

November 1991

**INSPECTORS
GENERAL**

**Issues Involving the
Farm Credit
Administration's
Chairman and IG**





United States
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Accounting and Financial
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The Honorable John Glenn
Chairman
The Honorable William V. Roth, Jr.
Ranking Minority Member
Committee on Governmental Affairs
United States Senate

The Honorable Patrick J. Leahy
Chairman
The Honorable Richard G. Lugar
Ranking Minority Member
Committee on Agriculture, Nutrition
and Forestry
United States Senate

The Honorable John Conyers, Jr.
Chairman
The Honorable Frank Horton
Ranking Minority Member
Committee on Government Operations
House of Representatives

As requested, this report presents information on (1) the Farm Credit Administration (FCA) Chairman's rating of the agency Inspector General (IG) and (2) issues relating to the IG's position description and performance plan, FCA management's understanding of the IG's reporting role, FCA announcements of the Office of Inspector General's (OIG) existence and purpose, and the OIG's access to FCA records.

Results in Brief

For fiscal year 1990, the FCA Chairman rated the IG "minimally successful" on his performance based on his conclusion that the IG did not (1) adequately comply with government auditing standards and (2) meet certain annual audit planning requirements. Based on our review of the IG's work, and our professional judgment, we believe 31 of the 36 examples used by the Chairman to support the IG's performance appraisal did not demonstrate a lack of compliance with government auditing standards.

The remaining five examples, which were in one audit report, did not satisfactorily comply with certain aspects of the government auditing

standard on reporting. However, FCA management agreed with the report's overall conclusions and recommendations. We also found adequate evidence in the IG's files that all annual audit planning elements required by the Office of Management and Budget's (OMB) Circular A-73, "Audit of Federal Operations and Programs," were addressed by the IG, although most of them were not included in the IG's schedule of audits that the FCA Chairman reviewed.

Consequently, we believe that the IG's minimally successful rating in two critical job elements was not substantiated by a "rigorous justification" as required by FCA's Performance Management System. Thus, we believe that the IG's overall rating of minimally successful was not supported by the performance appraisal.

During fiscal year 1991, the FCA Chairman changed the IG's position description and performance plan, but in our view, did not place any limitations on the IG's duties and responsibilities which would be inconsistent with the Inspector General Act of 1978, as amended. In addition, we found that (1) the FCA Chairman understood the IG's reporting responsibilities under the IG Act, (2) FCA announced the IG's existence and purpose to its employees, and (3) the IG resolved prior problems in obtaining FCA records and information needed to fulfill his audit responsibilities.

Background

The Farm Credit Administration is an independent federal agency that regulates and examines the Farm Credit System, which is a cooperative agricultural credit system of farm credit banks and associations that lends to farmers, ranchers, and their cooperatives. FCA has a fiscal year 1992 budget of approximately \$40 million and 500 employees.

FCA is managed by the FCA Board, which consists of three members appointed by the President and confirmed by the Senate. Each member serves a 6-year term, with one member designated by the President to serve a 2-year term as Chairman of the Board and Chief Executive Officer. The Chairman is responsible for directing and implementing Board-adopted policies and regulations, and managing FCA operations. In this capacity, the FCA Chairman provides general supervision to the FCA IG and rates his performance.

The FCA Office of Inspector General is an independent office which conducts and supervises audits and investigations in order to promote

economy and efficiency and prevent fraud and abuse within FCA's programs and operations. Among other duties, as the head of the OIG, the IG is required to keep the FCA Chairman and the Congress fully and currently informed about problems and deficiencies relating to FCA's programs and the need for corrective actions. The IG was appointed on January 22, 1989, by the previous FCA Chairman.

The IG's Fiscal Year 1990 Performance Appraisal

The FCA Chairman appraised the IG's fiscal year 1990 performance under FCA's Performance Management System. The FCA IG's performance appraisal contained five job elements and the FCA Chairman's assessment of the IG's performance in each job element. Three job elements were designated critical—leadership, program management, and office direction and management—and two job elements were designated noncritical—personnel management and communication. For each job element, the IG could be rated as either outstanding, exceeds fully successful, fully successful, minimally successful, or unsatisfactory. To receive an overall rating of fully successful, the IG must be fully successful or above in each of the critical job elements. However, FCA's Performance Management System required a "rigorous justification" to substantiate a rating below the fully successful level in any job element.

On January 24, 1991, the FCA Chairman provided the IG with an overall rating of minimally successful for fiscal year 1990. For the critical job elements of leadership, program management, and office direction and management and the noncritical job element of communication, the IG was rated minimally successful. He was rated fully successful in the remaining job element—personnel management. After discussions with the Chairman about the basis for his appraisal, the IG informed the staff of the Senate Committee on Governmental Affairs that he believed his performance appraisal was not justified because the Chairman did not adequately support his assertion that the IG did not comply with the Comptroller General's Government Auditing Standards.

In a March 21, 1991, letter, the Chairman of the Senate Governmental Affairs Committee and the Chairman and Ranking Minority Member of the Senate Committee on Agriculture, Nutrition and Forestry requested that the FCA Chairman provide specific examples to justify the IG's minimally successful performance appraisal. As a result of their inquiry, the FCA Chairman revised the IG's performance appraisal by (1) raising the leadership job element to fully successful and (2) including specific examples designed to illustrate in the two other critical job elements how the IG did not (a) comply with government auditing standards and

(b) meet certain annual audit planning requirements of OMB Circular A-73.

The FCA Chairman, with the assistance of FCA staff, reviewed the seven OIG audit reports issued during fiscal year 1990, compared them with the requirements of government auditing standards, and identified what they considered to be examples of noncompliance with the standards. Also, the FCA Chairman compared the annual audit planning requirements specified by OMB Circular A-73 with the IG's proposed schedule of audits for fiscal year 1991 and identified instances where he believed that the IG did not meet certain requirements. The FCA Chairman included the examples in the IG's revised performance appraisal, which was signed on May 31, 1991. The IG was again rated minimally successful.

Objectives, Scope, and Methodology

Our principal objective was to determine if the examples cited in the FCA IG's revised fiscal year 1990 performance appraisal supported the Chairman's assertions that the IG failed to (1) comply with the Comptroller General's Government Auditing Standards¹ and (2) meet the annual audit planning requirements of the OMB Circular A-73, "Audit of Federal Operations and Programs."²

As agreed with your offices, we also determined if

- the IG was singled out for changes in his position description and performance plan for fiscal year 1991, and if these revisions were consistent with the IG Act;
- FCA management fully understood the IG's independent reporting responsibilities under the IG Act;
- FCA announced the OIG's existence and purpose to its employees through widely distributed information; and
- the IG was hindered in obtaining documents and information while conducting audits at FCA.

In addressing the first objective, we reviewed the FCA Chairman's written justification for the IG's minimally successful rating in two job elements—program management and office direction and

¹The IG Act requires an IG, in carrying out audit responsibilities, to comply with government auditing standards.

²OMB requires an IG to comply with the provisions of OMB Circular A-73, which includes requirements for an annual audit plan.

management—in his revised fiscal year 1990 performance appraisal. The ratings in these job elements addressed the FCA Chairman's assertion that the IG failed to (1) comply with government auditing standards and (2) meet certain OMB annual audit planning requirements, respectively. We did not review the other three job elements in the IG's performance appraisal because they were not within the scope of our review.

We reviewed the 36 examples cited by the FCA Chairman as justification for the IG's noncompliance with government auditing standards to determine if they supported his conclusion of inadequate compliance. Because no absolute quantitative measurement criteria exist for evaluating compliance with government auditing standards, we relied heavily on professional judgment. Accordingly, the team members serving on this review were senior-level supervisory staff with extensive experience in evaluating IGs and independent public accountants' compliance with government auditing standards and/or OMB Circular A-73.

To reach our conclusions, we reviewed the seven OIG audit reports completed during fiscal year 1990 and each audit's working papers from which the 36 examples were obtained. For each audit report and its related working papers, we reviewed the adequacy of the audit plans for the audit, the documentation supporting supervision of the audit work, and the evidence for selected report statements and conclusions, to identify potential noncompliance in the IG's audit process. Although we reviewed the seven OIG audit reports and related working papers, our review was of a lesser scope than an external quality control review.³

To determine whether the IG met the annual audit planning requirements of OMB Circular A-73, we reviewed the IG's annual audit planning documents for selecting audits, assigning staff, budgeting resources, choosing audit locations, determining audit scope and objectives, and obtaining management input during fiscal year 1990 and compared them to the circular's requirements.

To determine whether the IG was singled out for changes in his position description and fiscal year 1991 performance plan, we reviewed the

³Government auditing standards require that organizations conducting government audits have an external quality control review at least once every 3 years by an organization not affiliated with the organization being reviewed. The external quality control review should determine that (1) the organization's internal quality control system is in place and operating effectively and (2) established policies and procedures and applicable auditing standards are being followed in its audit work, including its government audits.

revisions that the FCA Chairman made between the fiscal years 1990 and 1991 position descriptions and performance plans of the IG and other FCA office directors. We also reviewed the IG's most recent position description and fiscal year 1991 performance plan to identify any undue restrictions in conducting audits and investigations that would conflict with the IG Act.

To determine if FCA understood the IG's independent reporting responsibilities under the IG Act, we interviewed FCA's Chairman, General Counsel, and three office directors to ascertain if they understood the requirements of the IG Act.

To determine if FCA announced the IG's existence and purpose to its employees, we obtained copies of the information distributed to FCA employees about the IG's existence and role.

To determine whether the IG was hindered in obtaining documents and information while conducting audits at FCA, we (1) selected for review, records of OIG requests for FCA documents and information as well as records of FCA management responses to OIG requests and (2) interviewed OIG and FCA management staff to identify information requests made, whether any delays occurred in supplying documents and information to the OIG, and the reasons for such delays.

We conducted our work from June through November 1991 in accordance with generally accepted government auditing standards. Our work was conducted at the headquarters of the Farm Credit Administration in McLean, Virginia. We discussed our conclusion that the IG's minimally successful performance appraisal in two critical job elements was not substantiated with the FCA Chairman and General Counsel. While these officials did not disagree with our conclusions, they continue to believe that a minimally successful rating is justified. However, in accordance with the requesters' wishes, we did not obtain written comments on a draft of this report.

Inspector General's Performance Appraisal Not Substantiated

Based on our review of the IG's work, and our professional judgment, we believe 31 of the 36 examples used by the Chairman to support the IG's performance appraisal did not demonstrate a lack of compliance with government auditing standards. The remaining five examples, which were in one audit report, did not satisfactorily comply with certain aspects of the government auditing standard on reporting. However, FCA

management agreed with the report's overall conclusions and recommendations. Also, we found adequate evidence in the IG's files that all annual audit planning elements required by OMB Circular A-73 were addressed by the IG, although most of them were not included in the IG's schedule of audits that the FCA Chairman reviewed.

Consequently, we believe that the IG's minimally successful rating in two critical job elements was not substantiated by a "rigorous justification" as required by FCA's Performance Management System. Thus, we believe that the IG's overall rating of minimally successful was not supported by the performance appraisal.

IG Compliance With Government Auditing Standards

In his revised fiscal year 1990 performance appraisal of the IG, the FCA Chairman cited 36 examples to justify his determination that the IG did not comply with government auditing standards. We believe that 31 examples did not support the Chairman's assertion that the IG failed to comply with government auditing standards and thus did not provide the rigorous justification required for a minimally successful rating.

For example, the FCA Chairman stated in the IG's performance appraisal that a draft report on FCA's internal controls review process should have been sent to all FCA office directors because all FCA programs are affected by internal controls. Government auditing standards on reporting the results of audits require that the views of responsible auditee officials be obtained on the audit report. However, the reporting standard requires that this be done as deemed appropriate by the audit organization, in this case, the OIG. The IG sent the report draft to FCA's internal control official for agency comments. We agree that the IG's designation of FCA's internal control official as the "responsible auditee official" complied with the reporting standard. Since FCA's internal control official is also the Secretary of the FCA Board, the official could have circulated the draft report to all office directors for their comments, which could have been helpful in preparing FCA's coordinated response.

In a second example, the FCA Chairman criticized an audit report which did not explain the requirements of the Chief Financial Officers Act (CFO) of 1990, even though the act was passed 5 months after the audit report was issued. The Chairman stated that the report did not explain why a recommended chief financial officer would benefit FCA. The government auditing standard on reporting requires that conclusions and recommendations follow logically from the facts presented. We found

that the audit report explained the recommended CFO position so financial operations would receive better top management attention. To support this recommendation, the report included numerous examples of weaknesses in FCA's financial management operations which would justify top management attention and the appointment of a CFO.

In another example, the FCA Chairman stated in the IG's performance appraisal that the IG did not disclose his reliance on unverified data in his report on FCA's fiscal year 1988 spending limits—a time sensitive year-end review requested by the Chairman. The government auditing standard on reporting states that the use of unverified data must be disclosed in the report. In our review of the IG's audit report, we found that the IG's reliance on unverified FCA data was clearly stated along with other limitations to the audit's objectives, scope, and methodology.

However, in the remaining five examples, which were in one audit report, the IG did not satisfactorily comply with certain aspects of the government auditing standard on reporting. In that report, which concerned FCA's procurement and contracting practices, the IG (1) did not include a required statement that the audit was conducted in accordance with generally accepted government auditing standards, (2) twice reported incorrectly certain statutes, regulations, and administrative guidance related to procurement and their applicability to FCA, (3) did not clearly state the legal criteria used in the audit, and (4) did not explain whether criteria used in the audit applied by reason of law or policy. While in these examples the IG did not satisfactorily comply with certain aspects of the government auditing standard on reporting, FCA management, in commenting on a draft of that report, agreed with its conclusions and recommendations.

We discussed our assessment of the 36 examples used to support the IG's lack of compliance with government auditing standards with the FCA Chairman and General Counsel. Although they did not disagree with our professional judgment regarding the examples, they continue to believe that the IG's performance was minimally successful.

IG Adherence to OMB's Annual Audit Planning Requirements

In our review of the IG's fiscal year 1990 annual audit planning documents, we found adequate evidence that the IG satisfactorily addressed all of the annual planning elements required by OMB Circular A-73, although all of them were not included in the IG's schedule of audits that the FCA Chairman reviewed.

The OMB circular requires that audit organizations, at a minimum, prepare an annual audit plan which identifies programs and operations selected for audit, and define for each audit (1) specific reasons for the selection, (2) overall audit objective and scope, (3) locations to be audited, (4) the organization that will make the audit, (5) staff days and other resources needed to perform the audit, and (6) anticipated benefits to be obtained from the audit. The circular also states that the annual audit plan should respond to management's needs and the universe of audit areas, particularly high risk programs and operations, and the completed plan should be reviewed by the head or deputy head of the agency.

In reviewing the IG's planning documents prepared during fiscal year 1990, we found that the IG had evidence in his files to show that all of the annual audit planning elements required by OMB Circular A-73 had been met. In developing his annual audit plans, the IG requested audit suggestions from FCA management, and some were incorporated in the IG's plan. In addition, the IG presented his schedule of audits to the FCA Chairman, who did not ask for additional planning elements when the audits were reviewed with the IG.

We discussed our findings and conclusions concerning the IG's adherence to OMB's annual audit planning requirements with the FCA Chairman and General Counsel. While the Chairman did not dispute our findings that the IG's files contained the required OMB planning elements, he continued to believe that a minimally successful rating was justified in this area, and that all the planning elements should have been included in the IG's schedule of audits.

During fiscal year 1991, the IG's annual audit plan combined in a single document all of the planning elements required by OMB Circular A-73. The IG has presented this document to the FCA Chairman for his review.

IG's Position Description and Performance Plan Were Changed

During fiscal year 1991, the FCA Chairman revised the IG's position description and performance plan. However, the IG was not singled out by the FCA Chairman for revisions to these two documents. The FCA Chairman also revised the position descriptions and performance plans for seven other FCA office directors during the year.

The FCA Chairman stated that he revised the IG's position description and fiscal year 1991 performance plan to more clearly communicate the

Chairman's own performance standards and to improve the IG's minimally successful performance. After discussions with the Chairman on these changes, the IG informed the staff of the Senate Committee on Governmental Affairs that he believed the revisions may impair his independence.

In a March 21, 1991, letter to the FCA Chairman, the Chairman of the Senate Committee on Governmental Affairs and the Chairman and Ranking Minority Member of the Senate Committee on Agriculture, Nutrition and Forestry expressed concerns that these new requirements would undermine the IG's independence. Specifically, they were concerned about limitations on the IG's ability to conduct audits and investigations and to communicate with the Congress.

The FCA Chairman and the IG revised the performance plan and position description, which were signed on June 14 and July 1, 1991, respectively. Based on our review of these revised documents, we determined that they did not place any limitations on the IG's duties and responsibilities which would be inconsistent with the IG Act.

Other Issues Relating to FCA Management and the IG

Through our discussions with the FCA Chairman, General Counsel, and selected management officials whose operations and programs were audited by the IG, we believe that FCA management has a clear understanding that the IG Act requires the IG to keep both the Congress and the Chairman currently informed of FCA matters, particularly those involving fraud, waste, and abuse. Moreover, FCA keeps its employees adequately informed about the OIG's existence and purpose through periodic FCA newsletters, policy documents, and its annual report.

Based on their responses to our questions, we believe FCA management officials also understand the IG's authority to obtain information and documents necessary for completing audits and investigations. We did find some instances where the IG did not get immediate access to information. These delays resulted because FCA management requested certain assurances that sensitive FCA information be protected. In our opinion, these were not unreasonable requests. For example, the IG's request to access FCA's Office of Resources Management computer system to obtain data was delayed until the IG's computer software could be tested for computer viruses. Also, the IG's request for confidential personnel records was delayed until the IG could provide assurance that their confidentiality could be maintained. These instances were resolved, and the requested information was obtained.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from its date. At that time, we will send copies of the report to the Director of the Office of Management and Budget, the Chairman and Inspector General of the Farm Credit Administration, and the Chairman and Vice Chairman of the President's Council on Integrity and Efficiency. We will also make copies available upon request.

Please contact me at (202) 275-9489 if you or your staffs have any questions concerning the report. Major contributors are listed in appendix I.

A handwritten signature in black ink that reads "David L. Clark". The signature is written in a cursive style with a large, stylized initial "D" and a prominent flourish at the end.

David L. Clark
Director, Legislative Reviews and
Audit Oversight

Major Contributors to This Report

Accounting and
Financial Management
Division, Washington,
D.C.

Charles W. Culkin, Jr., Senior Assistant Director (202) 275-9486
Jackson W. Hufnagle, Accountant-in-Charge

Office of the General
Counsel

Helen T. Desaulniers, Attorney

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