

April 27, 2001

The Honorable Michael M. Reyna
Chairman of the Board and
Chief Executive Officer
Farm Credit Administration
McLean, Virginia

Dear Mr. Reyna:

Enclosed is the semiannual report on the activities of the Farm Credit Administration's (FCA or Agency) Office of Inspector General (OIG) for the period from October 1, 2000 through March 31, 2001. We are filing this report in accordance with the Inspector General Act of 1978, as amended (Act). It is the twenty-fourth report since creation of the office on January 22, 1989. Section 5(b) of the Act requires that we send this report to the appropriate Congressional committees and subcommittees within 30 days after the date of this transmittal, with management's report on the status of audit recommendations.

This is the first semiannual report I have submitted as Inspector General (IG). I am looking forward to continuing our relationship and helping the Agency in making positive changes, becoming a better place to work, and a more efficient organization.

Respectfully,

Stephen G. Smith
Inspector General

Enclosure

REPORT HIGHLIGHTS

We issued two audit reports and one review during this period. Based on recommendations and agreed upon actions made in these and earlier reports, as well as other Office of Inspector General (OIG) activity, the following actions were taken:

- The Chairman appointed Stephen G. Smith as the new Inspector General replacing Eldon W. Stoehr who served as IG for 12 years before retiring.*
- Management has accelerated its timetable to implement a new financial management system because of deficiencies in FCA's current system.*
- OIG and management partnered to present the results of a survey on inappropriate behavior to all Agency employees. OIG developed proposed solutions and guidance for the CEO to use in addressing issues.*
- OIG began administering a confidential survey to stakeholders and other interested parties on the Agency's Regulatory Development Program.*
- As a way to enhance unification of the Agency's performance measures efforts, over 40 FCA employees attended two days of Government Performance and Results Act of 1993 (GPRA) training.*
- Added security measures were installed in field offices for safeguarding videoconferencing equipment.*
- The Agency work/life program continues to improve through the Chairman's implementation of year-round casual dress and an Agency contribution toward each employee's flexible spending account. OIG's Management Analyst received a PCIE/ECIE award for her contributions to getting work/life improvements for the Agency. She also received an Agency Peer Award for initiative shown in getting these and other family-friendly initiatives instituted at FCA.*

TABLE OF CONTENTS

FCA Semiannual Report to Congress

	<u>Page</u>
Reporting Requirements	1
Background	2
Audit and Inspection Reports Issued.....	2
Status of Unimplemented Recommendations and Agreed Upon Actions.....	3
Agency Financial Management System	5
Investigations	5
Criminal Referrals.....	6
Legislation and Regulations	6
Other Activities	6

APPENDICES:

Appendix I -- Audit/Inspection Reports Issued by FCA OIG.....	9
Appendix Ia -- Inspector General Issued Reports with Questioned Costs	10
Appendix Ib -- Inspector General Issued Reports with Recommendations That Funds Be Put To Better Use.....	11
Appendix II -- Farm Credit Administration Organization Chart	12
Appendix III -- FCA Office of Inspector General Organization Chart.....	13

REPORTING REQUIREMENTS

<u>INSPECTOR GENERAL ACT CITATION AND REQUIREMENT</u>	<u>PAGE</u>
Section 4(a)(2) Review of Legislation and Regulations	6
Section 5(a)(1) Significant Problems, Abuses and Deficiencies	none
Section 5(a)(2) Recommendations With Respect to Significant Problems, Abuses and Deficiencies.....	none
Section 5(a)(3) Prior Recommendations Not Yet Implemented	3-5
Section 5(a)(4) Matters Referred to Prosecutive Authorities	6
Section 5(a)(5) Summary of Instances Where Information and 6(b)(2) Was Unreasonably Refused or Not Provided.....	none
Section 5(a)(6) List of OIG Audit/Inspection Reports.....	2-3
Section 5(a)(7) Summary of Each Particularly Significant Report	2-3
Section 5(a)(8) Statistical Table on Management Decisions on Questioned Costs.....	10
Section 5(a)(9) Statistical Table on Management Decisions on Recommendations That Funds Be Put To Better Use	11
Section 5(a)(10) Summary of Each Audit Over Six Months Old for Which No Management Decision Has Been Made	none
Section 5(a)(11) Significant Revised Management Decisions	none
Section 5(a)(12) Significant Management Decisions With Which the Inspector General Disagrees	none
Section 5(a)(13) Compliance of Agency Financial Management Systems	5

BACKGROUND

The 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, as amended. FCA is a nonappropriated agency with a fiscal year (FY) 2001 budget of \$36,800,000 for administrative costs. The FY 2001 budget for the Office of Inspector General (OIG) is \$869,771.

FCA currently has 301 established positions, about half of which are examiners located at five field offices. Also included in the Agency positions are five approved positions for the OIG. Appendix II displays the current organizational structure of FCA and Appendix III displays the OIG within that structure. Since the last reporting period, OIG lost an auditor and the Inspector General, Eldon W. Stoehr, who retired on December 15, 2000. Stephen G. Smith was appointed Inspector General on January 12, 2001. A vacancy announcement is pending for the auditor.

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

AUDIT AND INSPECTION REPORTS ISSUED

We issued two audit reports during this reporting period, which are summarized below. We conduct all audits in accordance with audit standards established by the Comptroller General of the United States for audits of Federal organizations, programs, activities, and functions. Inspections we conduct are in accordance with the President’s Council on Integrity and Efficiency’s *Quality Standards for Inspections*. Copies of all OIG reports are available on FCA’s Web site (www.fca.gov/oig), by contacting the Inspector General’s (IG) office on 703/883-4030, or by e-mail at burrij@fca.gov.

OIG STAFF AUDIT

Performance Budgeting

The objective of this audit was to evaluate whether the FCA Board receives appropriate analysis and insight about offices’ requested funds to enable it to make informed decisions. The scope of the audit included benchmarking other agencies to identify their progress in implementing performance budgeting; reviewing FCA’s current policies and procedures for planning and budgeting; interviewing FCA staff involved in the budget process; and researching budgeting concepts, policies and practices, including Federal guidance on GPRA.

Our review found that although the Agency currently creates many planning documents, a more streamlined and cohesive planning process is needed. The Agency should consolidate individual

office planning documents to enable the Board to have more comprehensive information linking office resources and goals to the Agency's Strategic Plan and performance measures. We also found two areas, financial planning and human capital planning, that need to be addressed. OIG and management came to agreement on 14 actions to improve FCA's efficiency and effectiveness in performance budgeting.

INDEPENDENT FINANCIAL AUDIT

OIG engaged the independent audit firm, Harper, Rains, Stokes & Knight, P.A. to conduct an audit of the principal financial statements of FCA for fiscal year 2000. The auditors issued an unqualified opinion. They concluded FCA's principal financial statements present fairly, in all material respects, the financial position of FCA as of September 30, 2000, in conformity with generally accepted accounting principles. The auditors did not note any matters involving the internal control structure and its operation that they considered to be material weaknesses.

The auditors' report on compliance with laws and regulations noted the Agency's financial management system did not substantially comply with the Federal financial management systems requirements. Specifically, the Agency could not rely on its financial management system to produce financial statements for the fiscal year ended September 30, 2000. A management letter was also issued.

STATUS OF UNIMPLEMENTED RECOMMENDATIONS and AGREED UPON ACTIONS

At the beginning of the period there were 18 unimplemented recommendations or agreed upon actions. During the reporting period, management took final action on 15 of these. Four were from an audit report and 11 were from five inspection reports. Just before the end of the period, OIG issued an audit with 14 agreed upon actions. At the end of this reporting period, 17 recommendations or agreed upon actions remain open, 15 for audits and 2 for inspections.

Audits

The following table summarizes the final actions management took on open recommendations and agreed upon actions.

AUDIT RECOMMENDATIONS and AGREED UPON ACTIONS			
Audit Report	Open on 10/1/2000	Final Management Action	Open on 3/31/2001
FCA's Supply and Procurement Functions Issued March 29, 2000	5	4	1
Performance Budgeting Issued March 23, 2001	0	0	14
Totals	5	4	15

Inspections

Management took final action to close all remaining recommendations and agreed upon actions on four inspections. At the end of the reporting period, only one inspection has open items. The following table lists final actions on recommendations and agreed upon actions from the inspections.

INSPECTION RECOMMENDATIONS and AGREED UPON ACTIONS			
Inspection Report	Open on 10/1/2000	Final Management Action	Open on 3/31/2001
Performance Measures Issued March 24, 2000	2	2	0
Telecommunication Costs and Services Issued March 28, 2000	1	1	0
Imprest Fund Issued May 4, 2000	1	1	0
Cash Management and Investment Practices Issued September 28, 2000	8	6	2
Denver Field Office Issued September 29, 2000	1	1	0
Totals	13	11	2

The two open agreed upon actions are over six months old.

AGENCY FINANCIAL MANAGEMENT SYSTEM

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

Management installed financial management software (FINASST) as of October 1, 1999, to correct systemic weaknesses that existed in the predecessor system. FINASST was the Agency's system of record for FY 2000. FINASST did not substantially comply with Federal financial management system requirements to produce financial statements for the fiscal year ended September 30, 2000. The financial management system is a serious management challenge facing the Agency.

During FY 2000, management recognized critical problems in its financial management systems. A cross-servicing arrangement with the Department of Interior (DOI) was set up to implement and use its financial management system before the beginning of FY 2002. Management now expects the system of record for FY 2001 will be Federal Financial Systems (FFS) as managed by the DOI's National Business Center. FFS is a system widely used by Federal agencies and one that substantially complies with the requirements described above. The OIG believes strong project management skills and close oversight by executive management will be critical to the successful implementation of FFS. OIG expects a remediation plan to be created and the Chief Financial Officer has committed to completing it by July 1, 2001.

INVESTIGATIONS

There were two open investigations at the beginning of this reporting period, and four new investigations were opened. We closed four investigations during this period because they were not substantiated. The closed investigations concerned violations of merit system principles, abuse of leave, and an allegation concerning an employee's false claim.

Most OIG Hotline calls dealt with Farm Credit System borrower complaints and were referred to the FCA office responsible for researching such matters. One OIG Hotline e-mail resulted in the opening of an investigation, but the allegation was not substantiated.

CRIMINAL REFERRALS

OIG referred one matter to the Attorney General for prosecutorial consideration. The case involved a false official statement. It was declined for prosecution and is being handled administratively by the Agency.

LEGISLATION AND REGULATIONS

We reviewed several FCA regulations in both proposed and final form. We also reviewed statutory and regulatory compliance issues as they arose in audits and investigations. We have reviewed and commented on proposed legislation affecting the Inspectors General community through the legislation committee of the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE).

During this period, OIG received a request from the Chairman of the House Committee on Banking and Financial Services (Committee) to review the issues involved in FCA's National Charter initiative and to make recommendations to the FCA Board, with a report to Congress. The Committee Chairman asked OIG to consider a General Accounting Office opinion that the Congressional Review Act was applicable to the National Charter booklet, published by the Agency in the Federal Register. Before issuing an OIG report on this matter, the Committee Chairman withdrew his request for a report.

OTHER ACTIVITIES

Survey on Harassment

In response to anonymous letters which suggested inappropriate behavior was occurring in the Office of Examination, OIG developed a survey to find out if there was a problem and if so, the extent of the problem. OIG hired a consultant to survey current and former employees, tabulate and sort the responses and, most importantly, ensure confidentiality to respondents. The survey results showed there were problems. OIG developed guidance to help employees in reporting and dealing with inappropriate behavior. We also partnered with Agency management to deliver the results of the survey to all FCA employees.

Survey of Farm Credit System (FCS) Institutions

OIG administers an ongoing Agency survey of the regulated institutions of the FCS. This survey program is designed to provide the FCA Board and senior management with independent feedback about how well FCA performs its examination and enforcement activities. This feedback is based on confidential responses received from FCS institutions. We survey the chairman of the board and the chief executive officer of each FCS institution following their

receipt of FCA's report of examination for their voluntary feedback on the quality and consistency of the examination and enforcement processes. OIG reports the results of the survey semiannually. During this period we mailed 54 surveys and received 29 responses. This is a 54% response rate, which is the lowest response rate we have had since the third quarter of FY 1997. Overall, the average rating for the questions answered during this reporting period was very good (1.44) [1=completely agree; 5=completely disagree] and slightly better than the 1.51 average for FY 1999.

Regulatory Development Survey

As part of FCA's ongoing efforts to measure performance, the OIG initiated another survey, this one on the Agency's Regulatory Development Program (RDP). The Agency is committed to a regulatory philosophy that promotes a safe and sound, competitive Farm Credit System and hopes to achieve this goal with minimum regulatory burden while involving the public in its rulemaking activities. We developed the survey with the FCA office responsible for managing the RDP and sent it to everyone who filed written comments with FCA on proposed final regulations. The OIG sent out 247 surveys and received 138 confidential responses. We provided a summary report to senior management on January 10, 2001. Using the same rating system as the FCS survey above, the overall rating of RDP survey respondents was 2.29, with most respondents (65%) indicating they either agreed or strongly agreed the Agency was achieving its stated goals. OIG will continue to administer this survey annually.

Mentoring Program

We performed a review of the Agency's Mentoring Program. We found the program was a success for the participants and individual goals were generally accomplished. Based on participant feedback, we made seven suggestions to management on how to improve the program.

OIG Performance Measures

OIG developed performance measures during FY 1995 and implemented them in FY 1996. We have refined the measures in each subsequent year. The FY 2000 OIG Performance Report will be available on the OIG Web page soon.

Staff Participation in Activities of the Professional Community

OIG staff members are encouraged to take part in organizations that contribute to the mission of the Inspector General community as well as their individual professional development. Most staff are actively involved in one or more professional organizations as well as ad hoc activities of the PCIE/ECIE.

Staff Participation in Agency Organizations

Staff is active on several Agency workgroups and task forces. During this reporting period the OIG was represented on the Equal Employment Opportunity (EEO) Advisory Committee (which advises the EEO Director on the Agency's Affirmative Employment Program), Administrative Burden Reduction Workgroup, Federal Women's Program, FCA Employees' Council, and the Mentoring Program.

APPENDIX I

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

AUDIT/INSPECTION REPORTS	Number of Recommendations/ Agreed Upon Actions	Questioned Costs	Recommendations That Funds Be Put to Better Use
Performance Budgeting	14	\$ 0	\$ 0
Agency Financial Statements FY 2000	0	\$ 0	\$ 0
Total	14	\$ 0	\$ 0

APPENDIX Ia

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS

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

APPENDIX Ib

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

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