federal entity" within the meaning of the Inspector General Act of 1978, as amended (Act). The Inspector General is appointed by and is under the general supervision of the Chairman of the FCA Board (Chairman).

CONSIDERABLE PROGRESS HAS BEEN MADE IN IMPROVING THE RELATIONSHIP BETWEEN THE OIG AND AGENCY MANAGEMENT

The Chairman, the agency's Chief Operating Officer (COO), and the Inspector General have all contributed to significant progress in improving cooperation and communication. Considerable time and attention was invested by these officials to create an appropriate climate to implement the Inspectors General Vision and Strategies to Apply Our Reinvention Principles.

Problem areas reported in the previous semiannual report have been resolved. Management's audit followup program was improved by the appointment of a senior manager as audit followup official and by the implementation of updated audit followup policies and procedures. Concurrently, the backlog of management decisions and final actions has been reduced and recommendations made during this reporting period have received more timely attention. The Inspector General's request for routine read-only access to FCA databases was granted.

The agency has also benefited by the collaboration of OIG and management on a number of management improvement initiatives, including the following:

- Development of a strategic planning process which links business and financial planning with the budget process and requires managers to submit performance measures with budget requests.
- The installation of a new financial management system.
- The preparation of auditable financial statements for FY 1994.
- The selection of an independent public accounting firm has been made to audit the FY 1994 financial statements.

- Cooperative development of both the agency's 1993 Federal Managers Financial Integrity Act (FMFIA) report to the President and Congress and the High Risk Report to the Office of Management and Budget (OMB) improved the disclosures of those reports and eliminated the disagreements that had existed concerning these reports in prior years.

SIGNIFICANT PROBLEMS AND DEFICIENCIES

The following areas are high-risk or pose a significant current problem to agency management. OIG places a high priority on these issue areas when planning its activities.

Deficient Financial Management Systems and Procedures Prior to FY 1994, FCA's financial systems were not integrated, lacked fundamental controls, and did not conform with OMB, General Accounting Office (GAO) and Treasury requirements. On October 1, 1993, the agency began implementation of a new, fully integrated financial management system to correct these problems. OIG has provided significant counsel and advice throughout the implementation process. Further, OIG has contracted with an independent public accounting firm to audit the agency's FY 1994 financial statements, including a conformance review of the new financial management system.

Inadequate Internal Control Systems FCA's deficiencies in planning and controls have been well documented in previous OIG reports and external evaluations. A significant number of actions have been initiated by the FCA Board and the COO to correct these deficiencies. OIG will continue to monitor and advise as these actions progress.

Downsizing FCA to Adjust to a Shrinking Farm Credit System and to Meet the Administration's Objective to "Do More with Less" The FCA Board and management are considering a variety of options to meet this objective. FCA is faced with difficult personnel and organizational issues related to reducing the size and cost of the agency. OIG will provide input concerning the efficiency and effectiveness of proposals to change the organizational structure and monitor the fairness and equity of related personnel issues.

AUDITS

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 audit report was issued during this reporting period and is summarized below:

FCA's Strategic Planning Process This audit concluded that the Chairman's strategic planning initiatives begun in 1990 moved FCA in a positive direction but progress was slow and results have fallen short of expectations. Specifically, the agency had not succeeded in developing a strategic plan; the planning process needed to be more adequately defined; and, roles and accountabilities for strategic planning were insufficiently defined.

INSPECTIONS

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

Two inspection reports were issued during this period and are summarized below:

Inspection of FCA's 1993 Federal Managers Financial Integrity Act (FMFIA) Report to the President and the Congress We concluded that the agency's 1993 report, although still having room for improvement, is markedly better than prior year reports and gives credence to the agency's commitment to comply with the intent of the OMB guidance; and, the agency is taking positive steps to improve the management control review process.

Inspection of FCA's Strategic Planning Process This inspection was initiated at management's request to review events which occurred subsequent to the audit described previously. We concluded that the agency's FY 1994 planning process and the resulting plan were generally well received by both managers and staff; many areas of improvement identified by managers and staff were already being addressed by agency officials; and, the agency is making progress towards implementing the Government Performance and Results Act of 1993 (GPRA) and we expect the agency to meet the requirements of GPRA by the required dates.

PRIOR RECOMMENDATIONS NOT YET IMPLEMENTED

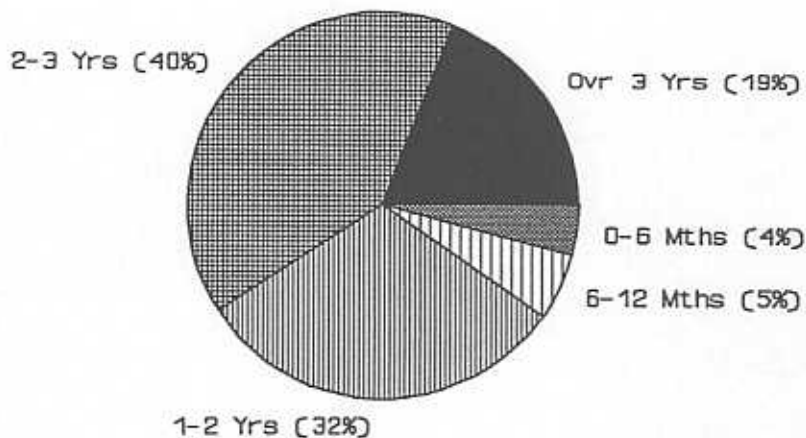
Illustration I summarizes the actions taken by management on recommendations made in audits and inspections, both for recommendations made during this reporting period as well as on unimplemented recommendations from prior periods. This illustration reflects management's progress in forging corrective action to reduce the sizable backlog of recommendations that had accumulated in prior periods.

<u>Illustration I</u> Audit and Inspection Recommendation Activity for Semiannual period of October 1, 1993 through March 31, 1994	Recs. without Decisions	Decisions without Final Action	Total
Outstanding at beginning of period	38	52	90
Recommendations made during the period	+3		+3
Decisions during period to accept/modify recommendations	-25	+25	
Decisions during period rejecting recommendation	-4		-4
Final Actions taken during period		-16	-16
Outstanding at end of period	12	61	73

Illustration II portrays the aging of all unimplemented recommendations as of March 31, 1994.

Illustration II

Recommendations Outstanding at March 31, 1994	No.
Less than six months	3
Six months to one year	4
One to two years	23
Two to three years	29
Over three years	14
TOTAL	73



The time periods shown in the above table and graph are computed from the date the report was issued to March 31, 1994. Of the 12 recommendations lacking management decisions, 9 have been outstanding for 1-2 years and 3 have been outstanding for 2-3 years. Of the 61 recommendations with decisions but without final action, 37 are over 6 months and 24 are over 1 year past the implementation date established in the management decision.

SUMMARY OF AUDITS OVER 6 MONTHS FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE

Management decisions have not yet been made on fourteen recommendations included in two audits: three in the February 1992 report on Cash and Debt Management, and nine in the September 1992 report on FCA's Budget Process. Management has expressed general agreement with the recommendations but has deferred making specific management decisions pending the full implementation of an entirely new financial management system which began on October 1, 1993.

INVESTIGATIONS

There were twelve open investigations at the beginning of this semiannual reporting period and one additional investigation was initiated during the period. Of the thirteen investigations, six were closed during this six-month period. None of the six closed cases substantiated criminal violations.

One investigation reported that a senior management official had committed prohibited personnel practices and violated merit system principles which together constituted unethical behavior. That report was furnished to management on January 12, 1994. No decision was made nor action taken on the report as of March 31, 1994.

Three cases were closed due to the lack of evidence to substantiate the allegations. One other investigation was closed because of insufficient information; however, the issue has been referred for program review. The other two cases concerned alleged borrower rights violations and we referred them to the FCA division responsible for investigating such matters and were then closed because the agency's review concluded that the borrowers' rights were not violated nor did the Farm Credit System institutions violate any rule or regulation.

The OIG HOTLINE received and evaluated 120 calls. Eleven of the calls concerned fraud in programs other than those under FCA's jurisdiction and were referred to the appropriate agency. Twenty-four calls dealt with Farm Credit System borrower complaints and were either referred to program officials or we are awaiting additional information from the complainant. One call concerned allegations internal to FCA and an investigation is ongoing. The remainder of the HOTLINE calls did not merit further action.

LEGISLATION AND REGULATIONS

The OIG is particularly interested in H.R. 3400, Government Reform and Savings Act, especially the proposals addressing improved financial management since FCA is a beta site to transition from an ineffective financial management system to a new, fully integrated financial management system. OIG will continue to track the legislation and will steer FCA's preparation of the FY 1994 financial statements in the direction of the legislation.

Substantive written comments were provided to the agency on three of seven FCA regulatory proposals. Additionally, extensive comments were offered on seven agency directives, some of which were developed in response to audit and investigatory findings and recommendations.

OIG's inspection of FCA's strategic planning process described on page 4 included an analysis of the strategic planning requirements imposed by the Government Performance and Results Act of 1993 and measured FCA's current planning practices in terms of fulfilling these requirements.

AUDIT/INSPECTION REPORTS ISSUED BY FCA OIG
October 1, 1993 to March 31, 1994

AUDIT/INSPECTION REPORTS	Number of Recommendations	Questioned Costs	Recommendations That Funds Be Put to Better Use
Strategic Planning Audit (October 20, 1993)	3	\$ 0	\$ 0
FMFIA Inspection (February 18, 1994)	0	\$ 0	\$ 0
Strategic Planning Inspection (March 31, 1994)	0	\$ 0	\$ 0
Total (3 Reports)	3	\$ 0	\$ 0

**INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED COSTS**

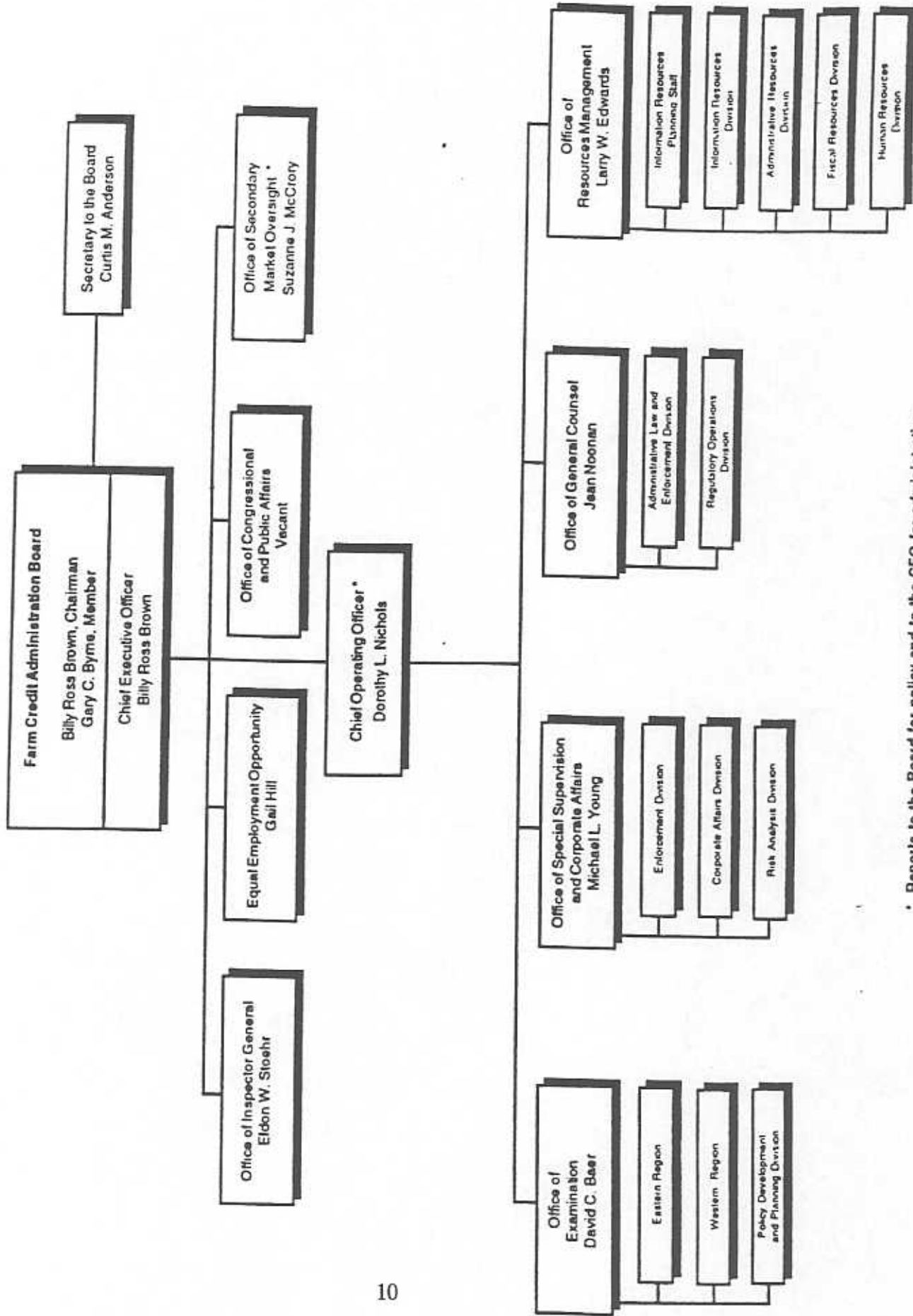
	Number		Dollar Value	
	Reports	Recs.	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period	2	2	\$ 35,337	\$ 35,337
B. Which were issued during the reporting period	0	0	0	0
Subtotals (A + B)	2	2	35,337	35,337
C. For which a management decision was made during the reporting period	1	1	35,337	35,337
(i) dollar value of disallowed costs	0	0	4,936	4,936
(ii) dollar value of costs not disallowed	1	1	30,401	30,401
D. For which no management decision has been made by the end of the reporting period	1	1	0	0
E. For which no management decision was made within six months of issuance	1	1	\$ 0	\$ 0

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

	Number		Dollar Value
	Reports	Recs.	
A. For which no management decision has been made by the commencement of the reporting period	0	0	\$ 0
B. Which were issued during the reporting period	0	0	0
Subtotals (A+B)	0	0	0
C. For which a management decision was made during the reporting period	0	0	0
(i) dollar value of recommendations that were agreed to by management	0	0	0
-- based on proposed management action	0	0	0
-- based on proposed legislative action	0	0	0
(ii) dollar value of recommendations that were not agreed to by management	0	0	0
D. For which no management decision has been made by the end of the reporting period	0	0	0
Reports for which no management decision was made within six months of issuance	0	0	\$ 0

B. Ross Brown
 Chairman
 January 9, 1994

Farm Credit Administration

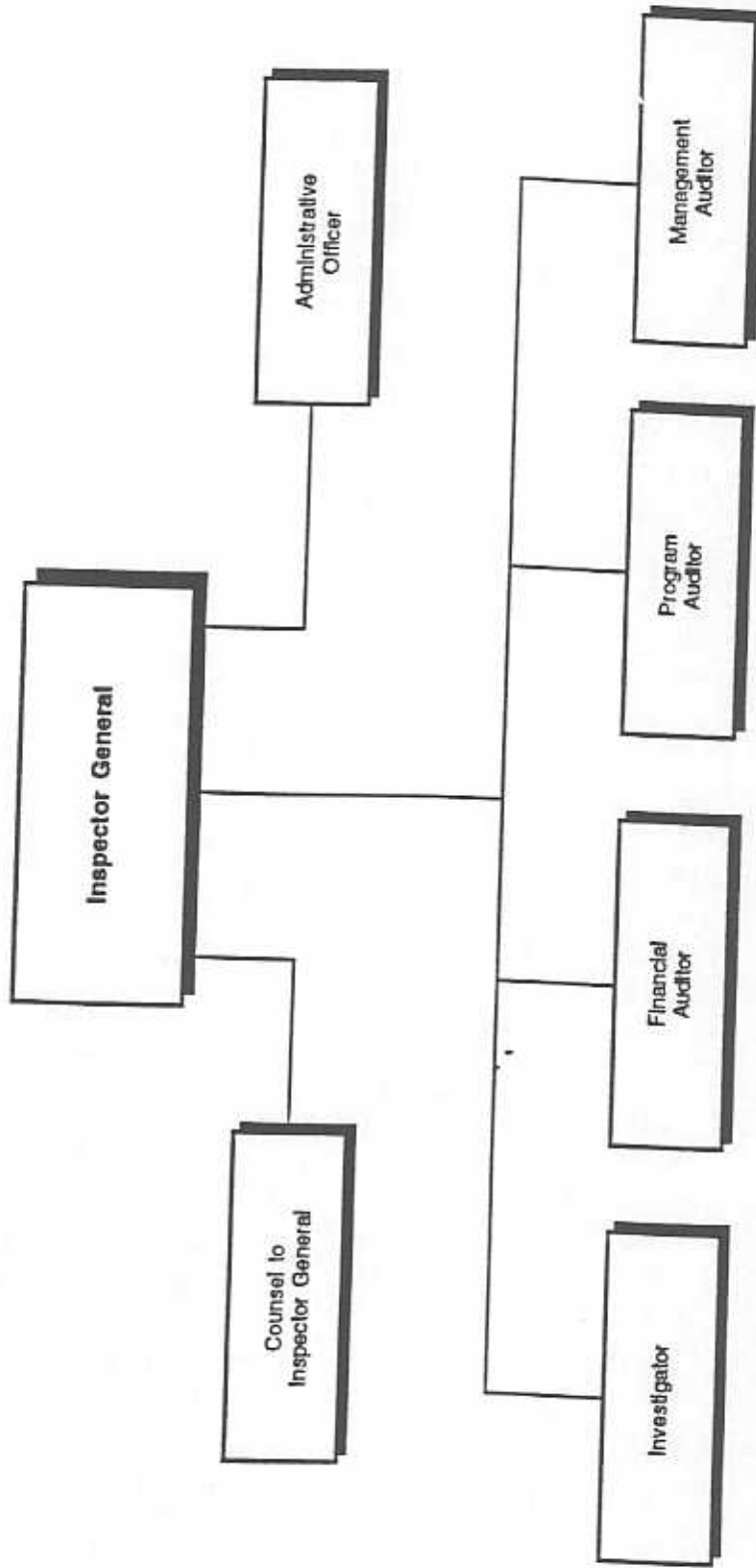


* Reports to the Board for policy and to the CEO for administration.

William Stern

Inspector General
September 8, 1993

Office of Inspector General



HOTLINE

800-437-7322

Toll Free 24 Hour Answering Service
703-883-4316 Washington, DC Area

or write

FCA Inspector General
1501 Farm Credit Drive
McLean, Virginia 22102-5090

INFORMATION IS CONFIDENTIAL

REPORT: FRAUD, WASTE, ABUSE, MISMANAGEMENT

CALLER CAN BE ANONYMOUS

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