

October 30, 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 April 1, 2001 through September 30, 2001. We are filing this report in accordance with the Inspector General Act of 1978, as amended (Act). It is the twenty-fifth 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.

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



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## REPORT HIGHLIGHTS

**We issued three inspection 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, we achieved the following:**

- *Contracted for the first annual GISRA review. The FCA received high acclaim in having established security over information technology.*
- *Partnered with the OIG community and the FBI to investigate aspects of the terrorist crisis. Our investigator assisted in evidence recovery at the Pentagon.*
- *Helped the Agency make progress toward a streamlined planning process. Office budget and operating plans have been integrated, along with basic workforce planning so that each office has a consolidated operating and performance plan. These plans link resources to performance goals and the Agency's strategic plan.*
- *Participated in a task force that resulted in FCA's time recording system being updated to reduce redundancies in recording employee time and to better link the Agency's strategic goals to Agency projects. This system will now be able to track the cost of human capital in obtaining Agency goals.*
- *Further implemented the use of management advisories to provide rapid feedback to managers on areas where weaknesses were previously identified by OIG.*
- *Became fully staffed by hiring an auditor and a management analyst.*



## **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 284 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 filled the vacant auditor position.

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).

## **MANAGEMENT CHALLENGES**

This section of the report outlines major challenges confronting the Farm Credit Administration as it works to fulfill its mission. These challenges fall into two general categories. First are the challenges related to the FCA’s core mission of ensuring a dependable supply of credit to agriculture through the institutions it has chartered. These challenges are often shaped and influenced by events that are outside the control of the Agency. Second, but no less important, are those challenges related to the Agency’s operations.

### **Organizational Leadership**

The Farm Credit Act provides for a full time three-member Board of Directors. The board members are appointed by the President and confirmed by the Senate. The rapidly changing complex financial and banking environment makes the Board’s task both challenging and important. The Board must be able to engage in healthy professional policy debate and set a sound course for the Agency. A full strength Board is an important element in setting clear priorities and deliberating fully on the issues. In the 15 years since the inception of the FCA Board, it has been at full strength for less than half of that time. It has been missing one Board member since January 2000 except for a brief 20-day period.

### **Farm Credit System Risk**

The Farm Credit System is a single industry lender and therefore is vulnerable to economic swings in the industry. The Farm Credit Administration is challenged to balance the often-competing demands of ensuring the System fulfills its public purpose, proactively

examining risk in the regulated institutions both individually and systemically, and controlling the cost of the regulator.

## **Financial Management**

FCA's financial management system has undergone almost continuous change over the past five years. During this reporting period, the Agency implemented a new system by contracting for processing services with Department of Interior's National Business Center. While the implementation appears to have occurred smoothly, management's challenge will be to use the system to develop the financial information that is critical to well informed management decisions.

## **Security**

The events of September 11, 2001 serve as a stark reminder that security must remain a major challenge for the Agency. In the recent report on information security, this Office found a strong foundation for security practices. However, the speed of change in the security environment will be a challenge for all government organizations. This is especially true for smaller organizations like FCA where an increased emphasis on physical and information security will compete with program areas for tight budget funding.

## **Human Capital**

FCA needs to develop a comprehensive, integrated approach to human capital issues. The FCA has not adopted a human capital strategy. In light of the changes in the competitive environment, advances in technology, and the tenure of its workforce, FCA needs to closely evaluate business processes, their associated costs, and alternatives.

## **Leveraging Technology**

The Agency has recognized that in order to meet the constraints of its budget, it must be able to maximize its return on investment in technology. FCA will need effective mechanisms to ensure that current and future staff has the technical skills to use technology to operate in an efficient manner.

## **AUDIT AND INSPECTION REPORTS ISSUED**

We issued a "Government Information Security Act Review" and three inspection 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 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](http://www.fca.gov/oig)), by contacting the Inspector General's (IG) office on 703/883-4030, or by e-mail at [IG\\_information@fca.gov](mailto:IG_information@fca.gov).



## **GISRA Review**

OIG engaged the independent audit firm, Clifton Gunderson LLP, to conduct a review of the information security in accordance with procedures essential for establishing compliance with the Government Information Security Reform Act (GISRA). The Federal Financial System, Consolidated Reporting System, Lotus Notes, Windows NT, Firewall System and the FCA Web site were reviewed as mission critical systems. The evaluators found no security issues concerning the Agency-wide security program.

## **Affirmative Employment Plan Inspection**

The OIG completed an inspection of the FCA's Affirmative Employment Program Action Plan (AEP) to evaluate its current status. We found the AEP represents a positive step to promote Equal Employment Opportunity, Affirmative Action, and Diversity programs at FCA. The Agency has made some progress toward fulfilling the AEP. However, the progress was below the standards set in the AEP. Management agreed to actions, which will refine and clarify the AEP. These actions will make the AEP more effective in achieving its stated goals.

## **Administrative Inspections**

Administrative inspections were conducted for FCA's Chief Examiner's Office and the Office of Special Examination and Supervision. These inspections involved the review of various administrative areas to assess compliance with external and internal guidance. There were no weaknesses found that would require recommendations for management action.

## **STATUS OF UNIMPLEMENTED RECOMMENDATIONS and AGREED UPON ACTIONS**

At the beginning of the period there were 17 unimplemented recommendations or agreed upon actions. During the reporting period, management took final action on six of these. Three were from audit reports and three were from inspection reports. At the end of this reporting period, 16 agreed upon actions remain open, 12 resulting from one audit and 4 resulting from one inspection.

## **Audits**

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

<b>AUDIT RECOMMENDATIONS OR AGREED UPON ACTIONS</b>			
<b>Audit Report</b>	<b>Open on 4/1/2001</b>	<b>Final Management Action</b>	<b>Open on 9/30/2001</b>
FCA's Supply and Procurement Functions .....Issued March 29, 2000	1	1	0
Performance Budgeting .....Issued March 23, 2001	14	2	12
<b>Totals</b>	<b>15</b>	<b>3</b>	<b>12</b>

### Inspections

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

<b>RECOMMENDATIONS OR AGREED UPON ACTIONS</b>			
<b>Inspection Report</b>	<b>Open on 4/1/2001</b>	<b>Final Management Action</b>	<b>Open on 9/30/2001</b>
Cash Management and Investments Practices .....Issued September 28, 2000	2	2	0
Affirmative Employment Program .....Issued May 23, 2001	0	1	4
Chief Examiner's Office .....Issued August 14, 2001	0	0	0
Special Examination and Supervision Division .....Issued August 14, 2001	0	0	0
<b>Totals</b>	<b>2</b>	<b>3</b>	<b>4</b>

### INVESTIGATIONS

There were two open investigations at the beginning of this reporting period. One of those investigations was closed. The investigation that was closed resulted in actions being taken to correct managerial problems. Additionally, training and new Agency policies have been issued to address employee concerns. Currently there is one investigation open.

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 call resulted in a preliminary review, which was not substantiated. All other Hotline calls and emails were not investigative in nature.

## **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 reporting period, OIG commented on revisions to the General Accounting Office's exposure draft concerning the Yellow Book standard on organizational independence.

## **AGENCY FINANCIAL MANAGEMENT SYSTEM**

The financial management system has been a serious management challenge facing the Agency. 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.

During the reporting period, management implemented Federal Financial System (FFS) as managed by the Department of Interior (DOI) National Business Center. FFS was implemented as management's remediation plan to correct systemic weaknesses that existed in the predecessor system. That system did not substantially comply with Federal financial management system requirements to produce financial statements for the fiscal year ended September 30, 2000. FFS is a system widely used by Federal agencies and one that substantially complies with the requirements described above.

## **OTHER ACTIVITIES**

### **Management Advisories**

During this reporting period, the OIG has further implemented the use of management advisories. These advisories provide management with instant feedback on weaknesses that come to our attention during the process of doing other OIG work. In this 6-month period, we issued five advisories to various office managers.

### **Pentagon Assistance**

The OIG community requested assistance for the evidence recovery team at the Pentagon. Our office provided assistance by sending our Investigator.

### **Survey of Farm Credit System 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 51 surveys and received 30 responses. This is a 59 percent response rate. Overall, the average rating for the questions answered during this reporting period was very good (1.68) [1=completely agree; 5=completely disagree] which is slightly less favorable than the last reporting period (1.44).

### **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 2001 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 Time Recording System task force, Blacks in Government, Administrative Burden Reduction Workgroup, and the Federal Women's Program.

## APPENDIX I

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

TITLE OF REPORT	NUMBER OF RECOMMENDATIONS/ AGREED UPON ACTIONS	QUESTIONED COSTS	RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE
Affirmative Employment Program Action Plan	5	\$ 0	\$ 0
Chief Examiner's Office	0	\$ 0	\$ 0
Special Examination and Supervision Division	0	\$ 0	\$ 0
<b>Total</b>	<b>5</b>	<b>\$ 0</b>	<b>\$ 0</b>

## 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		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
E. For which no management decision was made within six months of issuance	0	0	\$ 0

## **Farm Credit Administration Organization Chart**



**FCA Office of Inspector General Organization Chart**