

Office of Inspector General

Semiannual Report
to the Congress

January 22, 1989
through
September 30, 1989



Farm Credit Administration

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

October 31, 1989



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

Dear Mr. Steele:

It is my pleasure to submit this first semiannual report on the activities of the Inspector General's office for the period January 22, 1989, through September 30, 1989. This report is submitted in accordance with the Inspector General Act of 1978, as amended in 1988. The Act requires that you submit this report, along with any comments you may wish to make, to the Director of OMB and the appropriate congressional committees and subcommittees within 30 days.

The Office of Inspector General was created on January 22, 1989, at the Farm Credit Administration simultaneously with my appointment as Inspector General. My primary focus during this period has been to establish the policies, procedures, staffing, and logistics necessary to meet the intent of the Congress for the operation of this office. The basic objectives in creating the office have been met; what remains is to broaden the professional capability of our small staff and to establish our credibility through the quality of our products and performance.

Agency management has been very positive and supportive during these formative months and has greatly facilitated our progress so far through its constructive actions and attitude in matters of staffing, budgeting, office space, and equipment.

Respectfully,

A handwritten signature in cursive script that reads 'Eldon W. Stoehr'.

Eldon W. Stoehr
Inspector General

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INTRODUCTION

The Farm Credit Administration (FCA) is a "designated Federal entity" within the meaning of the Inspector General Act of 1978 (Public Law 95-452, October 12, 1978), as amended in 1988 (Public Law 100-504, October 18, 1988) (Act). The 1988 Amendments require all "designated Federal agencies" to establish an Office of Inspector General before April 17, 1989.

The Office of Inspector General at FCA was created on January 22, 1989, by action of the Acting Chairman. This action also appointed an Inspector General and incorporated the former Office of Internal Audit into the Office of Inspector General (OIG), along with its staff, budget, and equipment. The Director of the Office of Administration was also directed to provide additional funds and staffing authorization appropriate for the remainder of fiscal year 1989.

STATUS OF THE IMPLEMENTATION OF THE INSPECTOR GENERAL ACT

The Inspector General has neither been prevented nor prohibited from initiating, completing, or reporting any audit or investigation during this period. To the contrary, full cooperation and support from the Acting Chairman and senior management were evident throughout the period. All requests for office space and equipment have been granted and budgeted funds and staff allocations have been adequate. Our budget request for FY 1990 was independently developed and was processed without any interference or impediment. The FCA is, as you know, a nonappropriated agency which derives the funds necessary for its administrative costs through assessments of the Farm Credit System institutions that it regulates.

The staffing of the OIG includes five experienced auditors transferred from the former Office of Internal Audit, including the director of that office; an experienced attorney serves as Counsel to the Inspector General, and also manages the investigative function; and a secretary and part-time clerk typist provide clerical and administrative support. Appendix I displays the present organization of the Farm Credit Administration and the OIG within that organization and Appendix II illustrates the OIG internal staffing and organization.

Audit scheduling decisions are reflected in an annual audit plan which we intend to review and update at the end of each calendar quarter. The initial plan was developed during an OIG planning meeting on May 1, 1989, and, after circulating it for comment to the Acting Chairman and FCA office heads, it was adopted by the Inspector General in June 1989. The adopted plan was provided to the Acting Chairman and any quarterly adjustments to, or other substantial deviations from, the plan will be reported to the Chairman.

Management of the investigative responsibilities of the Inspector General has been assigned to the Counsel to the Inspector General with her recent appointment. Additionally, the audit staff have begun training in investigative techniques, and memoranda of understanding will be proposed with other investigative agencies such as the Federal Bureau of Investigation.

The following implementing documents were developed during this initial reporting period: a charter for the OIG; a memorandum of understanding with the Office of Administration/ Human Resources Division to provide personnel services; FCA policies and procedures concerning report issuance, audit followup, and the reporting of suspected fraud, waste and abuse; and several internal policies and procedures dealing with:

- Roles and Accountabilities
- Investigations
- Planning
- Reporting
- Workpapers
- Professional Standards
- Professional Development
- Recordkeeping and Disposal
- Time Recordation

Substantial assistance has been gained in the development of this office through the participation of the Inspector General in the Coordinating Conference of the President's Council on Integrity and Efficiency. FCA's Inspector General currently chairs a task force to develop standards for the peer review of the operation of Inspector General offices in "designated Federal agencies" required by the Act. Similarly, the participation of FCA's General Counsel and, recently, the Counsel to the Inspector General in the Council of Counsels has been particularly beneficial to the establishment of this office.

In summary, the Farm Credit Administration has established an Office of Inspector General that meets the requirements of section 8E(h)(2)(A) of the Act.

AUDIT REPORTS ISSUED

The former Office of Internal Audit (OIA) was incorporated into the Office of Inspector General upon OIG's creation on January 22, 1989. There were four OIA audits in progress at that date, with draft reports on three of those audits already circulated to management for their comment. Those audits had been in process for very long periods of time and the written responses received from management challenged large portions of the reports. Significant amounts of time and energy were consumed by the Inspector General and staff in preparing those reports for final release. Each is summarized follows:

1. A report on the audit of the "Adequacy and Effectiveness of FCA's Written Examination Guidance" that was begun in September 1986 was issued on April 10, 1989. The examination manual used by the Office of Examination was undergoing significant expansion and revision concurrently with the fieldwork of this audit and most of the recommendations of the report had either been implemented or actions to cure deficiencies were already underway by the time the report was issued.
2. A report on the audit of "FCA's Effectiveness in Establishing and Maintaining the Relevance and Reliability of Historical FCS Financial Information" that was begun in June 1986 was issued on April 28, 1989. A limited number of the recommendations of this report were upheld in full or in part; many others were deferred pending the completion of the report by an agencywide task force that is currently evaluating FCA's management information needs.
3. A report on the audit of the "Agency's Effectiveness in Managing its Asset, Liability, and Expenditure Functions and Establishing Related Controls and Procedures" that was begun in October 1987 was issued on April 28, 1989. The report documented significant deficiencies in the agency's accounting system and property management practices. Further, this report identified approximately \$1.5 million in "questioned costs" in the yearend obligation of FY 1987 monies based on transactions which did not meet the statutory test of legal sufficiency. The majority of this amount was excessive estimations for approved employee relocations. Based upon our recommendation, the Financial Management Division made a review of outstanding obligations which resulted in the cancellation of \$2.029 million in outstanding obligations.
4. A report on the audit of "FCA's Supervisory/Enforcement Functions" that was begun in September 1987 was issued on July 7, 1989. The overall conclusion was that FCA had successfully implemented the enforcement powers that had been granted by the 1985 Amendments. Management agreed with the two procedural recommendations of the report and have submitted evidence that they now comply.

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.

AUDIT RESOLUTION

Written responses to the final reports were provided by management to the Acting Chairman within 45 days after the reports were issued. Meetings with the Acting Chairman, Inspector General, and the appropriate management officials were then held for the purpose of final

resolution of audit report recommendations not accepted by management. The auditing philosophy of OIG is sufficiently different from the former OIA that many recommendations included in the above reports would have been eliminated had those reports not already been submitted to management for their comment. The Acting Chairman did not require management to implement several of such recommendations during the audit resolution process; all such decisions were concurred in by the Inspector General.

The only "significant problem" reported in these reports which meets the threshold for inclusion in this semiannual report under section 5(a)(1) of the Act is included in the audit report listed under number 3 (above) and is summarized as follows: Financial accounting and property controls of FCA have been deficient for a long time. The agency has not had an integrated system but an aggregation of discrete tasks, each of which has functioned without any meaningful awareness or interaction with other tasks. This situation has not only been inefficient but ineffective, in that many fundamental controls had not been installed. The report included numerous recommendations directed at specific, identified deficiencies. Present management is developing and implementing a comprehensive financial management system that it asserts will address the deficiencies cited in this report. OIG will evaluate that system as soon as implementation is complete.

INVESTIGATION OF MATTERS INVOLVING FCA PERSONNEL, PROGRAMS, AND OPERATIONS

Five matters relating to the personnel, programs, and operations of FCA as delineated in section 8E(h)(2)(C) of the Act are summarized below:

1. A personnel matter involving a potential violation of standards of conduct by an employee of another Federal agency was referred, following preliminary analysis, to the Inspector General of that other Federal agency for evaluation and followup.
2. A full investigation was performed and a report issued based on concerns formally expressed by another Federal agency about certain assets of an FCA receivership. Followup on one aspect of this investigation will occur in the next reporting period.
3. An allegation received from an FCA employee was evaluated but no formal investigation was conducted because of a lack of evidence and no tangible leads.
4. A personnel investigation was completed pursuant to an employee grievance and a report was issued. Findings and recommendations were directed to management, determinations were made by management based on the report, and no followup by OIG is necessary.

5. Information received from a former employee of a Farm Credit System institution has been referred to the auditor-in-charge of an ongoing OIG audit for consideration in that activity.

A number of borrower complaints about the services rendered by or practices and procedures of some Farm Credit institutions were received and routed to the Office of Examination for consideration by examiners conducting the next examination of those institutions.

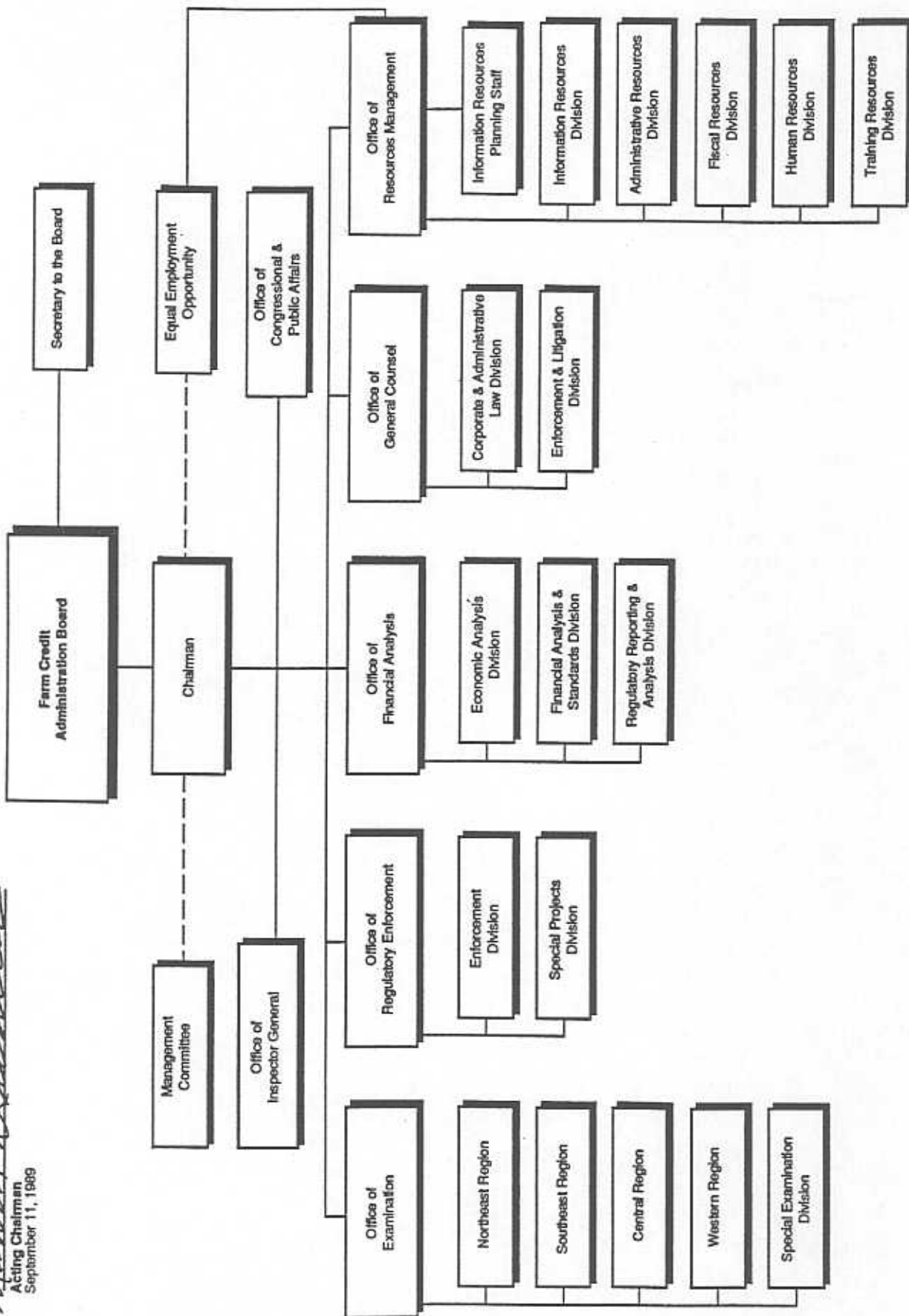
REVIEW OF PROPOSED LEGISLATION AND REGULATIONS

There is little to report for this period in this area because, in addition to our preoccupation with the basic implementation of the Act, there have been two vacancies on the three-member FCA Board throughout the period. Without a quorum of the Board, all regulatory activity was deferred.

There were three pending regulatory issues of record during this period and each of these issues was assigned to a member of the OIG staff to research in anticipation of proposals to the Board after a quorum is attained.

Farm Credit Administration

Martin Duncan
 Acting Chairman
 September 11, 1989



Farm Credit Administration
Office of Inspector General

Eldon W. Stoehr

Eldon W. Stoehr, Inspector General
October 13, 1989

