

**GAO**

Report to the Chairman, Subcommittee  
on Nutrition and Investigations,  
Committee on Agriculture, Nutrition,  
and Forestry, U.S. Senate

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September 1990

# EMPLOYEE FINANCIAL DISCLOSURE

## Farm Credit Administration System Is Generally Operating Effectively





United States  
General Accounting Office  
Washington, D.C. 20548

General Government Division

B-240225

September 27, 1990

The Honorable Tom Harkin  
Chairman, Subcommittee on Nutrition  
and Investigations  
Committee on Agriculture, Nutrition,  
and Forestry  
United States Senate

Dear Mr. Chairman:

This report, the second in response to your request, evaluates the implementation of ethics laws and regulations that govern the conduct and responsibilities of employees of the Farm Credit Administration (FCA), an independent executive branch agency.<sup>1</sup> Because of the Subcommittee's concern for the integrity, public image, and administrative duties of federal employees, you asked us to determine if FCA's financial disclosure system reasonably safeguards against conflicts between FCA employees' financial interests and their federal duties.

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## Approach

To review FCA's system for preventing and resolving conflicts of interest, we focused on whether the system conforms with (1) the requirements of the Ethics in Government Act of 1978, as amended; (2) related executive orders; and (3) implementing regulations. The Office of Government Ethics (OGE) reported on FCA's ethics program in 1985; we reviewed that report to determine whether FCA has since corrected financial disclosure system weaknesses reported at that time. We reviewed the procedures and practices that FCA used to (1) identify employees required to file public and confidential disclosure reports, (2) obtain reports from these employees by required dates, (3) review the reports within prescribed time periods, and (4) resolve conflicts of interest.

Our review was made between September 1989 and April 1990 at FCA headquarters in McLean, Va. We made our review in accordance with generally accepted government auditing standards. Details on the objective, scope, and methodology of our review are contained in appendix I.

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<sup>1</sup>Our first report was on the U.S. Department of Agriculture (USDA) and entitled Financial Disclosure: USDA's Systems Limited by Insufficient Top Management Support (GAO/GGD-90-100, July 13, 1990).

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Associations, Production Credit Associations, Banks for Cooperatives, and other FCA chartered and supervised institutions.

Until 1986, FCA participated in the day-to-day management of the FCS and was responsible for regulating, supervising, and examining FCS banks and associations. FCA's close working relationship with FCS changed with the enactment of the Farm Credit Amendments Act of 1985 (Public Law 99-205). Provisions of this act that were designed to provide assistance to troubled institutions and more effectively regulate their activities took effect January 23, 1986. It established FCA as an "arm's-length" regulator of the FCS by restructuring FCA and giving it broader power and authority similar to other federal regulatory agencies.

In addition to the 3-member Board, FCA had about 560 employees in January 1990. FCA board members, executives, and certain other high-level employees must comply with public reporting requirements of the act of 1978, as amended, and with OGE regulations. FCA-designated employees, including examiners at the GS-9 level and above, must comply with confidential reporting requirements of Executive Order 11222 dated May 8, 1965, and Office of Personnel Management (OPM) regulations.<sup>3</sup> FCA has issued regulations and reporting instructions to implement the above act, executive order, and regulations.

Agency ethics officials are required to review the interests reported on public and confidential disclosure reports to ensure that employees do not hold financial interests that conflict with their duties. OGE regulations (5 C.F.R. 2638) assign specific ethics program responsibilities to agency heads and designated agency ethics officials (DAEO), such as to allocate sufficient resources for an effective ethics program and periodically evaluate the program. The Chairman of the FCA Board appointed the Chief of Human Resources—who reports to the Board—as DAEO. Appendix II contains additional background information on FCA's responsibilities and governmentwide financial disclosure requirements.

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## Disclosure System Has Been Improved

FCA has made significant improvements in the administration of its financial disclosure system since OGE last reported on the FCA ethics program. In its January 1985 report, OGE recommended to the DAEO that FCA

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<sup>3</sup>OGE was under OPM until October 1, 1989, when OGE became an independent federal agency. (Public Law 100-598, Nov. 3, 1988.) In this report, we refer to regulations on confidential disclosure issued in September 1968 as OPM regulations and other regulations issued after OGE was created as OGE regulations.

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reviewing all authorized personnel action forms before they are processed. As part of this review, he is required to verify the appropriateness of the financial disclosure reporting codes. This information is entered in the FCA personnel system database and retrieved when the Alternate DAEO needs a list of designated filers.

According to the Alternate DAEO, FCA sends a notification letter and disclosure form each year to each incumbent employee required to file a public or confidential disclosure report. He said that when he receives the reports he matches the names of the filers with those on the mailing list to determine who has filed and who should be notified again to file. He said he uses information from the personnel system to identify new, promoted, and reassigned employees and notify them of their reporting requirements so they can file within the required 30 days.

FCA gave employees time to prepare and file reports by sending notification letters to them more than a month before the reports were due in 1989. The notification letter advising employees to file their 1989 public reports by May 10 was dated April 5, 1989. The notification letter sent to confidential filers was dated June 7 and informed them to file by July 14.

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### Public and Confidential Reports Were Generally Filed on Time in 1989

In contrast to OGE's findings reported in 1985, all 24 employees who were required to file public reports in 1989 did so.<sup>4</sup> Of the 354 employees designated to file 1989 confidential reports, 345 employees (97 percent) filed reports.

The public and confidential reports were generally filed on or before the required due dates. Specifically, 21 of the 24 public reports were filed by the due dates, as required.<sup>5</sup> Two of the other three were filed 8 and 25 days after that date. The third employee was required to file by February 6, 1989—30 days after terminating FCA employment—and filed 86 days late. The Alternate DAEO said FCA employees generally submit their reports on time but occasionally he encounters difficulty obtaining

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<sup>4</sup>OGE's 1985 report on FCA's ethics program was based on work done in November 1984.

<sup>5</sup>Because FCA did not document the receipt dates of reports, we used the filing employees' signature dates on the reports to provide an indication of whether the reports were filed by required dates and reviewed within required time periods.

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## FCA Can Further Improve Its Financial Disclosure System

Although FCA had generally obtained and reviewed disclosure reports in a timely manner, it still needs to (1) more closely monitor the filing and review of financial disclosure reports and (2) more fully implement requirements of the 1978 act and OGE regulations.

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## Filing and Review of Reports Need Closer Monitoring

In our examination of the filing and review of certain public reports and confidential reports, we found problems that indicated a need for closer monitoring of the disclosure system. For example, in June 1990, FCA still had not received 9 confidential disclosure reports that were due in 1989. The Alternate DAEO had not sent follow-up notifications to the employees or taken other steps to obtain the reports, and FCA did not require the Alternate DAEO to periodically review and report on the status of required reports.

In addition, FCA had not made complete reviews of all the 1989 public and confidential reports that it received. We reviewed the adequacy of FCA's reviews and conflict-of-interest determinations for 54 of the reports—24 public reports and a sample of 30 confidential reports. The reviews of 45 reports were thorough and conflict-of-interest determinations were adequately supported by information in the reports and related files. For the remaining nine reports—all public—FCA did not (1) fully resolve a standard-of-conduct violation disclosed in one report, and (2) did not obtain complete reports from eight employees, as detailed below.

One FCA employee filed a public report in 1989 showing receipt of an airline ticket, meals, and lodging valued at \$800. The expenses were paid by an export trade group to cover educational tour costs for the employee. Because of the DAEO's concern about a standard-of-conduct violation, he declined to sign the employee's disclosure report. He said administrative action had not been taken on the employee's acceptance of a gift because she had left her FCA position. We believe that the employee's acceptance of this gift might have violated FCA's standards-of-conduct regulations that prohibit employees from accepting gifts that are not of nominal value. The fact that the employee had left FCA did not preclude FCA from referring the case to its Inspector General for investigation of the employee's relationship with the export trade group, nor did it preclude taking appropriate action, such as issuing a letter of admonishment or reprimand, if the investigation results warranted.

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## Report Receipt Dates Need to Be Recorded

Contrary to requirements of the 1978 act, FCA regulations did not require receipt dates to be recorded for public reports. The 1978 act and OGE regulations require these dates to be recorded and agencies to complete certain actions within specified dates after receiving reports. For example, reviews are to be completed within 60 days after receipt, and the reports are to be made available to the public within 15 days after receipt. Because FCA did not record receipt dates, it could not readily determine whether employees met these requirements.

The act and regulations do not contain similar requirements for confidential disclosure reports. Although FCA generally reviewed confidential reports within the time standard that applies to public reports (60 days), it had no time limit for completing confidential report reviews. Further, OGE has proposed a 60-day initial review period in draft regulations issued in December 1986 on confidential disclosure in the executive branch. We believe FCA should require confidential reports to be reviewed within 60 days after they are received and, to monitor compliance, should require the receipt dates for confidential reports to be recorded.

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## Noncompliance Situations Need to Be Publicized

While FCA did publish information on general prohibitions, it did not publish more specific information on circumstances that could result in conflicts of interest, as is required by OGE regulations (5 C.F.R. 2638). This information could help FCA employees avoid financial interests, employment, and outside activities that conflict with their duties. Specifically, these regulations require the DAEO in each agency to ensure that

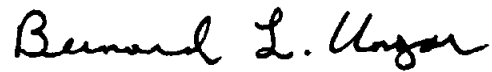
“A list of those circumstances or situations which have resulted or may result in noncompliance with ethics laws and regulations is developed, maintained, and published within the agency . . .”

FCA made decisions about conflict-of-interest situations informally and did not document the issues involved, the rationale for the decisions, and the agency's decisions. FCA examiners and other employees interact regularly with FCS institutions. Recording and publicizing information on how ethics and conflict-of-interest laws and related regulations are applied in the FCA work environment could help these employees comply with these laws and regulations. If done systematically, it could also

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The major contributors to this report are listed in appendix III. Please contact me on 275-5074 if you or your staff have any questions.

Sincerely yours,



Bernard L. Ungar  
Director, Federal Human Resource  
Management Issues

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**Appendix I**  
**Objective, Scope, and Methodology**

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We evaluated whether FCA ethics officials had (1) thoroughly reviewed the financial interests that employees reported and (2) identified any interests that conflicted with employees' duties. In doing so, we examined all 24 public disclosure reports and a nonrepresentative sample (30 of 345) of confidential reports filed in 1989. We scanned the confidential reports and selected 20 of them for review because of indications that they were either not filed or not reviewed according to OPM and FCA regulations. We selected the remaining 10 reports randomly from the universe of confidential reports filed in 1989. We reviewed FCA files supporting its conflict-of-interest determinations for these reports and discussed with the Alternate DAEO all questions that we had about the financial interests these employees reported.

orders, civil penalties, placement of institutions into receivership or conservatorship, and removal of institution officers and directors.

FCA has an Inspector General who is appointed by and reports directly to the Chairman of the Board. The Office of the Inspector General began operations in January 1989. According to a draft FCA policy statement, the Inspector General's review responsibility will include the ethics program.

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## **Financial Disclosure Requirements**

FCA board members, executives, and other designated employees must comply with public or confidential financial disclosure requirements contained in the Ethics in Government Act of 1978, as amended; executive orders; and implementing regulations.

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## **Public Disclosure**

Title II of the 1978 act prescribes requirements for public disclosure in the executive branch. Individuals who must file public disclosure reports include (1) those nominated by the president; (2) members of the Senior Executive Service; and (3) employees classified or paid at GS-16 or above, including special government employees who work in the federal government more than 60 days in a calendar year.

Individuals nominated by the president must file within 5 days of transmittal of the nomination to the Senate for confirmation. Other persons required to file public reports must do so within 30 days after assuming the position or leaving office unless the person has fulfilled filing obligations in a prior government position. Incumbents (those who worked more than 60 days in a prior calendar year) must file on or before May 15. Created by title IV of the 1978 act, OGE developed regulations (5 C.F.R. 2634) to implement the public disclosure requirements of title II.

OGE issued a standard form (SF-278) and instructions for use in filing disclosure reports. The form and instructions specify that information required by the act is to be reported by employees in seven categories as follows: assets and income sources; transactions; gifts, reimbursements, and travel expenses; liabilities; agreements and arrangements for future compensation, employment, or benefits; positions held outside the federal government; and compensation in excess of \$5,000 paid by one source. Within these categories, information such as the nature of the assets and transactions, the asset and income category of value, type of debt owed, and type of outside position held is required. The act

In December 1986, OGE proposed regulations in the Federal Register to revise regulations issued by OPM in September 1968 on confidential disclosure. As of August 1990, OGE had not issued the regulations in final form. Meanwhile, executive branch agencies have continued to cite Executive Order 11222 and the September 1968 OPM regulations as authority for requiring confidential disclosure reports.

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## Recent Ethics Legislation

The Ethics Reform Act of 1989 (Public Law 101-194, Nov. 30, 1989) amended certain provisions of the 1978 act on financial disclosure in the three branches of government.<sup>1</sup> Financial disclosure provisions of the Reform Act took effect on January 1, 1990, and are applicable to reports filed after January 1, 1991.

The Office of Government Ethics Reauthorization Act of 1988 (Public Law 100-598, Nov. 3, 1988) amended the 1978 act and assigned OGE specific responsibilities for ensuring that (1) executive agencies establish written procedures for obtaining, reviewing, and evaluating disclosure reports, and, if applicable, making them publicly available and (2) the procedures conform with relevant laws, rules, regulations, and executive orders. OGE published regulations, effective February 20, 1990, outlining procedures OGE will use for issuing notices of deficiency and corrective orders to agency heads and issuing reports of noncompliance to the president and Congress when agencies' ethics programs do not fully comply with relevant laws and regulations.<sup>2</sup>

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## Agencies' Ethics Program Responsibilities

Agency heads and certain key officials known as DAEOS and alternate DAEOS have specific ethics program responsibilities under the 1978 act, as amended; executive orders; and OGE regulations. For example, the OGE regulations (5 C.F.R. 2638) require agency heads to exercise personal leadership in establishing and carrying out agency ethics programs and to provide sufficient resources to enable the agency to effectively administer its ethics program.

The act and regulations require each Secretary or DAEO concerned to sign public disclosure reports if, on the basis of information presented in the

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<sup>1</sup>The Ethics Act of 1978 prescribed requirements for financial disclosure in separate titles for the legislative, executive, and judicial branches. The Reform Act of 1989 revised certain of these requirements for all three branches and combined the requirements in a single title.

<sup>2</sup>Interim regulations were published in January 1990. 55 Fed. Reg. 1,665 (Jan. 18, 1990). Final regulations were effective May 30, 1990. 55 Fed. Reg. 21,845.

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## **FCA Prohibitions and Disclosure Requirements**

FCA employees are prohibited by the Farm Credit Act of 1971 from holding certain financial interests in the FCS. Under this act, FCA officers and examiners are prohibited from (1) accepting loans or negotiating extensions of credit from an FCS institution; (2) owning securities issued by the FCS;<sup>3</sup> (3) negotiating or arranging for prospective employment with certain FCS institutions; and (4) purchasing assets—real property, equipment, automobiles, or trucks—from an FCS institution, stockholder, director, officer, or institution borrower unless the assets are sold at a public auction. These prohibitions, for the most part, also extend to the members of the employee's household—the spouse, minor children, and/or blood relatives who reside with the employee.

These prohibitions apply to FCA employees who must file public or confidential disclosure reports. FCA has instructed its employees to report any business relationships with any employee of or borrower from an FCS institution. The statutory prohibitions on employees' outside financial interest is a primary concern of FCA's financial disclosure report reviewers.

FCA issued regulations (12 C.F.R. 601) to implement the public and confidential financial disclosure requirements discussed above. FCA's regulations and policy on public disclosure establish essentially the same requirements as contained in OGE regulations (5 C.F.R. 2634).

FCA's regulations require incumbent employees to file annual confidential disclosure reports. In 1989, FCA required employees to file reports by July 14 and disclose their financial interests as of June 30, 1989. New hires and employees promoted or reassigned must file their confidential reports within 30 days after they enter covered positions.

FCA's regulations allow confidential report filers to annually disclose all outside financial interests that meet the reporting criteria or, if they have filed previously, to disclose just the changes in or additions to those interests since filing the last report. If there were no changes in the interests previously reported, the employee is required to indicate this in each applicable section of the supplemental report. In addition, filers reporting changes only must disclose financial interests acquired and disposed of since the last reporting period, if the interests would be reportable if still held.

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<sup>3</sup>Farm Credit Administration Policies and Procedures Manual defines securities as stocks, bonds, debentures, and notes.

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**Appendix II  
Farm Credit Administration Responsibilities  
and Financial Disclosure Requirements**

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reports, the Secretary or DAEO believes the employees filing the reports are in compliance with applicable laws and regulations. Neither the act nor the regulations require the reports to be audited to determine if the disclosures are correct. Rather, as provided in the OGE regulations, they are to be taken at face value unless (1) there is an obvious omission or ambiguity or (2) the reviewing official has independent knowledge outside of the report.

Each agency head must appoint a DAEO and an alternate DAEO and report their names and position titles to OGE. The responsibilities of the DAEO and alternate DAEO include administering a system of periodic evaluations of the ethics program. Their responsibilities also include ensuring that

- an effective system is developed and properly administered for filing, reviewing, and, when applicable, public inspection of disclosure reports as required by the act of 1978 and other applicable laws and regulations;
- all disclosure reports are properly maintained and are effectively and consistently reviewed;
- ethics counseling for current and departing agency employees is undertaken;
- employees are trained to understand and implement the agency's ethics program;
- prompt and effective remedies are undertaken to avoid conflicts of interest or the appearance of conflicts of interest, and administrative actions and sanctions are applied as appropriate;
- a list of circumstances or situations that have resulted or may result in conflicts of interest is maintained and published for the benefit of all employees; and
- agency standards of conduct are updated when internal or external audits indicate changes are necessary.

In April 1989, the President issued Executive Order 12674 emphasizing agency heads' ethics program responsibilities. Among other things, the order assigned specific responsibilities to agencies for providing mandatory annual briefings on ethics and for ensuring that DAEOs have the rank, authority, staffing, and resources necessary for effective agency ethics programs.



requires that certain financial interests of relatives, such as spouses and dependent children, be disclosed in the employee's reports.

The OGE regulations authorize agency officials to grant time extensions for good cause totaling not more than 45 calendar days for filing public disclosure reports. OGE for good cause may grant extensions for up to 45 additional calendar days. The act requires the reports to be reviewed within 60 days after receipt. The act provides that the Attorney General may bring a civil action against any employee required to file a report who knowingly and willfully fails to file or falsifies the report.

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## **Confidential Disclosure**

The 1978 act does not contain similar detailed requirements for confidential disclosure. Rather, requirements for confidential disclosure in the executive branch are contained in Executive Order 11222, issued in May 1965, and OPM regulations (5 C.F.R. 735) issued in September 1968. The 1978 act, as amended in December 1985, authorizes the president to establish a confidential financial disclosure system for the executive branch. By Executive Order 12565 of September 1986, which amends Executive Order 11222, President Reagan prescribed a comprehensive system of public and confidential financial disclosure for executive branch officers and employees.

Executive Order 12565 assigned responsibility to OGE for (1) developing, in consultation with the Attorney General and OPM, regulations to provide guidance and criteria for designation of positions subject to confidential disclosure, the type of information to be obtained, and the time and place for submission of the reports; (2) ensuring that agencies designate positions for financial disclosure; and (3) ensuring that agencies properly administer their implementing regulations. The order also stated that confidential disclosure reports filed under Executive Order 11222, OPM regulation 5 C.F.R. 735, and individual agency regulations would continue to be held in confidence.

The OPM regulation requires agencies to issue OPM-approved regulations on employee responsibilities and conduct. The regulations issued by the various agencies are to establish systems for review of confidential disclosure reports and resolution of potential conflicts of interest. Like the public reports, confidential reports must include information on financial interests of certain relatives.

# Farm Credit Administration Responsibilities and Financial Disclosure Requirements

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The Farm Credit Act of 1971 (Public Law 92-181) established FCA to administer the Farm Credit System of Farm Credit Banks, Federal Land Bank Associations, Production Credit Associations, Banks for Cooperatives, and other institutions chartered by and subject to the supervision of FCA. This system provides American agriculture with a dependable source of credit at competitive rates.

In 1989, the \$60 billion FCS network provided approximately one-third of the total credit used by American farmers, ranchers, and their cooperatives. Eligible borrowers may obtain a variety of financial assistance, including operating and real estate loans, mortgage loans for rural homes, crop or credit-related life insurance, and financial planning advice.

During the farm crisis of the mid-1980s, the Farm Credit Amendments Act of 1985 (Public Law 99-205) was passed to restructure FCA and give it more regulatory authority over the FCS. Before this restructuring, the FCA Board consisted of 13 members. One member was appointed by the Secretary of Agriculture. The other 12 members, representing each of the 12 farm credit districts, were appointed by the President with the advice and consent of the Senate. Unless the Secretary's appointee was a full-time federal employee, all Board members were appointed to part-time positions. The 1985 act established the current full-time FCA Board—a chairman and two members—who are appointed by the President to serve 6-year terms with the advice and consent of the Senate. The current chairman began his term in October 1989.

FCA is responsible for issuing regulations to implement the Farm Credit Act and other applicable laws designed to promote the safety and soundness of FCS. FCA's regulatory actions are designed to provide adequate disclosure of institutions' financial conditions and protect the financial interests of FCS stockholders, including investors who buy and sell the securities of member institutions.

FCA has statutory responsibility to examine FCS institutions. FCA had about 560 employees as of January 1990; about two-thirds of these employees were examiners. Their responsibilities include reviewing the policies, procedures, financial reports, and loan portfolios of member institutions to validate their financial soundness. FCA is authorized to take appropriate enforcement actions when it discovers that a member institution has violated relevant laws or regulations or is operating in an unsafe manner. These enforcement actions can include cease and desist

# Objective, Scope, and Methodology

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As agreed with the Subcommittee, the overall objective of our review was to determine whether FCA's disclosure system reasonably ensures that conflicts of interest will be detected and resolved. To accomplish this objective, we examined FCA's administration of its financial disclosure system to determine if ethics officials (1) identified employees required to file disclosure reports, (2) obtained timely and complete reports from these employees, (3) thoroughly reviewed the financial interests employees reported, and (4) ensured that employees did not hold financial interests that conflict with their duties.

The scope of our review encompassed both public and confidential financial disclosure requirements. (See app. II.) We reviewed the design and operation of FCA's disclosure system as well as legal and regulatory requirements for agency disclosure systems contained in the Ethics in Government Act of 1978, as amended; Executive Order 11222 dated May 8, 1965; OGE regulations on public disclosure (5 C.F.R. 2634) and ethics officials' responsibilities (5 C.F.R. 2638); and OPM regulations on confidential disclosure (5 C.F.R. 735). We also interviewed OGE officials concerning FCA's system and reviewed OGE's 1985 report on FCA. We reviewed FCA's regulation on financial disclosure (12 C.F.R. 601) and its implementing instructions on financial disclosure and interviewed the DAEO, Alternate DAEO, and Inspector General to better understand the operation of the disclosure system.

To determine if FCA ethics officials identified employees who should have filed public and confidential disclosure reports, we discussed with the Alternate DAEO the procedures FCA used in 1989 to identify those employees. We compared FCA's list of public filers for 1989 with its organization chart and personnel roster to verify that all appointees to and members of the Board, SES members, and other employees at the pay rate of GS-16 and above had been identified as required to file public reports. We determined whether FCA had applied criteria for identifying required confidential report filers as specified in the OPM regulations mentioned above.

To determine if FCA ethics officials obtained timely financial disclosure reports from employees required to file annual public or confidential reports, we compared the 1989 public and confidential financial disclosure reports FCA had on file with FCA's mailing list of employees required to file reports. Where there were no reports from employees who should have filed, we determined why the employees had not filed. We used the filers' signature dates to determine whether reports were submitted by the due dates and were reviewed within the required time period.

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## Abbreviations

DAEO	designated agency ethics official
FCA	Farm Credit Administration
FCS	Farm Credit System
OGE	Office of Government Ethics
OPM	Office of Personnel Management
SES	Senior Executive Service
USDA	United States Department of Agriculture

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provide FCA ethics officials with a ready source of information about their past decisions that could be useful in (1) making future conflict-of-interest decisions and (2) developing ethics guidance and instructions for all FCA employees.

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## Conclusions

FCA has significantly improved the administration of its financial disclosure system, but it can further strengthen the system's ability to prevent, detect, and resolve conflicts of interest. Such steps should include more closely monitoring the status and disposition of disclosure reports and more fully implementing requirements of the 1978 act and related OGE regulations.

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## Recommendations

We recommend that the Chairman of the Farm Credit Administration require the DAEO and his alternate to (1) obtain and review disclosure reports due in 1989 but not filed or not fully reviewed, and take appropriate action on all questionable financial interests where necessary; (2) provide periodic status reports to ensure appropriate filing and review of all required disclosure reports; (3) require confidential disclosure reports to be reviewed within 60 days after receipt; (4) use receipt dates to determine the timeliness of filing and review of both public and confidential reports; and (5) provide FCA employees with required information on situations that have posed or may pose conflicts of interest.

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## Agency Views

As agreed with the Subcommittee, we did not obtain written agency comments on this report. We did discuss the contents of the report with FCA ethics officials and have made changes to the report at the appropriate places on the basis of their comments. These officials agreed to implement all of our recommendations.

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As agreed with the Subcommittee, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date it is issued. At that time, we will send copies to the Chairman of the Farm Credit Administration, congressional committees having an interest in the matters discussed, and other interested parties.

We could not determine if financial interest disclosed in the eight other public reports presented conflicts of interest based on information employees reported or contained in FCA's files. These reports showed that employees did not (1) report asset transaction information and income category amount or type and (2) fully disclose financial interests in partnerships and small businesses that are not publicly traded. This information is required by the 1978 act, OGE regulations, or filing instructions and was needed to determine if there might be a conflict.

The Alternate DAEO agreed that the necessary written documentation was missing from these public reports. He said he obtained the required information from employees but did not document this additional information in the files. Employees are required to file complete reports, and the 1978 act outlines steps agencies are to follow when employees file incomplete reports. When employees are not required to correct incomplete reports, they are improperly relieved of the requirement to accurately disclose their outside interests. We believe employees are more likely to repeat these errors in future reports if they are not told about them.

Six other employees filed incomplete confidential reports in 1989 that FCA had not reviewed and signed as of June 1990. The Alternate DAEO had set aside the reports in July 1989 because they were not filled out according to FCA instructions and had not required the employees to correct them as of June 1990. Consequently, FCA did not have properly completed reports for these six employees and had not ensured that they had no conflicts of interest for almost a year.

FCA did not require any periodic written management reports for use in monitoring the filing and reviewing of financial disclosure reports. According to the Alternate DAEO, the DAEO and the Chairman are orally briefed on the status of these activities as needed. He said that the lack of written reports had not been a problem because FCA is a small agency and the Chairman, DAEO, and Alternate DAEO have easy access to one another. We believe that the examples discussed above indicate that FCA's current method of reporting is not adequate. Written status reports showing who was required to file, who did or did not file timely reports, when the reports were reviewed, and how potential conflicts were resolved could help FCA ensure that reporting and review requirements are met. The Alternate DAEO agreed that written reports would be useful.

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timely public reports from former FCA employees.<sup>6</sup> He said he sometimes has to send such employees a second notification letter before they file, which was the case with the late-filing former employee mentioned above.

Of the 345 employees who filed confidential reports in 1989, 337 filed on time. Eight employees submitted reports that were 6 to 68 days late. Nine employees, discussed later, did not file required confidential reports for 1989.

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### Reports Generally Reviewed in a Timely Manner

Along with improving filing compliance since 1984, FCA improved the timeliness with which it reviewed public and confidential disclosure reports. The FCA reviewing officials signed 23 of the 24 public reports filed for 1989, indicating that they had reviewed the reports and that no conflicts of interest existed. One report was signed by the Alternate DAEO but not dated. He told us that he reviewed the report but forgot to date his signature after determining that the interests reported presented no conflicts. The Alternate DAEO reviewed another report but did not sign it because he was concerned about a standard of conduct violation, which we discuss later.

The Ethics Act of 1978 requires that public reports be reviewed within 60 days after receipt. FCA reviewing officials signed 15 of the 22 public reports within 60 days after the signature dates entered by the filing employees, and signed the remaining 7 reports from 61 to 150 days after the filers' signature dates.

Of the 345 confidential reports filed in 1989, 339 had been signed, which indicated that all conflicts of interest had been resolved. The remaining six reports were not signed. OPM and FCA regulations do not specify when the review of confidential reports must be completed. However, the Alternate DAEO signed 29 of 30 confidential reports in our sample within 60 days of the filers' signature dates. He signed one report 69 days after the filers' signature date.

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<sup>6</sup>Unlike public disclosure requirements, current OPM and OGE regulations do not require employees terminating federal employment to file confidential disclosure reports after leaving their positions. OGE's proposed regulations on confidential financial disclosure would require that these reports be submitted.

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improve its standards of conduct, ethics training, and financial disclosure systems. OGE's greatest concern was that FCA had not enforced financial disclosure requirements. OGE concluded that administration of both the public and confidential disclosure systems was inadequate. OGE reported that required public and confidential reports were not always filed or reviewed in 1982, 1983, and 1984. For example, in 1982, 71 of the 138 confidential disclosure reports due that year were filed, and only 17 of the 71 reports showed any evidence of having been reviewed. No confidential reports were filed in 1983. In 1984, 21 of the 26 public reports required were filed but FCA ethics officials had completed reviews of only 3 of these reports.

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### Alternate DAEO Appointed

When OGE reviewed FCA's disclosure system, the Chief of Human Resources, as DAEO, alone collected and reviewed all financial disclosure reports. OGE said in its January 1985 report that the DAEO had devoted "barely any of his time to the ethics program."

The Chairman appointed a personnel specialist in 1984 from the division of human resources as Alternate DAEO. We believe that this appointment improved the administration of the disclosure system. The Alternate DAEO is responsible for the day-to-day tasks associated with administering the system, i.e., identifying and notifying employees required to file; obtaining and reviewing reports; and resolving conflicts of interest. He said he keeps the DAEO advised of progress and problems. The Alternate DAEO estimated that he spends about 10 percent of his time on the ethics program. He reports to the Chief of Human Resources, who as DAEO is in a position to supervise the Alternate DAEO's ethics and other personnel duties.

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### Procedures for Identifying and Obtaining Timely Reports Improved

In addition to the Alternate DAEO appointment, FCA improved its procedures for identifying employees who must file public and confidential disclosure reports. The Alternate DAEO assigns a disclosure reporting code to each personnel authorization form on the basis of the employee's grade/pay level and duties. This code indicates who must file a report and the type of financial report the employee must file. According to the Alternate DAEO, these codes not only help FCA to identify incumbents who are required to file annually, but also employees who must file a report within 30 days after they enter a covered position.

FCA's approach allows the Alternate DAEO to be aware of all employees required to file disclosure reports. The Alternate DAEO is responsible for



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## Results in Brief

In January 1985, OGE reported that FCA's administration of its financial disclosure system was inadequate or nonexistent. FCA has corrected this situation. Required public and confidential disclosure reports are generally being filed and reviewed, and usually in a timely manner. The FCA review process generally identifies and resolves potential conflicts of interest.

Two reasons account for this turnaround in administration. First, in 1984, FCA created a position and appointed an alternate designated ethics official to administer the program's day-to-day activities. As a result, the program now receives more direct leadership.

Second, FCA established procedures for identifying all employees who must file reports. Under the current FCA identification procedures, an ethics official identifies employees who occupy or who move to and from positions requiring financial reporting. This information is recorded in an automated system, and used to notify employees that they must file financial disclosure reports. FCA identified 378 employees who were required to file reports in 1989. Of these reports, 24 were public and 354 were confidential.<sup>2</sup> Of these 378 employees, 358 filed on time, 11 filed late, and 9 had not filed as of June 1990.

Generally, FCA had identified and reasonably resolved potential conflicts of interest. However, FCA ethics officials had not taken follow-up steps to obtain 9 confidential reports due in 1989 and still not filed in June 1990, and had not required employees to correct errors or ensured that all conflicts were resolved for 15 reports (9 public and 6 confidential). Along with better follow-up, FCA should (1) better inform employees about what practices to avoid, by publishing internal decisions about circumstances that may result in conflicts of interest; and (2) accurately reflect timeliness of reporting by using receipt dates rather than filing employees' signature dates. We have discussed these improvements with FCA officials, and they have agreed to implement them.

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## Background

The Farm Credit Act of 1971 (Public Law 92-181) established FCA to administer the Farm Credit System (FCS), which provides approximately one-third of all credit used by American farmers, ranchers, and their cooperatives. The FCS offers a variety of financial assistance to its members through a network of Farm Credit Banks, Federal Land Bank

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<sup>2</sup>Public reports are available for public review, whereas confidential reports are not. Which type an employee must file depends on his or her grade level and duties.

