



Management Challenges

Farm Credit Administration

Office of Inspector General

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MANAGEMENT CHALLENGES

The Reports Consolidation Act of 2000 requires Inspectors General to provide a summary perspective on the most serious management and performance challenges facing the Farm Credit Administration (FCA or Agency). These challenges reflect ongoing vulnerabilities identified by the Office of Inspector General (OIG) over recent years as well as new and emerging issues that the FCA faces. The chart below summarizes the top management challenges. The pages following the chart provide more depth regarding each challenge and the Agency's progress in addressing them.

Examination and Supervision Program

- Identifying and addressing risks in the Farm Credit System through effective examination and supervision to ensure it remains safe and sound.

Information Technology

- Leveraging investments in information technology while maintaining a secure environment and mobile workforce.

Data Quality and Analysis

- Obtaining consistent and quality data vital to the Farm Credit Administration's mission.

Human Capital

- Maintaining a safe, well-trained, and sustainable workforce while facing challenges in retirement eligibilities, workforce retention, and diversity.

Secondary Market Oversight

- Providing effective and impartial oversight of the Federal Agricultural Mortgage Corporation through the Farm Credit Administration's Office of Secondary Market Oversight.

CHALLENGE ONE: *EXAMINATION AND SUPERVISION PROGRAM*

A significant challenge for FCA lies in identifying and addressing risks in the Farm Credit System (FCS or System) through effective examination and supervision to ensure the System remains safe and sound.

Although the System remains financially sound, it continues to be impacted by changing risk conditions. The COVID-19 pandemic has had a substantial impact on the global economy. Disruptions to employees, markets, crops and livestock, transportation, climate, and other factors yield significant volatility and uncertainty, creating new and increased risks in the System. The security of the FCS information technology systems in the face of increased ransom and other attacks has also increased operational risks in the System. These challenges require FCS institutions to be increasingly proactive and responsive to risks in the System. Working with borrowers and adapting to increasing risks, while maintaining financial capacity, will further increase the complexity of the System.

FCA's examination and supervision program will face new challenges to align with evolving threats, risks, and conditions. As a result of the COVID-19 pandemic, FCA directed most of its workforce to telework, suspended onsite examinations, and restricted business travel and in-person training. This year will bring new challenges as FCA employees return to the office and begin the resumption of on-site examination activities. FCA needs to remain flexible as employees continue to adapt to the new normal of working during a global pandemic. The Agency will need to adapt a hybrid approach to examinations as most employees will not be returning to pre-pandemic work schedules.

FCA will need to continue its risk-based approach to oversight of the System, and the Agency must continue to develop sophisticated risk evaluation techniques to align with emerging risk factors and identify and deter consequences with the greatest potential impact. Effective oversight will require using new technologies and developing new skill sets within the Agency to adapt to challenges, such as the challenges the System faces with the London Interbank Offered Rate (LIBOR) phase out.

More serious or persistent weaknesses require additional oversight activities. FCA must respond and intervene, when necessary, to protect the System. Effective examination and supervision require prompt identification of unacceptable risks. Both internal and external factors can cause significant changes in condition in a short period of time. Corrective actions and follow-up are critical to preventing the escalation of issues that impact safety and soundness. The Agency must be agile to monitor and prevent such conditions to protect the System.

Agency Progress

FCA continuously works to address the challenges of its examination and supervision roles and responsibilities. The Office of Examination (OE) issued several Informational Memoranda (IM) with guidance for institutions during fiscal year 2021 including:

- *Guidance for serving consumers with limited English proficiency, ability-to-repay/qualified mortgage rule, fair debt collection practice, and annual threshold adjustments;*
- *Updated interpretation of sex discrimination in fair lending laws and regulations;*
- *Maintaining and using stockholder lists;*
- *Annual threshold adjustments, [Fair Debt Collection Practices Act] FDCPA rule, [Government-Sponsored Enterprise] GSE patch, and compliance resources;*

- *Guidance for System Institutions Affected by the COVID-19 Pandemic*; and
- *Request from the [Consumer Financial Protection Bureau] CFPB for a voluntary self-assessment.*

In January 2021, the FCA Board approved a booklet that provides additional guidance to System institutions on implementing the FCA criminal referral regulations. This booklet responds to the various questions the Agency has received from System institutions related to the FCA criminal referral regulations.

In September 2021, The FCA Board adopted a final rule on the tier 1/tier 2 capital framework. The rule clarifies numerous provisions of the capital regulations and corrects technical errors. Additionally, the rule reduces the burden to the System by simplifying certain requirements and changes the lending and leasing limit base calculation to be computed using total capital instead of permanent capital.

Each year, OE identifies National Oversight Plan risk topics that are emphasized in ongoing examinations and oversight activities. OE identified two risk topics for fiscal year 2021: *Credit – Risk Management and Loan Servicing*; and *Operational Risk – Management’s Actions in Response to Risk and the Pandemic*.

Finally, OE published new and updated Office Directives on FCA Examination Manual maintenance, Systemwide communication, flexiplace, and management reporting.

Relevant OIG Work

Last year, the OIG completed an audit on FCA’s criminal referral process. The objective of the audit was to determine whether FCA’s criminal referral and follow-up process is effective and efficient. We made seven recommendations to the Agency to improve the criminal referral process. All recommendations from this audit were closed as of December 2020.

The OIG also plans to address other challenges faced by the examination and supervision program, including a review of the Agency’s examination staff scheduling and rotation, OE recruiting, and the similar entity lending oversight process.

CHALLENGE TWO: *INFORMATION TECHNOLOGY*

A significant management challenge for FCA is the ability to leverage investments in information technology (IT) while maintaining a secure environment.

Cybersecurity Threats

Cybersecurity threats and vulnerabilities present significant challenges across the federal government. These challenges require an IT security program that is responsive, agile, and forward-looking. The prevalence of cybersecurity threats and risks have been highlighted by security incidents and data breaches across the public and private sectors. Because FCA relies on various IT systems, security challenges can directly impact the Agency’s ability to achieve its mission. As such, FCA must continuously identify and respond to complex IT risks to effectively manage this challenge area.

Hybrid Communication Environment

The COVID-19 pandemic continues to pose challenges for the FCA workforce as most of the FCA staff continues to work remotely full-time. Because most of the FCA staff was telework-ready before the pandemic, the Agency was able to quickly transition to full-time telework. However, additional resources are required

from the IT staff to support what is now a fully-hybrid communication environment of in-person and virtual work—an environment that will continue into the future with the increased use of telework. Working remotely could expose potential vulnerabilities that may go beyond the Agency’s control, such as weak internet connections and increased spam and phishing attempts in the era of teleworking. The new working environment adds a new layer of complexity given the reliance on personally managed internet connections and the resources and support needed for a secure IT environment while keeping the health and safety of FCA staff the utmost priority. The need for a hybrid communication environment will continue after FCA’s workforce returns to the office as employees will continue to work from home with a more flexible telework policy in place.

Office of Information Technology (OIT) Needs

It is imperative that FCA has the necessary tools and staff to operate efficiently and effectively. At the same time, the Agency must be prudent and responsible with its spending. To stay current and address the Agency’s IT requirements, FCA needs well-trained personnel that can successfully maintain IT systems and integrate new tools to improve operations. This challenge becomes increasingly difficult as new IT requirements are developed and implemented across federal systems.

Agency Progress

FCA continues to invest in various IT tools to increase efficiency and effectiveness. In addition, FCA’s information security and privacy programs continue to mature as the Agency finds areas within which to improve. FCA has digitized and automated several manual processes, such as the Office of Examination workforce scheduler, the audit recommendation follow-up process and the requisition routing process, and simplified business systems, such as the online borrower complaint system, a Freedom of Information Act repository, and several enhancements to the EDGe application suite. The Agency continues to work with business partners to improve data processing, administrative functions, and communication capabilities. FCA has begun efforts to move operations into the cloud where appropriate, has a plan in place to implement data loss prevention, and is working on several efforts to improve its Federal Information Security program. The Agency regularly sends informational security alerts, system update notices, and email phishing tests to employees.

Relevant OIG Work

The OIG performs an annual audit of FCA’s compliance with the Federal Information Security Modernization Act of 2014. In 2018, the OIG performed a benchmarking evaluation comparing the FCA OIT’s budget and use of contractors to other FCA offices and to other federal financial regulators’ IT departments. Looking ahead, the OIG will continue to focus on operations and implementation of IT systems.

CHALLENGE THREE: *DATA QUALITY AND ANALYSIS*

A significant management challenge for FCA exists in the collection and use of data.

Obtaining timely, consistent, and quality data is vital to FCA’s mission of ensuring that the System remains a dependable source of credit for agriculture and rural America. Such data allows FCA to better monitor the System’s condition and identify current and emerging risks, including the impacts of the COVID-19 pandemic. In doing so, FCA enhances the development of a risk-based examination agenda and the promulgation of evidence-based regulations, policies, and guidance. Data analysis is similarly important to the Agency’s

internal operations, a fact put in sharp relief by the COVID-19 pandemic, which has required decisions about telework and other matters to be based on a variety of factors.

Collecting useful data from the System is no simple task, as varying practices and technical capabilities among its 70-plus institutions can result in inconsistencies that inhibit robust data analysis. In imposing reporting requirements, the Agency must consider the resulting burdens to System institutions while ensuring that data is collected and maintained in a manner comporting with legal requirements and that sensitive information is safeguarded against unauthorized access or use. By identifying the gaps and critical data necessary to efficiently and effectively perform its mission, the Agency can better ensure the safety and soundness of the System.

Agency Progress

The Agency's Strategic Plan recognizes and underscores the importance of effective data analysis to oversight of the FCS. In November 2019, in recognition of the importance of data analytics and with a view to the requirements of the Foundations for Evidence-Based Policymaking Act of 2018 (Evidence Act), the FCA Board established the Office of Data Analytics and Economics (ODAE). Headed by the Agency's Chief Data Officer, ODAE is responsible for, among other things, evaluating strategic risks to the System, serving as a steward for Agency data, and providing information to support objective, evidence-based decision-making Agency-wide.

In further implementation of the Evidence Act, FCA in 2020 created the Data Advisory Group as a forum for addressing data management standards, priorities, policies, and practices. Headed by the Chief Data Officer and composed of various Agency leaders, the Data Advisory Group is tasked with leading implementation of Agency-wide processes and standards, and with addressing common issues affecting FCA data programs and resources. The Agency has also formed a Data Users' Group to focus on the technical implementation and management of core Agency datasets.

The past year saw FCA, jointly with the Farm Credit System Insurance Corporation, form a task force to identify risks to System loan portfolios posed by climate issues. The task force's objective is to analyze data and build tools to mitigate risks. Also, in 2021, the Agency reported progress in improving the collection of call report data. FCA collects this data, which provides information on the financial operations of System institutions, every quarter and reports it on the Agency's website. Relatedly, the Agency enhanced information it provides on its website concerning major financial indicators for the System. FCA continues to work with the System to prioritize the most critical data fields for the overall improvement of data quality and consistency.

FCA also continues to invest in related IT and develop and implement analytical and examination tools that will enhance its ability to perform systemic risk and data analysis, including those supporting improved collaboration and data inventory management.

Relevant OIG Work

Recent OIG reviews relevant to this subject include a 2019 audit on the Agency's implementation of stress testing guidance and use of data and analytical and examination tools; a 2016 audit on FCA's oversight of young, beginning, and small farmer and rancher programs; and a 2016 audit on FCA's risk project. Going forward, the OIG will continue monitoring the Agency's progress in obtaining and analyzing data, including through a planned review of ODAE's organizational structure, goals, and objectives.

CHALLENGE FOUR: *HUMAN CAPITAL*

A significant management challenge for FCA is maintaining a well-trained, sustainable workforce while facing challenges in retirement eligibilities, succession planning and training, and diversity. A key factor in meeting this challenge is providing a work environment where employees feel safe while they continue to perform their work.

Employees are FCA's most valuable asset and the safety and well-being of FCA's workforce has been brought to the forefront during the COVID-19 pandemic. The Agency's success depends greatly on its ability to recruit, retain, and develop a capable workforce, while keeping its workforce safe during challenging times such as the current pandemic. This challenge will continue into the foreseeable future when FCA employees and contractors will be expected to return to the office after working under a maximum telework policy for an extended period of time. The Agency will be challenged to respond to a workforce that has adapted to productively working from home and wanting to retain increased telework flexibilities even after returning to the office.

Because FCA is a relatively small agency with nationwide responsibilities, changes in the workforce—such as the retirement of management and senior employees—must be accounted and planned for to avoid undue disruption to Agency functions. The need for succession and human capital planning was highlighted in the past year by the retirement of multiple senior Agency leaders. Planning ensures that institutional knowledge and experience are passed on, and the Agency is less dependent on specific individuals.

Workforce training and development takes a significant investment of resources, but the use of several tools can ensure that FCA maintains a vital, experienced staff. For example, data analytics can help the Agency identify training gaps. Job sharing, rotational details, and micro-assignment opportunities can be used to promote career development. Mentoring programs can prepare employees for management positions.

Diversity is another important aspect of human capital. A diverse staff brings different perspectives to problem-solving, enriching the Agency's ability to regulate and supervise the System. The Agency must continually assess and deploy strategies to reach its goals for diversity and inclusion. It can do this by using various tools that identify and reduce potential barriers to diversity and inclusion, enhance outreach, evaluate the Agency's recruitment data, and heighten awareness through programs that support diversity and inclusion. The benefits of allowing a more remote workforce are the enhanced pool of applicants that the Agency can draw from and the enhanced flexibilities that telework allows, such as accommodating disabled employees who may need to work more from home.

Agency Progress

To promote a safe and healthy workforce, FCA quickly pivoted in March 2020 to accomplish its mission using technology and telework protocols. The Agency mandated telework for most of its workforce on March 16, 2020 and continues to leverage telework for most of its employees. Earning a score of 97.2, FCA earned the highest overall COVID-19 response score of any large, medium, or small agency on the latest Best Places to Work in the Federal Government rankings from the Partnership for Public Service and Boston Consulting Group. FCA's Emergency Response Team (ERT), composed of the FCA Board and senior managers, meets regularly and continually monitors COVID-19 case trends, local school status, and government status at the Federal, state and local levels for its McLean, Virginia headquarters and four field offices in various parts of the United States. FCA's ERT is using the latest regional and local CDC data on COVID-19 to make data-driven decisions on return-to-work activities and will continue to do so.

The Agency implemented several additional programs to promote employee safety and wellness during the pandemic, including a weather and safety leave program and an annual leave payout and restoration program. In July 2021, FCA submitted its Return to Work Plan to the Office of Management and Budget (OMB) that outlines and describes the steps the Agency is taking to promote a safe and healthy work environment. With input from subject matter experts at the Office of Personnel Management, the General Services Administration, and the Safer Federal Workforce Task Force, OMB concluded that FCA's plan is consistent with the intent of OMB Memorandum M-21-25. The four-phase plan includes continuing to leverage telework program flexibilities; conducting contactless temperature checks at all office locations; ensuring that employees wear a face covering while in the office in alignment with CDC guidelines; upgrading the air filtration system in its headquarters and four field offices; and continuing building cleaning services and ensuring there are sufficient supplies (including hand soap and sanitizer) to support reopening FCA offices. FCA has also acquired at-home COVID-19 testing kits for employees to use upon request.

The Agency's Strategic Plan evidences a commitment to maintaining a diverse and capable workforce. Strategic objectives address maintaining a skilled, motivated workforce; ensuring adequate succession planning and knowledge transfer; and encouraging an engaged, diverse, and ethical workforce. In 2021, the Agency added a Chief Diversity Officer role to its Equal Employment Opportunity and Inclusion Office. Recently, FCA has increased its mid-career hiring to help close current workforce gaps by filling positions with mid-career employees and adding several assistant and deputy director positions. The Agency has implemented a Virginia Tech graduate certificate program to develop the FCA workforce in three critical areas: 1) Agricultural economics; 2) Agriculture finance; and 3) Data analytics. The Agency expects additional progress in fiscal year 2022 around targeted leadership development through formal training, mentoring, and developmental assignments. FCA measures its success towards human capital goals based on employee outreach efforts and the results of the annual employee satisfaction surveys. The Agency also provides benefits and employee programs to attract and maintain a talented diverse workforce, including a Student Loan Repayment Program. FCA's learning office also provides numerous online and in-person training resources to support technical skills, work/life balance, and managerial competencies.

Relevant OIG Work

In 2021, OIG surveyed Agency employees on safety measures and other actions implemented by FCA in response to COVID-19. The survey results showed that employees believed the Agency took positive actions to implement safety measures in response to COVID-19. The survey showed that most employees were working remotely since the COVID-19 operating changes and they felt that they have been able to fully perform all work responsibilities in the remote environment, with appropriate resources for telework.

The OIG has performed several reviews related to the subject of human capital in recent years, including an inspection of FCA's implementation efforts for its 2017-2018 Fairness and Inclusiveness Assessment and an audit concerning the effectiveness of FCA's process of obtaining background investigations for contractor personnel. Other reviews include a benchmarking evaluation comparing the structure and organization of FCA's Office of Examination with comparable offices of other financial regulatory agencies and an audit of the Agency's human capital planning.

CHALLENGE FIVE: *SECONDARY MARKET OVERSIGHT*

A significant management challenge for FCA is to ensure that it effectively and impartially regulates the Federal Agricultural Mortgage Corporation (Farmer Mac) through the Office of Secondary Market Oversight (OSMO).

Farmer Mac is a stockholder-owned, federally-chartered corporation. Farmer Mac was established by the federal government in 1988 to provide a secondary market for credit by increasing access to, and reducing the cost of, capital to American agriculture and rural communities. Although Farmer Mac is part of the FCS, its secondary market mission is unique among FCS institutions. Farmer Mac's customer base includes commercial and community banks, insurance companies, non-bank lenders, agricultural funds, rural utilities, and other FCS institutions.

OSMO examines, regulates, and supervises the activities of Farmer Mac to ensure its safety and soundness and the accomplishment of its public policy purpose as authorized by Congress. OSMO ensures that Farmer Mac complies with applicable laws and regulations and manages FCA's enforcement activities with respect to Farmer Mac. Under the Farm Credit Act of 1971, as amended (Act), the OSMO Director reports directly to the FCA Board rather than the Chief Operating Officer. The Act also provides that the supervision of the powers, functions, and duties of Farmer Mac is performed, to the extent practicable, by personnel who are not responsible for the supervision of the banks and associations of the FCS. To fulfill its duties, OSMO uses examiners who also examine FCS banks and associations. Therefore, OSMO is challenged to ensure that it fulfills the oversight role free of conflicts of interest or undue influence from those also responsible for the supervision and regulation of the FCS banks and associations.

OSMO conducts the oversight and examination activities with a relatively small staff (5 employees with additional rotational staff), while balancing resources sourced from other FCA offices, such as OE, which is responsible for supervision of FCS banks and associations. OSMO staff must have the necessary knowledge, skills, and training to understand the unique and complex mission, secondary market activities, and business model and capitalization of Farmer Mac. Further, because Farmer Mac is a publicly-traded company, OSMO staff must understand the market forces and reputational risks that can potentially affect Farmer Mac's safety and soundness. Other changing areas, such as the LIBOR phase-out, will continue to increase the complexity of Farmer Mac. Advancements in data gathering, technology, and analytics that aid OSMO with risk measurement, management, and assessment, coupled with appropriate specialized training, can enhance FCA's ability to oversee Farmer Mac as it grows in complexity and scale. This will be particularly important in an environment that may present more challenges to farmers, ranchers, rural communities, and their lenders. As the complexity of Farmer Mac increases, OSMO will need to ensure it maintains appropriate readiness to evaluate safety and soundness. To achieve its mission, OSMO may require increased resources and technical skills, which will present additional challenges for the Agency.

Farmer Mac has experienced many changes in its organizational structure over the last 3 years, which includes new members in its executive management team that made notable changes in Farmer Mac operations. Further, OSMO's oversight role is made more difficult in ensuring the continued safety and soundness of Farmer Mac in the face of its large board representing diverse interests.

Additionally, while Farmer Mac has historically chosen a decentralized model to service its loan portfolios, contracting with a network of third-party institutions to undertake most of the loan servicing responsibilities for its Farm and Ranch and USDA Guaranteed loan portfolios, its August 2021 acquisition of servicing rights, from a large central servicer, will greatly alter its loan servicing model. OSMO will be making it an examination focus to look at how Farmer Mac manages this transition.

In addition, the continuing COVID-19 global pandemic provides an additional challenge to OSMO and Farmer Mac leadership given the needs of employees, safety concerns, and forward-looking business models. The pandemic presents an ever-changing environment that requires flexibility and agility in business. For OSMO, the persistence of the COVID-19 pandemic emphasizes the need for highly qualified examiners and analysts to maintain vigilant oversight during these unprecedented and volatile times.

Agency Progress

OSMO provides guidance and implements regulatory and other changes related to Farmer Mac. These changes are made in addition to OSMO's supervision and safety and soundness reviews of Farmer Mac. All FCA employees, including OSMO staff, were able to quickly transition to full-time telework status in March 2020 in response to the COVID-19 pandemic.

As a result of the COVID-19 pandemic and national emergency, OSMO created and issued guidance documents to Farmer Mac. On March 24, 2020, OSMO issued a memorandum that encouraged Farmer Mac to prudently work with its lending and servicing partners to provide flexibility and assistance to borrowers experiencing financial challenges due to COVID-19. OSMO also developed an IM that specifically addressed Farmer Mac's position as a secondary market provider working with servicing partners to administer its Farm and Ranch portfolio.

Additionally, OSMO enhanced its oversight of Farmer Mac through additional reporting requirements to ensure potential risks were monitored and identified. Since the COVID-19 outbreak was declared a national emergency, OSMO established daily reporting requirements for funding, liquidity, and investments and developed weekly funding and market reports. Weekly reporting requirements of loan servicing actions related to COVID-19 were also established.

In anticipation of resource needs during the 2021 and 2022 examination cycle, OSMO added rotational staff. In January 2021 OSMO hired a full-time Assistant to the Director of OSMO. The Assistant to the Director is responsible for providing management support to office operations and programs. Specifically, the Assistant to the Director serves as OSMO's quality assurance examiner and manages the quality assurance of reports, products, and other communications to ensure they are high-quality products.

In May 2021, the FCA Board approved a direct final rule adopting administrative amendments to eliminate requirements for Farmer Mac to submit paper copies of certain reports to OSMO.

In July 2021, OSMO published two new office directives and revisions to two existing directives. Directive 5 outlines OSMO's quality assurance program and Directive 6 outlines OSMO's policy on rotational employees. Revisions to Directive 1 expand the previous version by setting forth the operating procedures that guide examination activities and includes information on activity letters and the report of examination. Additionally, revisions to Directive 3 expand on internal controls over the conflict of interest process.

Finally, in September 2021, OSMO issued an informational memorandum to Farmer Mac outlining expectations to protect the corporation from ransomware attacks. It also included expectations that Farmer Mac take appropriate actions to protect its data and systems to withstand cyberattacks and safeguard customer data and ensure continuity of operations.

Relevant OIG Work

This year, FCA's OIG completed an audit of OSMO's documented examination policies and procedures. The objective of the audit was to determine whether OSMO's examination policies and procedures are documented and implemented. The OIG found that OSMO had limited documented policies and procedures for the areas unique to Farmer Mac examination work. However, despite a lack of formalized policies and procedures that uniquely apply to Farmer Mac examination work, the OIG found that OSMO generally implemented the processes tested during the audit. To reduce risk and increase consistency in the examination process, the OIG the OIG made four recommendations to the OSMO.

In response to our recommendations OSMO revised Directive 3 by strengthening internal controls related to the conflict of interest process. Additionally, OSMO created a Farmer Mac Supplemental Examination Guidance and Procedures Development Plan which establishes expectations and timelines for creating Farmer Mac examination guidance. Finally, OSMO agreed to create a detailed reference document for examination staff that will include regulations that are applicable to Farmer Mac.

The OIG plans to review other aspects of OSMO in future years.