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Description of document: Farm Credit System Insurance Corporation (FCSIC) Audit Committee Meeting presentation by the Farm Credit Administration (FCA) Inspector General (OIG) re the merits of employing an IG for FCSIC, 2015, and copies of two FCSIC memoranda regarding having an IG for FCSIC, 2011-2012

Requested date: January 2017

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Source of document: Freedom of Information Officer
Farm Credit System Insurance Corporation
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From: Agans, Autumn <AgansA@fca.gov>
Sent: Tue, Feb 21, 2017 9:50 am
Subject: FOIA - FCSIC # 17-007

This letter is in response to your Freedom of Information Act, 5 U.S.C. § 552 (FOIA), request to the Farm Credit System Insurance Corporation (FCSIC or Corporation). You have requested digital/electronic copies of the presentation by the FCA IG on the merits of employing an IG for FCSIC, at the January 8, 2015, Audit Committee Meeting, and a copy of each FCSIC memorandum regarding having an IG for FCSIC from 2010 to present.

We have conducted a thorough search of the Corporation's records and located 23 pages responsive to your request. I have determined that 18 pages are appropriate for release and 5 pages are being withheld pursuant to Exemption 5. 5 U.S.C. §§ 552(b)(5). Exemption 5 protects "inter-agency or intra-agency memorandums or letters which would not be available by law to a party . . . in litigation with the agency." This exemption has been construed to exempt those documents normally privileged in the civil discovery context. The most frequently invoked privilege incorporated within Exemption 5 is the deliberative process privilege, the general purpose of which is to prevent injury to the quality of agency decisions.

We are also withholding documents based on the attorney-client privilege. The records withheld under this exemption consist of internal memoranda created by and generated within FCSIC. These records are pre-decisional and deliberative, or express opinions on legal, compliance, or policy issues. While Exemption 5 generally does not protect purely factual material, those factual portions of the documents withheld under this Exemption were inextricably connected to the deliberations and were, thus, protected from disclosure.

Generally, the Corporation may charge fees to cover the full allowable direct cost of searching for and reproducing records responsive to a request for information. 12 C.F.R. § 602.11. However, we have decided to waive fees in this instance because the amount is de minimis.

For your information, Congress excluded three discrete categories of law enforcement and national security records from the requirements of FOIA. See 5 U.C.S. § 552(c) (2006 & Supp. IV (2010)). This response is limited to those records that are subject to the requirements of the FOIA. This is a standard notification that is given to all our requesters and should not be taken as an indication that excluded records do, or do not, exist.

I trust this information fully satisfies your request. If you need further assistance or would like to discuss any aspect of your request, please do not hesitate to contact me at 703.883.4082 or AgansA@fca.gov. FCA's FOIA Public Liaison is also available for assistance at FOIAPublicLiaison@fca.gov.

If you choose to appeal this response to your request, the appeal should be in writing and addressed to the Farm Credit System Insurance Corporation, 1501 Farm Credit Drive, McLean, VA 22102-5090. Both the letter and envelope should be clearly marked "FOIA Appeal." Appeals must be postmarked or electronically transmitted within 90 days of the date of the response to your request.

You may also contact the Office of Government Information Services (OGIS) at the National Archives and Records Administration (NARA) to inquire about the FOIA mediation services they offer. The contact for OGIS is as follows: Office of Government Information Services, National Archives and Records Administration, 8601 Adelphi Road – OGIS, College Park, Maryland, 20740-6001; email at ogis@nara.gov; telephone at (202) 741-5770; toll free at 1-877-684-6448; or facsimile at (202) 741-5769.

Autumn R. Agans
FOIA Officer
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102

OIG Briefing: FCSIC Audit Committee Jan. 8, 2015



**FARM CREDIT ADMINISTRATION
OFFICE OF INSPECTOR GENERAL**

Presentation Goals



- OIG Overview: Purpose, Mission, Authorities.
- OIG Role: An Agent for Change.
- OIG for FCSIC: Enhanced Oversight.



Who is the OIG?



In 1978, Congress created the first OIGs to provide independent oversight of departmental funding, programs and activities to ensure proper stewardship of public funds.

The FCA OIG was created in 1989 under amendments to the IG Act.

The “IG Act” conveyed to FCA OIG the authority to:

- **conduct independent and objective audits, investigations and inspections;**
- **prevent and detect waste, fraud and abuse;**
- **promote economy, effectiveness and efficiency;**
- **review pending legislation and regulations; and,**
- **keep the agency head and Congress fully and currently informed.**

The OIG is here to work with FCA to ensure stewardship of funds; adherence to policy, regulation and law; workforce integrity; and to promote effectiveness and efficiency. The law provides the IG with full discretion to examine operations and programs, and grants the IG complete access to all materials.



What does the OIG do?



- **Conduct audits, inspections, and investigations relating to Agency programs and operations.**
- **Review proposed legislation and regulations and recommend policies that will promote economy and efficiency, and prevent and detect fraud and abuse in Agency programs and operations.**
- **Provide a confidential mechanism for employee and whistleblower complaints.**



What is OIG's statutory independence?



- **Operational, Statutory Independence:**
 - The IG is appointed **without regard to political affiliation** and solely on the basis of integrity and demonstrated ability.
 - The IG under the “general supervision” of the “Agency head” – the FCA Board – **cannot be required to report to, or be subject to supervision by, any other FCA official.**
 - The Board cannot “**prevent or prohibit the Inspector General from initiating, carrying out, or completing any audit or investigation**”
 - Removal of the IG requires written concurrence of a **2/3 majority** of the Board.



What is OIG's statutory access to records and info?



- **Access to Records and Information:** The OIG has “*access to all records, reports, audits, reviews, documents, papers, recommendations*”



What is OIG's statutory authority to staff and report?



- **Employment Authority:** Authority to select and employ OIG staff.
- **Contract Authority:** Authority to enter into contracts.
- **Reporting:**
 - OIG reports potential criminal violations to the Attorney General.
 - OIG semiannually reports to the Board and Congress.



What is the OIG's role within the Farm Credit Administration?



- **OIG: An *Agent for Change* and *Partner* within the Agency.**
- **Our Goal: Enhance the public trust; continuous improvement in program operations.**



How can OIG enhance FCSIC oversight?



- **Who benefits?**
- **What are the benefits?**
- **How can the FCSIC Board provide for OIG oversight?**



Who benefits from OIG oversight?



- **The FCSIC Board** – In addition to FCSIC's current reporting, the Board receives additional objective and independent information about FCSIC's performance and reviews for fraud, waste and abuse in FCSIC operations.
- **FCSIC** – OIG activities provide greater independence in audit, evaluation, and inspection of FCSIC operations.
- **Congress** – OIG provides enhanced accountability and access to information.



What are the benefits of OIG oversight?



- **Increased accountability with “outside” oversight**; another perspective; operational independence; more transparency leads to greater attention to issues and better solutions.
- **Separate and enhanced reporting** to the FCSIC Board and Congress.
- The **optics of independence** – value in separating the “evaluator” from the “evaluated”.
- OIGs often generate **new ways to view established practices**; provide audit “oversight” expertise.
- All oversight creates some cost; **focus on oversight and potential economies of scale**:
 - Explore financial statement audit contracting.
 - Including FCSIC in FCA-wide OIG audits/inspections – e.g., government credit cards, Agency policies/procedures.
 - Co-location of FCA, FCSIC, and OIG.



How can the FCA OIG provide oversight?



- **GAO already recommended FCA OIG provide FCSIC oversight: 1994 GAO report** (*Farm Credit Administration Effectively Addresses Identified Problems*, No. GGD-94-14 (Jan 7, 1994)).
- **Consistent with FCA statutory mandate:** “To the extent practicable, the Corporation shall use the personnel and resources of the [FCA] to minimize duplication of effort and to reduce costs.”
- **FCA OIG in best position to provide oversight for FCSIC:** FDIC and NCUA OIGs concur based on significant variation in statutory authorities and nature of institutions.
- **Potential for conflicts of interest:** Unlikely, and even if they occur, OIG can manage any such conflicts readily.



QUESTIONS?



MEMORANDUM



December 8, 2011

To: Kenneth Spearman
FCSIC Chairman

From: Dorothy Nichols *DN*
COO

Subject: Farm Credit Administration Office of Inspector General Recommendations

The Farm Credit Administration Office of Inspector General (FCA IG) made two recommendations concerning the Farm Credit System Insurance Corporation (FCSIC or Corporation) to address its “concerns with FCSIC’s efficiency and oversight.” The FCA IG acknowledges that both would require a legislative change. Essentially, without an analysis of the costs, benefits, or the existing independent reviews of the FCSIC operation, the FCA IG recommends that “legislation be advanced to make the FCA IG the IG of the FCSIC.” As an alternative, the FCA IG recommends “greater efficiencies, but more complicated, would be a merger of the FCSIC into the FCA.” The FCA IG notes: “Under this approach, the FCA IG would also be the IG of the FCSIC.” Again, there is no analysis presented. (See OIG Observation 2012-06)

The FCA IG notes that it has made similar recommendations at least 5 times since the early nineties (some of these were not shared with us). We are at a loss to understand the FCA IG’s concern with the FCSIC’s efficiency and oversight. The FCSIC is an independent U.S. Government-controlled corporation created by Congress and managed by a three-member board of directors that are presidentially appointed and confirmed by the Senate. The Board is committed to the Corporation’s mission. The Corporation’s primary purpose is to ensure the timely payment of principal and interest on insured debt obligations issued on behalf of Farm Credit System (System) banks. By protecting investors, FCSIC helps to maintain a dependable source of funds for the farmers, ranchers, and other borrowers of the System. The Corporation administers the Farm Credit Insurance Fund, which is invested in U.S. Treasury Securities, and collects annual insurance premiums from System banks. The Board is required to administer the affairs of the Corporation.

FCSIC Is Administered Efficiently.

Internal controls serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. The Board has adopted a policy statement on internal controls and audit coverage. This policy makes it a fundamental responsibility of management to institute effective controls, assess them periodically, and make course corrections as needed, to ensure accountability for resources and achievement of program objectives. FCSIC’s management makes representations twice a year attesting to

the effectiveness of the internal control environment. Management reviews internal controls and compliance with laws and policies in its annual report to Congress and the President as required by the Office of Management and Budget (OMB) under the Federal Managers' Financial Integrity Act (FMFIA). The Board has demonstrated its commitment to oversight and efficiency of the FCSIC in numerous ways since the Corporation became operational. For example, since 1990, the Board has directed the preparation of FCSIC's financial statements and required an annual independent audit of those statements and a review of internal controls in voluntary compliance with the primary requirements of the Chief Financial Officers Act of 1990. The Board and management pride themselves on the Corporation's consistent record of unqualified opinions on its financial statements.

In November, 1999, the Board adopted recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees and established the FCSIC Audit Committee. The three board members serve as the Audit Committee. The Audit Committee selects and, if necessary, replaces the auditor. Also, the Audit Committee meets with the independent auditor to approve the scope of each year's audit. The Board has directed that the Corporation's operations, policies and procedures and other internal controls be independently reviewed periodically to ensure their overall efficiency and effectiveness. For example, the Board adopted a policy statement on investments to ensure that the Corporation has adequate liquidity to meet its statutory obligations. The policy directs the Corporation to seek the maximum rate of return, consistent with liquidity needs, and a minimum exposure of loss to principal. The policy limits investments to certificates, bills, notes, and bonds purchased through the Treasury Department's Bureau of Public Debt. The policy prohibits trading for capital gains purposes. In 2007, the Corporation had an independent operational review of the investment program and the Board met with the firm and had a full briefing from the senior partner on the firm's report. Last year, the FCSIC, which can be appointed receiver or conservator for insured institution, used an outside law firm to compare its receivership and conservatorship authorities with other federal insurers so it could evaluate its operational ability to carry out its duties. This operational evaluation resulted in a recommendation for a proposed statutory enhancement that would make FCSIC's authorities commensurate with other federal insurers.

Independent Oversight Is Already Available.

In addition to the regular calendar year audit, OMB has requested that the independent auditor perform a special purpose review of our financial statements as part of FCSIC's filing of the fiscal yearend report. The firm audits the Corporation's investments in U.S. Treasuries and the premium receivables as of September 30th. The audit requirements are set out in U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700. To complete the audit, the independent auditors review the Corporation's fiscal yearend financial statements and certain related internal controls that cover the investment portfolio and the premium receivables. These agreed-upon procedures allow FCSIC's audited special purpose fiscal year financial information to be included in the Financial Report of the U.S.

In conjunction with their testing of internal controls, the independent auditor reports on its consideration of internal controls over the financial reporting process for the financial statements as a basis for designing their auditing procedures and on their testing of compliance with certain provisions of laws, regulations, and contracts that have a direct and material effect of the financial statements. The report includes any control deficiencies that come to their attention. Since the Corporation became operational, no material deficiencies or weaknesses have been reported.

Additionally, the Government Accountability Office (GAO) performs certain audit procedures in an annual review of the Corporation's fiscal year-end and financial year-end independent audit. Specifically, it reviews any accounting, auditing, and financial management issues at the Corporation to support its Federal

Government Consolidated Financial Statement (CFS) audit. This includes attending key audit meetings, conducting discussions with the Corporation's auditors, reviewing the firm's work papers and assessing the auditor's independence, objectivity and qualifications. GAO also assesses the auditor's financial reporting, which includes a review of the Corporation's financial reports and related auditor's reports.

Thus, twice a year, at the close of the fiscal year and again at the end of the calendar year, the Corporation's financial statements and related internal controls are reviewed by an independent auditor. Each year, for fiscal and calendar yearend, GAO reviews FCSIC's financial reporting, internal controls and the independence and practices of our independent auditor. Management completes the vulnerability assessment required under FMFIA every year. The Board as the Audit Committee meets with the auditor at the beginning of the audit engagement to hear the scope of work planned and then holds an executive session, without management, providing an opportunity for discussion. At the conclusion of the field work, the auditor delivers its report and the Audit Committee holds another executive session with the auditor and can ask about the management and about the operations. Additionally, the Audit Committee can ask the auditor or another independent consultant to review the Corporation's operations.

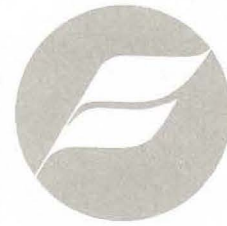
In summary each year, there are three separate independent reviews of the Corporation, the Insurance Fund and the premium collection process. Furthermore, the Board, acting as the audit committee, can investigate any potential operational inefficiencies. In light of these facts, the Board would have to consider whether or not additional IG reviews can provide a better or more cost effective outcome for a staff of 10.5.

FCSIC is a government insurer, with a responsibility to act as receiver or conservator if appointed, so it would be important for the FCSIC inspector general to have audit expertise in these operational areas. The FCA IG did not consider other sources of review. For example, one alternative to a dedicated IG would be for the Audit Committee to contract with the FDIC, GAO or another government entity with appropriate experience. Finally, we question whether you could consider the FCA IG independent as to the Corporation because it has on more than one occasion recommended that FCSIC, a Congressionally created separate government corporation, be merged into the FCA.

I am including for your consideration two memorandums from former FCSIC Chairmen that address the IG issue.

Attachment


MEMORANDUM



Farm Credit System Insurance Corporation

February 9, 2012

To: Carl Clinefelter
Farm Credit Administration Inspector General

From: Kenneth Spearman
FCSIC Chairman 

Subject: FCA OIG Observation 2012-01

Thank you for providing me with your OIG Observation 2012-01, which recommended that legislation be advanced to make the Farm Credit Administration (FCA) Inspector General (IG) the IG of the Farm Credit System Insurance Corporation (FCSIC). Your Observation also recommended as an alternative, a merger of the FCSIC into the FCA. I have carefully considered your Observation; I also convened a meeting of the FCSIC Audit Committee on February 1, 2012, during which the members of the Audit Committee (consisting of the three Directors of the FCSIC) thoroughly reviewed and discussed your recommendations. After this review, the Audit Committee unanimously concluded that it would not be appropriate to accept your recommendations at this time.

I believe the FCSIC should be subject to strong independent review. Since 1990, the FCSIC Board of Directors has directed the preparation of FCSIC's financial statements and required an annual independent audit of those statements in voluntary compliance with the primary requirements of the Chief Financial Officers Act of 1990. More recently, the Office of Management and Budget (OMB) has requested FCSIC obtain a special purpose audit in connection with the Fiscal Yearend report. The Board of Directors and management pride themselves on the Corporation's consistent record of unqualified opinions on its financial statements.

Internal controls serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. The Board of Directors has adopted a policy statement on internal controls and audit coverage. At my direction, this policy was reviewed and updated at the December 8, 2011, Board of Directors meeting. The policy makes it a fundamental responsibility of management to institute effective controls, assess them periodically, and make course corrections as needed, to ensure accountability for resources and achievement of program objectives. It states that the Corporation's internal control system shall include, among other items, policies and procedures that foster compliance with laws, regulations and government ethics. It directs that these internal controls should be independently reviewed periodically to ensure their overall efficiency and effectiveness.

The Board policy also establishes the FCSIC Board of Directors as the Corporation's Audit Committee. The independent auditor reports to the Audit Committee, not to management. The Audit Committee selects and, if necessary, replaces the auditor. Also, the Audit Committee meets with the independent auditor to approve the scope of each year's audit and receive the results of the audit, and meets in executive session with the auditor to ask about the management or FCSIC operations. Furthermore, the Board of Directors, acting as the Audit Committee, can investigate any potential operational inefficiencies independent of management. Additionally, as the Chairman of the Audit Committee I can initiate a program review to ensure overall efficiency and effectiveness for FCSIC's staff of 10.5. The Audit Committee at the FCSIC provides

significant opportunity for oversight and effectively addresses any concern that the audit or an operational review might be controlled by management.

To ensure management accountability, the Board policy requires management to provide a written assertion about the effectiveness of its internal control over financial reporting and that the Corporation is in compliance with applicable legal requirements. FCSIC's management makes representations twice a year on the adequacy of the internal control environment. Management reviews internal controls and compliance with laws and policies in its management representation letters to the external auditor in connection with the independent audit at yearend and in its annual report to Congress and the President as required by OMB under the Federal Managers' Financial Integrity Act (FMFIA).

In conjunction with their testing of internal controls, the independent auditor reports on their consideration of internal controls over the financial reporting process for the financial statements as a basis for designing their auditing procedures. The auditor also reports on their testing of compliance with certain provisions of laws, regulations, and contracts that have a direct and material effect on the financial statements. Their reports include any control deficiencies that come to their attention. Since the Corporation became operational, no material deficiencies or weaknesses have been reported.

Additionally, the Government Accountability Office (GAO) performs certain audit procedures in an annual review of the Corporation's fiscal and financial year-end independent audits. Specifically, the GAO reviews any accounting, auditing, and financial management issues at the Corporation to support its Federal Government Consolidated Financial Statement (CFS) audit. This includes attending key audit meetings, conducting discussions with the Corporation's auditor and assessing the auditor's independence, objectivity and qualifications. GAO also assesses the auditor's financial reporting, which includes a review of the Corporation's financial reports and related auditor's reports.

As a general proposition, there is significant value in having an Inspector General provide oversight for government entities; however, in light of these regular independent audits, small size of the FCSIC staff, extremely limited opportunity for fraud, waste or abuse of funds, and continuing oversight by the Audit Committee, it is reasonable to conclude that key FCSIC programs and operations get a thorough review already and that the cost associated with FCSIC employing an IG would significantly outweigh the benefits received by FCSIC or the public interest. Moreover, merging FCSIC into FCA would be directly contrary to Congress' intent in establishing FCSIC as an independent entity and would not be in the public's best interest.

cc: Leland Strom
Jill Long Thompson