



## Farm Credit Administration

...we ensure a dependable source of credit for agriculture and rural America



# FY 2019



## Performance and Accountability Report



# Mission

The Farm Credit Administration ensures that Farm Credit System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.



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## Statement of Board Chairman and CEO

November 8, 2019

As board chairman and CEO of the Farm Credit Administration, I invite you to review our Performance and Accountability Report for Fiscal Year 2019.

The past year has been challenging for us because of the sudden, unexpected death of Chairman Dallas Tonsager in May. Dallas was a highly respected leader at FCA, and his death was a great loss to our agency. We also had several changes in the senior leadership team because of retirements. However, I am pleased to report that, despite these challenges, we achieved the goals outlined in our strategic plan and met or exceeded almost all performance targets.

In addition, our financial statements received an unmodified opinion from an independent auditor. Based on the results of our internal evaluations, I can provide reasonable assurance that the financial and performance information in this report is complete and reliable. We also have no material weaknesses in our internal controls.

FCA is the arm's length regulator of the Farm Credit System (System) and the Federal Agricultural Mortgage Corporation (Farmer Mac). Our mission is to ensure that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

The System holds more than 41% of the nation's total farm business debt, so it plays a vital role in the health of the nation's agricultural economy. And Farmer Mac, which provides a secondary market for agricultural real estate mortgages and rural cooperative loans, enhances the ability of lenders to offer competitive financing to rural borrowers and farmland investors.

Both the System and Farmer Mac are well capitalized and remain financially safe and sound. The banks and associations of the System together held \$353 billion in assets as of June 30, 2019, up 5.6% from the year before. Farmer Mac had a net worth of \$774 million as of that date, up 1% from the year before.

Over the past 12 months, we worked to protect the financial soundness of the System and Farmer Mac and to ensure that they continue to fulfill their missions to serve agriculture and rural America. Here are some of the ways we accomplished these goals:

- Examined System institutions and Farmer Mac in accordance with statutory requirements.
- Prepared 54 formal reports of examination and 37 interim activity letters.
- Issued a proposed rule on the criteria to reinstate nonaccrual loans and a proposed rule on the eligibility criteria for outside directors.

- Issued final rules governing private flood insurance, transfers of legacy swaps, and investment eligibility criteria for Farmer Mac.
- Analyzed and reported on the System’s service to young, beginning, and small farmers and ranchers, as well as economic conditions in agriculture and the Farm Credit System.
- Requested public comment on ways to improve the collection, evaluation, and reporting of data on young, beginning, and small farmers and ranchers.
- Issued guidance to System institutions on various topics, such as assigning a reduced risk weight to certain loans to rural water and wastewater utilities, interest rate risk management for Farmer Mac, director nomination procedures, and issuing loans when the National Flood Insurance Program is unavailable.
- Responded to borrower inquiries and complaints.

Also, our efforts to strengthen employee engagement continue to yield results. Our employee engagement index on the Federal Employee Viewpoint Survey went up by one percentage point in 2019 to 79. Last year, we were ranked number four among small agencies in the Partnership for Public Services’ Best Places to Work in the Federal Government.

We had a successful year in FY 2019, thanks to the hard work and dedication of our staff. I look forward to continued success in FY 2020 and beyond.



Glen R. Smith  
Board Chairman and CEO

# Management's Discussion and Analysis





## FCA at a Glance

The Farm Credit Administration is an independent agency in the executive branch of the U.S. government. We are responsible for regulating and supervising the Farm Credit System (its banks, associations, and related entities) and the Federal Agricultural Mortgage Corporation (Farmer Mac).

The System is a nationwide network of borrower-owned financial institutions that provide credit to farmers, ranchers, residents of rural communities, agricultural and rural utility cooperatives, and other eligible borrowers.

FCA is responsible for ensuring that the System remains a dependable source of credit for agriculture and rural America. We do this in two specific ways:

- We ensure that System institutions, including Farmer Mac, operate safely and soundly and comply with applicable laws and regulations.
- We issue policies and regulations governing how System institutions conduct their business and interact with borrowers.

FCA derives its powers and authorities from the Farm Credit Act of 1971, as amended (12 U.S.C. 2001 – 2279cc). The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee FCA and the Farm Credit System.

FCA does not receive a federal appropriation. We maintain a revolving fund financed primarily by assessments from the institutions we regulate. Other sources of income for the revolving fund are interest earned on investments with the U.S. Treasury and reimbursements for services we provide to federal agencies and others.

FCA policy, regulatory agenda, and supervisory and examination activities are established by a full-time, three-person board whose members are appointed by the president of the United States

with the advice and consent of the Senate. Board members serve a six-year term and may remain on the board until a successor is appointed. The president designates one member as chairman of the board, who serves in that capacity until the end of his or her own term. The chairman also serves as our chief executive officer.

FCA board members also serve as the board of directors for the Farm Credit System Insurance Corporation.

Our headquarters and one field office are in McLean, Virginia. We also have field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

### FCA offices

As of Sept. 30, 2019, FCA had 312 full- and part-time employees. These employees work in the following offices, with the majority serving in the Office of Examination.

The **FCA board** manages, administers, and establishes policies for FCA. The board approves the policies, regulations, charters, and examination and enforcement activities that ensure a strong FCS. The board also provides for the examination and supervision of the FCS, including Farmer Mac, and oversees the activities of the FCS Building Association, which acquires, manages, and maintains FCA headquarters and field office facilities. Glen R. Smith is the board chairman.

The **chairman of the FCA board** serves as the chief executive officer (CEO). The CEO enforces the rules, regulations, and orders of the FCA board. He or she directs the implementation of policies and regulations adopted by the FCA board. The Office of the Chief Executive Officer plans, organizes, directs, coordinates, and controls our day-to-day operations and leads the agency's efforts to achieve

and manage a diverse workforce. Glen R. Smith is the CEO.

The **chief operating officer (COO)** has broad responsibility for planning, directing, and controlling the operations of the Offices of Agency Services, Examination, Regulatory Policy, Information Technology, Chief Financial Officer, and General Counsel in accordance with the operating philosophy and policies of the FCA board. He or she supervises and provides policy direction to the executive staff responsible for managing these offices. The COO oversees and coordinates the development and implementation of the agencywide strategic, operating, and budget plans and activities. The COO also coordinates the resolution of internal policy, personnel, and program issues with agency executive leadership and the FCA board.

The **Office of Agency Services** manages and delivers human capital and administrative services for the agency. The office consists of three service delivery teams: Human Resources Division, Operations Division, and Learning and Organizational Change Team. Services provided include staffing and placement, job evaluation, compensation and benefits, payroll administration, performance management, awards, employee relations, employee training and development, acquisition, records and property management, personnel security, continuity of operations and emergency preparedness, supply services, agency purchase cards, graphic design, publication, and mail service.

The **Office of the Chief Financial Officer** supports FCA's operations by providing financial management policy advice, reporting the agency's financial results, and facilitating the agency's strategic planning efforts. The office manages the agency's compliance with federal financial management requirements. It also reports on the accuracy and propriety of transactions, the extent to which assets are accounted for and safeguarded, and the adequacy of internal controls to detect and prevent material financial misstatements. It oversees the

agency's budget, the investments committee, the FCS assessments, and the agency's travel and relocation program. It also facilitates the agency's risk management and internal control efforts to help ensure operational and fiscal effectiveness and efficiency.

The **Office of Congressional and Public Affairs** serves as the agency's principal point of contact for Congress, the media, other government agencies, FCS institutions, employees, System borrowers, and the public. The office develops and monitors legislation pertinent to FCA and the FCS, serves as the agency's congressional liaison, facilitates intergovernmental relations, and prepares testimony for the chairman and other board members. It also provides information to external audiences through news releases, fact sheets, reports, and other publications. The office cultivates relationships with media representatives who report on matters related to agriculture and rural credit, and it manages the content of the FCA website. It also organizes special meetings, briefings for international visitors, and field hearings.

The **Office of Examination** is responsible for examining and supervising each FCS institution in accordance with the Farm Credit Act and applicable regulations. The office develops oversight plans; conducts examinations; monitors the System's condition and current and emerging risks to the System; and develops supervisory strategies to ensure that the FCS operates in a safe and sound manner, complies with the law and regulations, and fulfills its public policy purpose. For more information about the role of the Office of Examination, go to [www.fca.gov/bank-oversight/guidance](http://www.fca.gov/bank-oversight/guidance) and click board policy statements to read "Examination Philosophy" (FCA-PS-53).

The **Office of General Counsel** provides the FCA board and staff with legal counsel as well as guidance on the Farm Credit Act and general corporate, personnel, ethics, and administrative matters. The office supports the agency's development and

promulgation of regulations, enforcement of applicable laws and regulations, and implementation of conservatorships and receiverships. It represents and advises the agency on civil litigation. It also serves as the liaison to the Federal Register, administers the agency's ethics program, and handles Freedom of Information Act requests.

The **Office of Information Technology** supports the information, solutions, and IT infrastructure that empower FCA to fulfill its mission. It is a respected partner in fulfilling FCA's mission through innovative solutions. The office is responsible for protecting agency technology assets, planning and controlling information technology investments, and leading change to improve the efficiency and effectiveness of agency operations. It is responsible for continuing to leverage FCA's investment in technology by collaborating across agency offices to identify and re-engineer business applications, data systems, and processes.

The **Office of Inspector General** provides independent and objective oversight of agency programs and operations through audits, inspections, evaluations, investigations, and the review of proposed legislation and regulations. The office promotes economy and efficiency within FCA and seeks to prevent and detect fraud, waste, abuse, and mismanagement in the agency's programs and operations.

The **Office of Regulatory Policy** manages policy and regulation development activities that ensure the safety and soundness of the FCS and support the System's mission. Policy and regulation development activities include the analysis of policy and strategic risks to the System on the basis of economic trends and other risk factors. The office also evaluates all regulatory and statutory prior approvals for System institutions on behalf of the FCA board, including chartering and other corporate approvals as well as funding approvals.

The **Office of Secondary Market Oversight** provides for the examination, regulation, and supervision of Farmer Mac to ensure its safety and soundness and the accomplishment of its public policy purpose as authorized by Congress. It also ensures that Farmer Mac complies with applicable laws and regulations, and it manages FCA's enforcement activities with respect to Farmer Mac.

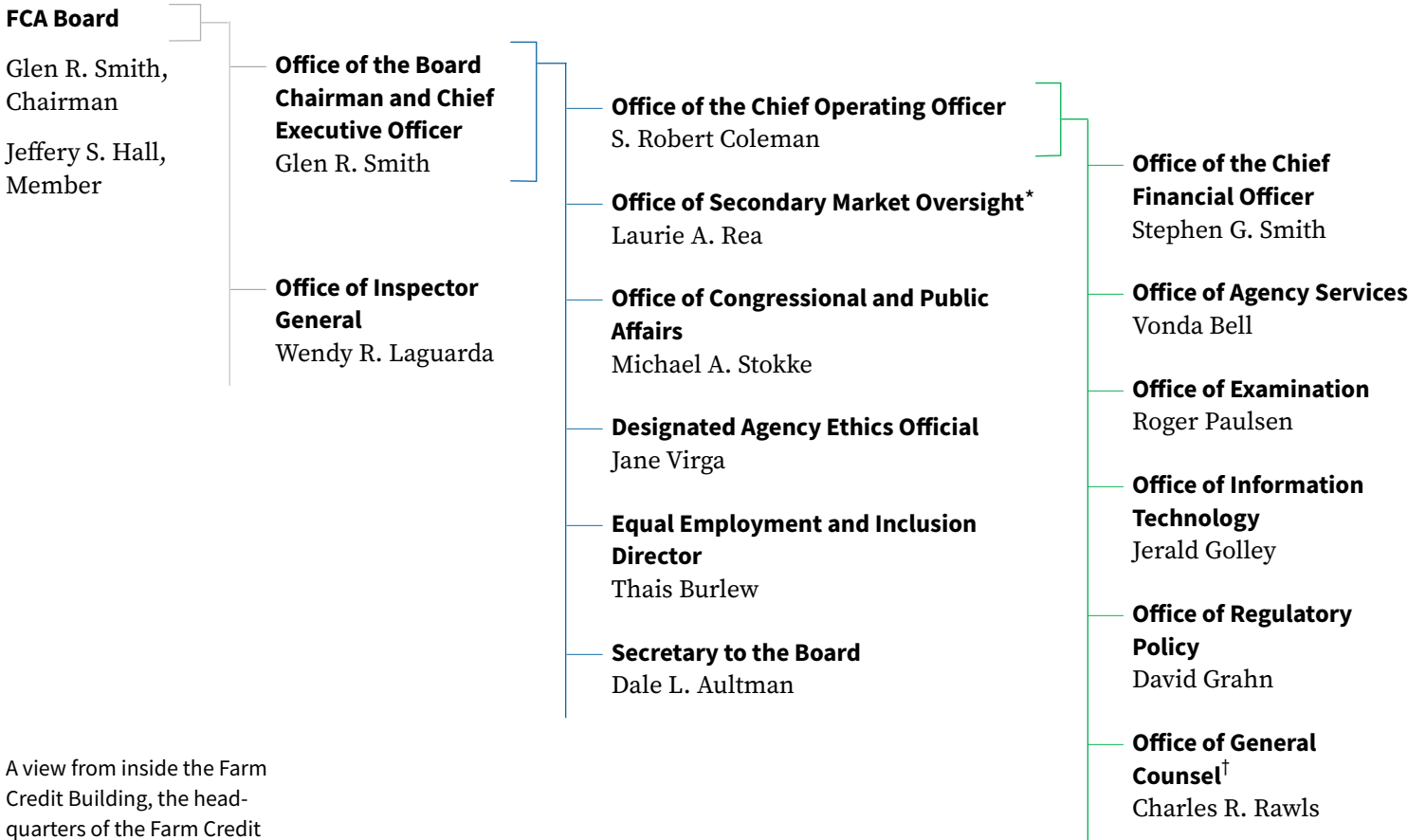
The **secretary to the board** serves as the parliamentarian for the board and keeps permanent and complete records of the acts and proceedings of the board. He or she ensures that the board complies with statutory, regulatory, and internal operation reporting requirements. The secretary to the board also serves as secretary to the Farm Credit System Insurance Corporation board. In addition, he or she serves as the Sunshine Act official for the FCA board.

The **Office of Equal Employment Opportunity and Inclusion** manages and directs the diversity, inclusion, and equal employment opportunity (EEO) program for FCA and FCSIC. The office serves as the chief liaison with the Equal Employment Opportunity Commission and the Office of Personnel Management on all EEO, diversity, and inclusion issues. The office provides counsel and leadership to agency management to carry out its continuing policy and program of nondiscrimination, affirmative action, and diversity.

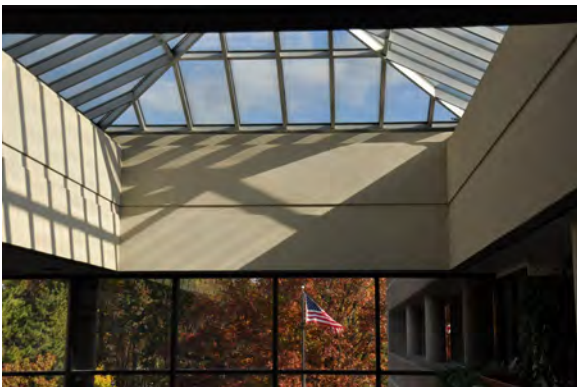
The **designated agency ethics official (DAEO)** is designated by the FCA chairman to administer the provisions of title I of the Ethics in Government Act of 1978, as amended, to coordinate and manage FCA's ethics program and to provide liaison to the Office of Government Ethics with regard to all aspects of FCA's ethics program.

**Figure 1. FCA organizational chart as of September 2019**

For an accessible version of this chart, go to [www.fca.gov/about/fca-organizational-chart](http://www.fca.gov/about/fca-organizational-chart)



A view from inside the Farm Credit Building, the headquarters of the Farm Credit Administration, located in McLean, Virginia.



\* Reports to the board for policy and to the CEO for administration.

† Maintains a confidential advisory relationship with each of the board members.

## Highlights of FCA’s Performance Goals and Results

FCA’s mission is to ensure that Farm Credit System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

In our Strategic Plan for Fiscal Years 2018 – 2023, we identified three goals we must meet to fulfill our mission. For each goal, we identified strategies and actions to achieve the goal, as well as a set of performance measures to monitor our progress in meeting the goal.

Our Performance Report (page 25) shows that we met the goals identified in our Strategic Plan and met or exceeded most of the performance measures for which there are data to measure performance. The following is a summary analysis of our performance in reaching our goals.

### Goal 1 Highlights

#### **Public Mission: Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.**

There are nine strategies and six performance measures established for goal 1 in the Strategic Plan (see table 5a). The six performance measures are as follows:

1. Percentage of FCS institutions providing products and services that serve creditworthy and eligible persons and perform outreach to enhance diversity and inclusion. (Target:  $\geq 90\%$ )
2. Whether Farmer Mac’s business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source

of long-term credit and liquidity for qualifying loans. (Target: Yes)

3. Percentage of direct-lender institutions with satisfactory consumer and borrower rights compliance. (Target:  $\geq 90\%$ )
4. Percentage of direct-lender institutions with YBS programs that are in compliance with YBS regulations. (Target:  $\geq 90\%$ )
5. Whether the majority of objectives listed in the preamble of each final rule were met on the two-year anniversary of the rule’s effective or implementation date. (Target: Yes)
6. Percentage of pre-rulemaking projects and proposed rules on which FCA requested input from persons outside of FCA. (Target: 100%)

We achieved or exceeded our targets for all six measures associated with goal 1.

### Goal 2 Highlights

#### **Safety and Soundness: Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the System and Farmer Mac.**

There are six strategies and six performance measures for goal 2 (see table 5b). The performance measures are as follows:

1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2. (Target:  $\geq 90\%$ )
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements. (Target:  $\geq 80\%$ )
3. Percentage of institutions complying with regulatory capital ratio requirements. (Target:  $\geq 90\%$ )
4. Whether the Office of Secondary Market Oversight’s examination and oversight plan and

activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed. (Target: Yes)

5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans. (Target: 100%)
6. Whether five or more reports and dashboards were created that use data collected from the Farm Credit System to assess risk in the System. (Target: Yes)

We achieved or exceeded the targets for five of the six measures associated with goal 2. For performance measure 5, we missed our target of 100% because two institutions did not have acceptable corrective action plans in place at the end of the reporting period.

### Goal 3 Highlights

#### **Workforce Management: Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.**

There are four strategies and two performance measures for goal 3 (see table 5c). The performance measures are as follows:

1. Whether, as part of its recruiting efforts for entry-level examiners, FCA has ensured that 25% of its outreach efforts target applicants with a disability or who are members of a minority group. (Target: Yes)
2. Whether we have maintained or improved our score from last year in the annual employee satisfaction survey. (Target: Yes)

We achieved the targets for both measures associated with goal 3. For the second measure, our employee engagement index score on the Federal Employee Viewpoint Survey increased by 1 percentage point — from 78 in 2018 to 79 in 2019.

For more information about our performance results, see the performance results tables on page 35 to page 37.

## Analyses and Highlights of FCA's Financial Statements

### Financial Highlights

#### Financial operation of FCA

We pay for planned administrative expenses from a revolving fund, which is funded primarily by assessments received from Farm Credit System institutions, including the Federal Agricultural Mortgage Corporation (Farmer Mac) and the System's service corporations.

We calculate the assessments using a formula established by FCA regulation. The FCA board approves our budget, and Congress usually imposes a limitation on the dollar amount of obligations that we may incur in a given fiscal year.

In addition to assessments, we receive funds from two other sources:

- **Reimbursable services:** We are reimbursed for the cost of examining the National Consumer Cooperative Bank and for performing services for the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture (USDA).
- **Interest earned:** We earn interest on investments with the U.S. Department of the Treasury. We use interest earned on investments to build and maintain an agency reserve. The reserve

ensures that we can effectively and efficiently respond to unexpected, unbudgeted expenses without needing to increase assessments.

This section highlights our financial condition for fiscal years 2019 and 2018. Our financial statements are provided on page 46 to page 61.

#### FCA's assets, liabilities, and net position

As shown in table 1, our total assets (the resources we own) for FY 2019 are composed of the following:

- Fund balance with Treasury (3.7%)
- Investments (92.0%)
- Accounts receivable and prepayments (1.2%)
- Property and equipment (3.1%)

During FY 2019, total assets increased by only \$30,287, or 0.1%, from amounts reported in FY 2018.

Our investment portfolio, which accounts for the largest portion of our total assets, increased by \$3,121,714 in FY 2019. This increase occurred in part because we received some prepaid assessments (that is, assessments due on Oct. 1 but received on or before Sept. 30). The timing of the prepaid assessments enabled us to invest those funds before the investment cutoff on Sept. 30.

**Table 1. Composition of assets**

Fiscal year	Fund balance with Treasury	Investments	Accounts receivable and prepayments	Property and equipment	Total
2019	\$1,388,463	\$34,614,229	\$447,803	\$1,173,085	\$37,623,580
2018	\$4,127,940	\$31,492,515	\$365,497	\$1,607,341	\$37,593,293

We purchased \$14,865,300 in U.S. Treasury securities during fiscal year 2019, using an investment strategy that enables us to both maintain a steady cash flow for agency operations and earn interest to build the agency reserve. We hold the reserve funds in contingency to address specific, onetime, unforeseen events.

As of Sept. 30, 2019, the agency held \$1,388,463 in cash. We prefer to keep our cash balances low by investing all excess cash in U.S. Treasury securities; however, we received funds from a few FCS institutions on Sept. 30 — after the cutoff time for investing.

Our liabilities, as shown in figure 2 and table 2, consist of the following:

- Accounts payable (4.6%)
- Payroll and benefits (45.8%)
- Employer contributions and taxes payable (6.5%)
- Workers’ compensation (9.8%)
- Deferred revenue (33.3%)

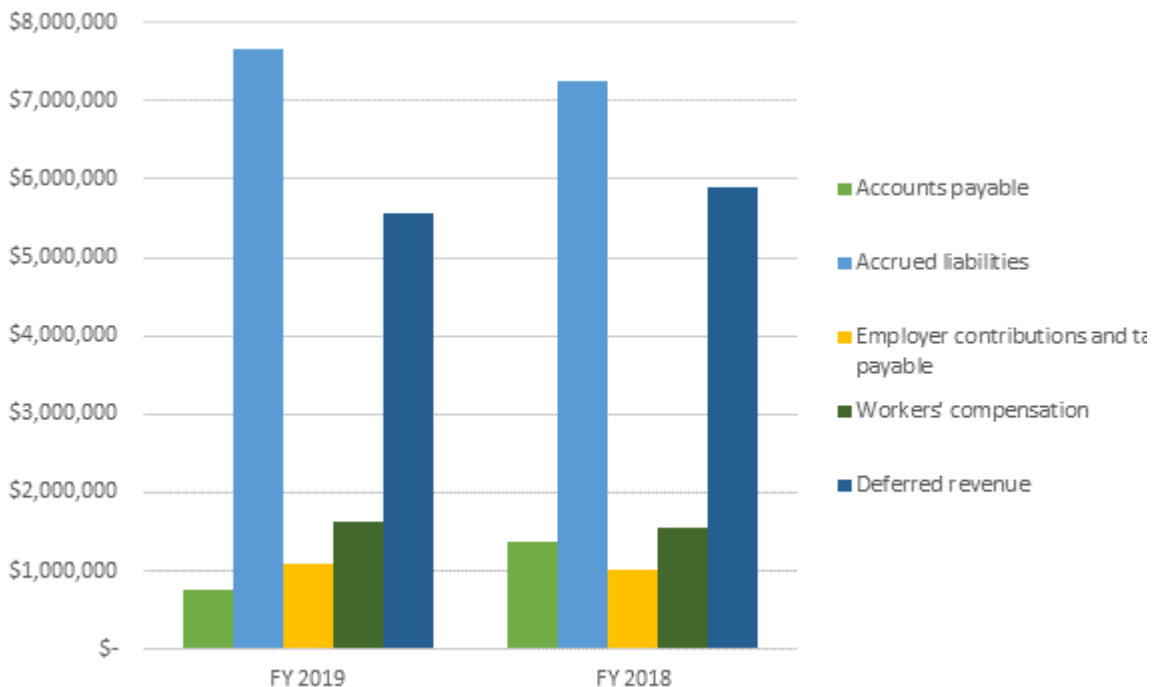
Unlike total assets, our total liabilities (what we owe to the public and other government agencies) decreased. Driven primarily by the decreases in accounts payable and deferred revenue, overall liabilities decreased by \$347,587 or 2.0% from 2018 to 2019.

Accounts payable decreased because there were fewer year-end liabilities in 2019 than in 2018. At the end of FY 2018, we had a number of year-end accruals because of an examiner conference that took place in late September.

Deferred revenue — assessments received from FCS institutions that are not due until Oct. 1 — also decreased this year. At the beginning of each fiscal year we reclassify any prepaid assessments as revenue earned in October of the new year.

Our net position, which represents the cumulative results of operations since the agency began, increased by \$377,874, or 1.8%, during FY 2019. The net position increased primarily because of the decrease in the net cost of operations (see the Program Costs and Revenues section). For a breakdown of the net position, see the statement of changes in net position on page 49.

**Figure 2. Composition of liabilities**





### FCA's status of funds

Our budget represents our plan for achieving our mission and strategic goals while operating as effectively and efficiently as possible. Table 3 shows our board-approved budget amounts for FYs 2019 and 2018. The overall FY 2019 budget increased by 3.0% over the 2018 budget.

In FY 2019, we continued to carry out our mission, program goals, and objectives within the available budget. Our board-approved budget for FY 2019

was \$75.4 million and the congressional limitation on our spending was \$74.6 million. The FY 2018 limitation was \$70.6 million.

As table 4 shows, the funds used in 2019 increased by \$5,027,286 over 2018. The funds we used in 2019 amounted to 99.4% of our congressional limitation in 2019. The increase in personnel compensation, driven by salary and benefit increases, accounts for the largest dollar amount increase in funds used from 2018 to 2019. Personnel compensation

**Table 2. Composition of liabilities**

Liabilities	FY 2019	FY 2018
Accounts payable	\$764,605	\$1,360,201
Accrued liabilities (payroll and benefits)	7,659,548	7,253,008
Employer contributions and taxes payable	1,094,009	1,006,195
Workers' compensation (funded and unfunded)	1,630,984	1,542,010
Deferred revenue	5,572,620	5,907,939

**Table 3. Agency budget**

	FY 2019	FY 2018
Assessments (current year)*	\$72,700,000	\$71,200,000
Assessments (carryover from prior years)	1,900,000	1,400,000
Reimbursable activity	760,000	600,000
<b>Total</b>	<b>\$75,360,000</b>	<b>\$73,200,000</b>

\* Assessments for FY 2018 were reduced by \$3 million in the fourth quarter.

**Table 4. Funds used by major budget category**

Budget category	FY 2019	FY 2018
Personnel compensation and benefits	\$62,361,778	\$58,821,237
Travel and transportation	2,907,216	3,029,833
Contractual services	6,314,604	5,487,623
Property and equipment	1,173,357	526,704
Other	1,908,007	1,772,279
<b>Total*</b>	<b>\$74,664,962</b>	<b>\$69,637,676</b>

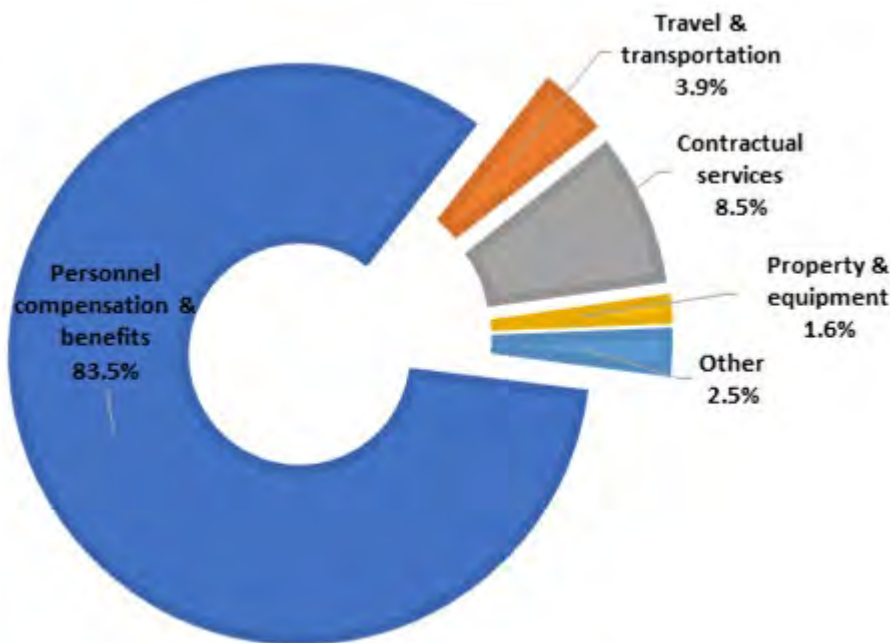
\* The total funds used include reimbursable activity that is not subject to the congressional limitation.

and benefits continue to account for the most significant use of funds at FCA, representing approximately 83.5% of total funds used in 2019.

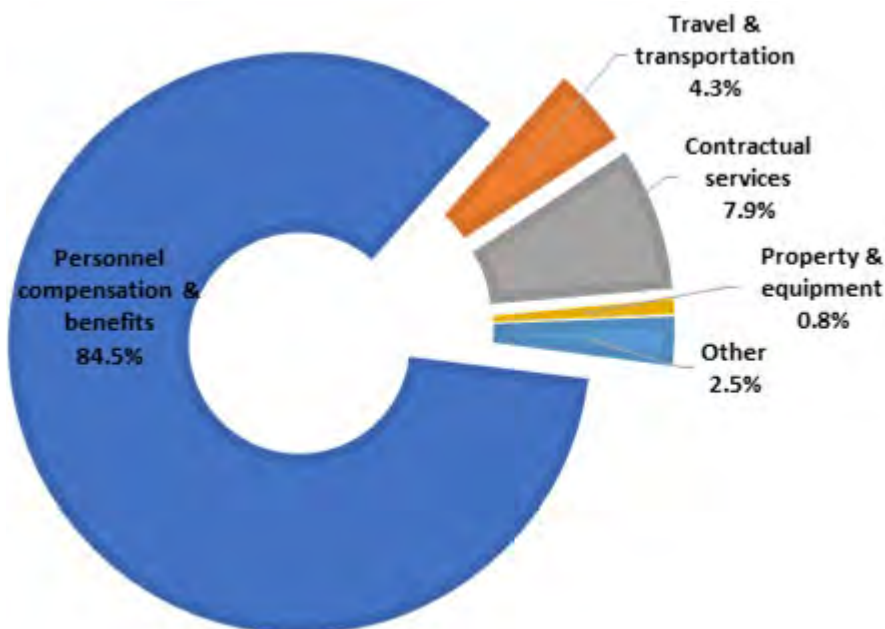
Outside of salary and benefits, the contractual services and the property and equipment categories were the main drivers in the increase in funds used in 2019. Contractual services increased by 15.1%

over last year and represented approximately 8.5% of the total funds used in 2019. The increase in contractual services was from actions to address agency needs for security, data analytics, examiner training, and temporary gaps in staffing. Property and equipment increased by \$646,653; this increase was due primarily to the planned acquisition of agency laptops.

**Figure 3. FY 2019 funds used by major budget category**



**Figure 4. FY 2018 funds used by major budget category**



### Program costs and revenues

This section describes our program costs and revenues for the fiscal years ended Sept. 30, 2019, and Sept. 30, 2018. Please read this section in conjunction with the statements of net cost. Because this section focuses on the cost of operations, some of the data provided here may differ from data provided in other sections of this report that are based on budgetary accounting.

We manage agency costs through sound business planning and effective resource management. The net cost of our programs totaled \$6,744,924 for the 12 months ended Sept. 30, 2019, compared with \$7,461,968 for the same period the previous year. Earned revenue increased more than gross costs this year, resulting in lower net costs in 2019 than in 2018.

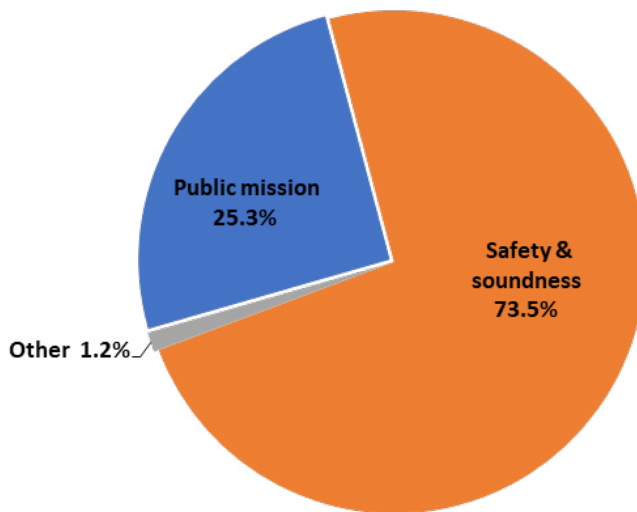
The total cost of our programs for FY 2019 is \$80,918,903, compared with \$76,746,813 for FY 2018. This represents an increase of \$4,172,090, or 5.4%, from 2018. Figure 5 shows the breakdown of FY 2019 gross costs for each of our goals. Most of our costs support our mission and program goals. The increase in total costs is primarily due to increases in staff, employee compensation, and contract services related to information technology.

Employee salaries and benefits represent our greatest overall cost. For 2019, employee compensation totaled \$65,911,914, or 81.5%, of total cost. Increases in staff, pay-for-performance, and employee benefits, along with career ladder promotions contributed to the cost increase in 2019. We periodically perform compensation studies to comply with the Financial Institution Reform, Recovery, and Enforcement Act of 1989, which requires us to keep our salaries and benefits comparable with the salaries and benefits of other federal financial institution regulators.

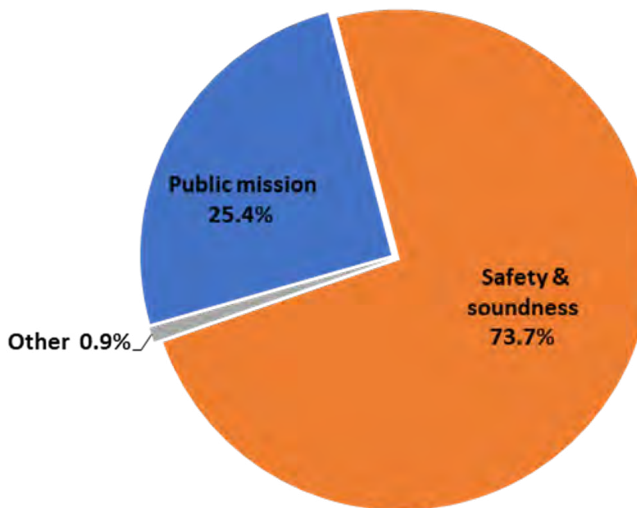
Keeping compensation competitive helps us continue to fulfill our mission to provide the FCS, including Farmer Mac, with effective regulation and oversight.

Figure 6 shows the breakdown of FY 2019 gross revenue for each of our goals. Earned revenue for 2019 totaled \$74,173,979, up \$4,889,134, or 7.1%, from 2018. Earned revenue went up because of in-creses in institution assessments, interest earned on investments, and reimbursable work.

**Figure 5. FY 2019 gross costs by agency goal**



**Figure 6. FY 2019 gross revenue by agency goal**



### Public mission program

We invest significant resources in our policymaking, regulatory, and corporate activity functions to ensure that the FCS, including Farmer Mac, fulfills its public mission as mandated by Congress. During FY 2019, we continued to ensure the safe and sound flow of funds to U.S. agriculture and rural areas by providing regulation, policy, and guidance for the FCS and Farmer Mac.

Costs for our public mission program include the review of borrower complaints. In accordance with the Farm Credit Act, we also review and approve FCS institutions' mergers to enable institutions to structure themselves to best serve their customers.

For the fiscal year ended Sept. 30, 2019, the program cost for our public mission was \$20,472,180, representing an increase of \$382,334, or 1.9%, from the same period the previous year. The cost for the public mission program represents 25.3% of our total costs for 2019.

### Safety and soundness program

Costs associated with the agency's examination and supervision activities make up the largest portion of our expenditures at the program level. In 2019, the cost of the safety and soundness program increased because of increases in staff and higher costs for employee compensation, travel, and professional training. We hired more examiners to meet additional human capital demands for institution examination and oversight.

We invest heavily in the recruitment and training of examination staff through our Examiner Commissioning Program. These recruiting and training efforts are necessary to meet human resource needs and to offset the impact of unplanned employee attrition and the large number of retirements expected within the next few years.

During FY 2019, we met our goals and performance targets to ensure the safety and soundness of FCS institutions and Farmer Mac. Program cost for the examination and supervision of the FCS increased \$4,030,546 to \$59,441,216, which represents 73.5% of our total costs in 2019.

### Other activity

"Other activity" includes examining and overseeing the National Consumer Cooperative Bank and performing reimbursable services for USDA and the Farm Credit System Insurance Corporation. We performed more reimbursable services this year than last year. Costs associated with this category increased by \$334,830 from 2018 to \$1,005,507.

Despite the increase, the costs for providing reimbursable services remain relatively low compared with the total costs for our public mission and safety and soundness goals. Other activity represented approximately 1.2% of our total costs in 2019.

Earned revenue for other activity totaled \$668,273 for 2019, compared with \$487,337 for 2018. Like costs, revenue for other activity also increased as a result of the increased reimbursable work performed in 2019.

### Limitations of financial statements

As required by 31 U.S.C. 3515(b), we have prepared the principal financial statements to report the financial position and results of our operations. We have prepared these statements from our books and records in accordance with U.S. generally accepted accounting principles for federal entities and the formats prescribed by the Office of Management and Budget. Reports used to monitor and control budgetary resources are prepared from the same books and records.

As you read these statements, please keep in mind that they are for a component of the U.S. government.

## Analysis of FCA's Systems, Controls, and Legal Compliance

### Strategy for FCA's financial management system

We partner with the Bureau of the Fiscal Service's Administrative Resource Center (ARC) to provide FCA with several financial management services. This shared services approach helps us maximize efficiency while maintaining a high standard of financial management and accountability.

This partnership gives us access to core financial systems without our having to maintain the necessary technical and systems architectures. Our partnership with ARC has also improved our data reliability, which helps us comply with Office of Management and Budget (OMB) M-15-12, Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable.

Through our partnership with ARC, we use Oracle Federal Financials as our financial system of record. Oracle Federal Financials is a commercial, off-the-shelf software package, which is certified under the Joint Financial Management Improvement Program to meet federal government accounting requirements. This web-based software integrates our key activities, such as e-payroll, e-travel, purchase card activity, and federal investments.

Although we perform all procurement activities in-house, we partner with ARC for procurement system services and support. The procurement system is fully integrated with Oracle Federal Financials. This integration enables us to check our funds in real time and to commit and obligate funds as transactions are approved.

By working with ARC, we comply with the OMB Financial Management Line of Business initiative, which encourages agencies to improve the cost, quality, and performance of financial management

systems by using shared services. The partnership also helps us address the President's Management Agenda cross-agency priority goal for sharing quality services.

### Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) requires federal agencies to establish and maintain a system of internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

The management control objectives under the FMFIA are to reasonably ensure the following:

- Obligations and costs are in compliance with applicable laws.
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriations.
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

Agencies must evaluate and report on the effectiveness of their internal controls and assess whether their financial management systems comply with requirements outlined in section 4 of the FMFIA.

Through our financial management system strategy, management control program, and compliance with applicable laws and regulations, we ensure our compliance with the FMFIA.

### Management control program

We have established management controls to meet the objectives of section 2 and section 4 of the FMFIA, as well as the requirements of the Federal Financial Management Improvement Act (FFMIA). Our system of internal control conforms with GAO's Standards for Internal Control in the Federal Government (Green Book).

Our internal controls are designed to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and that assets are safeguarded.

Our program offices are responsible for implementing and maintaining effective risk management practices and internal controls to ensure (1) alignment of strategic goals with the agency's mission, (2) effective and efficient operations, (3) reliable reporting, and (4) compliance with applicable laws and regulations.

We conduct risk-based internal control assessments in accordance with OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, and all applicable appendices. Based on the results of the assessments, we have reasonable assurance that controls over operations, reporting, and compliance with laws and regulations are designed and operating effectively.

In addition, our independent financial statement auditor reported that we maintained effective internal control over financial reporting and compliance with applicable laws and regulations. The auditor did not report any material weaknesses or significant deficiencies.

### Federal Financial Management Improvement Act

The FFMIA requires certain executive branch federal agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable accounting standards, and the U.S. Standard General Ledger at the transaction

level. A financial management system includes an agency's overall financial operation, reflecting the people, processes, and technology to capture, classify, summarize, and report data in a meaningful manner to support business decisions.

Although we are not required to report under this act, we conformed with the requirements of Appendix D to OMB Circular A-123, Compliance with the FFMIA for FY 2019. We assessed our financial management systems along with available information from audit reports and other relevant sources to determine whether our financial management systems substantially comply with the FFMIA as of September 30, 2019.

### Prompt Payment Act

We follow the Prompt Payment Act guidelines, which call for vendors generally to be paid 30 days after receipt of a valid invoice for goods and services ordered and delivered.

During FY 2019, we paid on time 99.6% of the 3,383 invoices subject to the Prompt Payment Act. Payments are made by electronic funds transfer through the Secure Payment System.

### Debt Collection Improvement Act

The Debt Collection Improvement Act of 1996 prescribes standards for carrying out federal agency collection actions and for referring an agency's uncollectible debts to the proper federal agency for collection and litigation. The act has no material effect on us because we operate with virtually no delinquent debt.

This act was amended by the Digital Accountability and Transparency Act of 2014 (DATA Act) to require that debts outstanding for more than 120 days be transferred to the Treasury Department for collection under the Treasury Offset Program. We currently have one debt being serviced by the Treasury Department.

## Improper payments

The Improper Payments Elimination and Recovery Improvement Act of 2012 requires agencies to report annually on all programs and activities, identify programs that may be susceptible to significant improper payments, estimate annual improper payment amounts in the susceptible programs, and report on the results of improper payment activities.

Additional information on our improper payment activities are reported under “Payment integrity” in the “Other information” section of this report.

## Digital Accountability and Transparency Act

The DATA Act was enacted to increase accountability and transparency in federal spending and expand the requirements of the Federal Funding Accountability and Transparency Act of 2006. Since our agency does not receive federal tax dollars, OMB has determined that FCA is not subject to the reporting requirements of the DATA Act.

## Inspector General Act

The Inspector General Act of 1978, as amended, requires inspectors general to report semiannually to their agency heads and to Congress. The semi-annual reports prepared by FCA’s Office of Inspector General (OIG) describe its audits, inspections, evaluations, investigations, and related activities, as well as the agency’s follow-up to its recommendations.

The FCA OIG posts all audit, inspection, and evaluation reports on its website within three days of final submission to the FCA board. These reports are also posted on Oversight.gov, which contains OIG reports from across the federal government. Below is a summary of the recommendations in these reports, as well as our progress in taking corrective action.

## Summary of OIG audit, inspection, and evaluation activities

The OIG issued six audit, inspection, or evaluation reports during FY 2019, resulting in 19 new recommendations. Ten recommendations have been closed (including one from a prior fiscal year). Therefore, 11 recommendations remain open (including one from a prior fiscal year). The reports are available on the FCA OIG’s website at [www.fca.gov/about/inspector-general-plans-and-reports](http://www.fca.gov/about/inspector-general-plans-and-reports).

- October 31, 2018: The OIG issued a final report on an evaluation of the agency’s compliance with the Federal Information Security Modernization Act for FY 2018. The report contained five recommendations.
- November 15, 2018: The OIG issued a report on the audit of FCA’s financial statements and other reporting required by “Government Auditing Standards for FY 2018.” The audit produced no recommendations.
- December 7, 2018: The OIG issued the inspection report, Physical Security in the Farm Credit Administration’s Headquarters. The inspection resulted in seven recommendations. For security purposes, a summary, rather than the full report, was posted online.
- March 20, 2019: The OIG issued the final evaluation report, Farm Credit Administration’s Office of Examination Structure and Organization Benchmarking Evaluation. The report contained no recommendations.
- September 19, 2019: The OIG issued the final audit report, FCA’s Stress Testing Guidance, and Use of Data and Analytical and Examination Tools. The audit resulted in one recommendation.
- September 26, 2019: The OIG issued the final audit report, The Farm Credit Administration’s Process for Contractor Background Investigations. The audit resulted in six recommendations.

**Summary of OIG recommendations**

Recommendations uncorrected  
as of Oct. 1, 2018 . . . . . 2

New recommendations  
during FY 2019 . . . . . 19

Recommendations closed  
during FY 2019 . . . . . 10

Open recommendations  
as of Sept. 30, 2019 . . . . . 11

Recommendations open  
more than one year . . . . . 1

**OIG survey of FCS institutions regarding the agency’s examination function**

The OIG conducts a quarterly survey of FCS institutions on our examination function and examiners. The OIG issues semiannual reports and a fiscal year summary report to the FCA chief examiner and the FCA board.

Average numerical ratings remained high for FY 2019, and anonymous comments provided by institutions generally reflected favorably on the examination process and examiners. The comments of survey respondents often provide constructive information that we can use to strengthen our examination processes.

**Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) Compliance Report for FY 2018**

The OIG determined that FCA complied with IPERIA reporting requirements applicable to the agency for FY 2018. As required by the IPERIA, the OIG issued the conclusions to the FCA board and required oversight bodies on May 15, 2019.



## Statement of Assurance

The Farm Credit Administration's management is responsible for managing risks and maintaining effective internal controls and financial management systems that meet the objectives of sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA).

FCA has considered risk management practices in the design of its internal controls and in the assessment of their effectiveness. We conducted our assessment of risk and internal controls in accordance with Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the results of this assessment, we can provide reasonable assurance that the internal controls over operational, reporting, and compliance objectives were operating effectively as of September 30, 2019.

FCA management is also responsible for designing, implementing, and maintaining effective internal controls over financial reporting. We conducted

our assessment of the effectiveness of these internal controls according to the criteria established under FMFIA and OMB Circular A-123. Based on the results of this assessment, we can provide reasonable assurance that the internal controls over financial reporting were operating effectively, and no material weaknesses were found in the design or operation of the internal controls.

In addition, we conducted assessments of our financial management systems in accordance with Appendix D to OMB Circular A-123, Compliance with the Federal Financial Management Improvement Act (FFMIA). Based on the results of this assessment, our financial management systems substantially comply with FFMIA as of September 30, 2019.

As part of our evaluation process, we considered the results of extensive testing and assessment across the organization, as well as independent audits.



Glen R. Smith  
Chairman and Chief Executive Officer  
FARM CREDIT ADMINISTRATION

September 30, 2019

# Program Performance



## FCA Performance Report

FCA's mission is to ensure that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

We fulfill our mission (1) by issuing regulations and implementing public policy and (2) by identifying risk and taking corrective action. The FCA board has adopted three strategic goals:

- Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.
- Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the System and Farmer Mac.
- Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.

Our Strategic Plan for Fiscal Years 2018 – 2023 contains a desired outcome for each goal, as well as 19 strategies we will use to meet these goals. In addition, we have 14 performance measures with associated targets to measure our success in meeting our goals.

The Strategic Plan addresses the changing environment facing agriculture: commodity and input price volatility; sustainability, environmental, food safety, and animal welfare issues; fluctuating interest rates and land values; diversity; and pressure to reduce subsidies and support payments in the 2018 Farm Bill.

The plan focuses on helping the agency operate effectively and efficiently; minimizing costs for FCS borrowers and Farmer Mac customers; and helping ensure a safe, sound, and dependable source of credit and financially related services for agriculture and rural America.

As our performance results show, we succeeded in meeting the three strategic goals described below.

### **Goal 1 — Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.**

The purpose of goal 1 is to maximize the ability of the FCS and Farmer Mac to fulfill their purposes and meet their public missions as defined by Congress in the Farm Credit Act of 1971, as amended. We established nine strategies to accomplish this goal, and we defined six performance measures to evaluate our progress and success.

#### **Strategy 1: Ensure that the capital rules for the FCS and Farmer Mac are consistent with standards for the financial service industry and preserve their financial strength and stability so they can meet the credit needs of eligible borrowers.**

The FCA board adopted a final rule in March 2016 that revised our capital rules for FCS banks and associations and provides clearly defined capital standards that are both consistent with Basel III and appropriate for the farmer-owned cooperative Farm Credit System.

In FY 2017, we updated our Financial Institution Rating System benchmarks for capital and our examination guidance and examiner training to ensure that FCS institutions implement the capital rules properly. We also issued an informational memorandum to the System titled “Implementation of the Tier 1/Tier 2 Capital Framework.”

In FY 2019, we issued guidance on Farmer Mac's interest rate risk management. The guidance makes clear the board of directors' ultimate responsibility for interest rate risk governance and management's role in the design and execution of interest rate risk measurement systems.

**Strategy 2: Within the framework of the Farm Credit Act, develop and update policies and regulations as appropriate so that the System, including Farmer Mac, can continue to effectively serve its members as conditions in agriculture and rural America change.**

The following actions are examples of ways we have used this strategy in FY 2019:

- Issued a final rule governing flood insurance
- Issued a proposed rule governing the eligibility of investments made by the System’s associations
- Issued a proposed rule governing the accounting classifications for high-risk loans and the criteria to reinstate nonaccrual loans
- Issued a proposed rule governing the implementation of the current expected credit losses methodology for allowances
- Requested public comment on ways to improve the collection, evaluation, and reporting of data on young, beginning, and small farmers and ranchers
- Continued to study the loan syndication market
- Issued guidance to Farmer Mac on the appropriate implementation of effective interest rate risk management processes
- Issued guidance to the System revising the regulatory capital treatment for certain water and wastewater exposures

As part of every rulemaking project, we consider ways to reduce the burden of existing rules and to minimize the regulatory burden of the rule being proposed. Also, we regularly solicit public comments on regulations that are unnecessary, unduly burdensome, or not based on law; our most recent solicitation was in May 2017. We addressed the comments we received from this solicitation in May 2019.

We routinely provide guidance to System institutions to protect their safety and soundness and to

help them manage risk. This guidance facilitates the flow of funds to agriculture and rural areas by providing System institutions with sound practices to follow in developing and implementing lending programs. We also provide guidance related to internal controls and information technology.

Ultimately, our guidance helps institutions manage loan and funding programs more efficiently.

Farmer Mac continues to enhance its relationships with its loan sellers and servicers by holding informational forums, providing updates to its formal servicing guidelines, and performing internal credit reviews. And our Office of Secondary Market Oversight evaluates Farmer Mac’s efforts to enhance these relationships.

We support advances in Farmer Mac’s product offerings within the bounds of safety and soundness and the provisions of the Farm Credit Act. Our communication, examination reports, and off-site monitoring of Farmer Mac provide timely guidance to management on the possible risks associated with new products and policies. Over the reporting period, we provided Farmer Mac with guidance on regulatory compliance issues, policy direction, and questions regarding new products.

In addition, we continue to advance regulatory rulemaking projects related to investment eligibility and creditworthiness and to update other areas of supervision.

**Strategy 3: Emphasize the public purpose and mission-related responsibilities of the agricultural government-sponsored enterprises (GSEs) to serve all of agriculture and rural America. This includes innovative programs for serving the credit and related service needs of young, beginning, and small (YBS) farmers, ranchers, and producers and harvesters of aquatic products.**

FCA examiners evaluate the operating and strategic plans and the credit delivery programs of System institutions. We also evaluate System outreach efforts and best practices for serving the credit and related service needs of all creditworthy eligible customers.

In addition, our examiners evaluate each institution's YBS farmer and rancher program relative to the demographics of its chartered territory. These evaluations help examiners identify trends in lending to YBS farmers and ranchers and assess the System's efforts to provide financial and business management assistance and outreach to YBS farmers and ranchers.

When evaluating YBS programs, we continue to assess the extent to which FCS institutions use loan guarantee programs. We encourage System institutions to work with federal and state agencies that offer such programs. For example, we encourage institutions to meet the requirements to qualify for the USDA Farm Service Agency's "preferred lender" status.

Not only can loan guarantees help institutions manage risk, they also help borrowers obtain the funding they need. We encourage System institutions to use loan guarantees to make loans to YBS borrowers with limited financial capacity and to existing borrowers with temporary financial difficulties.

All of the YBS programs we evaluated during the reporting period were in compliance with YBS regulations. Each year, we survey FCS associations regarding their YBS programs. With the information received, we prepare a YBS annual report that we publish in our Annual Report on the Farm Credit System.

FCA regulations require each direct-lender System institution to include in its operating and strategic business plan a marketing plan with strategies for providing the institution's products and services to all creditworthy and eligible persons. In addition, each institution must report annually to its board of directors on the progress it has made in this area. We review these reports and evaluate the System's progress in meeting this requirement. As part of our examination activities, we also review institution annual reports and encourage institutions to include a discussion of how they are meeting their mission.

We evaluate Farmer Mac's mission accomplishment as well. Farmer Mac's customer base includes financial institutions and other lenders that seek

a secondary market for their agricultural, rural housing, and rural utility cooperative loans. We evaluate Farmer Mac's performance in reaching out to all potential customers and in creating easy access to its services.

Farmer Mac submits an annual mission report to FCA. This report includes data on Farmer Mac's participation in federal guarantee programs, the geographic distribution of Farmer Mac's program business, the proportion of fixed- versus variable-rate loan volume, and activity related to rural utilities. In addition, the report highlights activity related to small and family farms, which Farmer Mac is required by statute to promote and encourage. These reporting requirements encourage Farmer Mac to motivate its business development staff to focus on the credit needs of small and family farms when working with its lender customers.

**Strategy 4: Encourage the System to provide products and services to all creditworthy and eligible potential borrowers and to promote outreach to enhance diversity and inclusion.**

Our examinations assess the System's efforts to provide financial or business management assistance and outreach to all creditworthy eligible customers, including YBS farmers and ranchers. The System continues to implement programs to meet the needs of YBS producers and other borrowers.

The business plan of each direct-lender institution must include strategies and actions to market the institution's products and services to all eligible and creditworthy persons, with specific outreach toward diversity and inclusion within each market segment. We evaluate the System's progress in meeting this requirement. We have updated our examination guidance and communications with the System to clearly convey our minimum expectations regarding business plans, including our expectations regarding diversity and inclusion requirements.

In addition, we review borrower inquiries and complaints about the lending process and investigate any allegations of discrimination. During the reporting period from July 1, 2018, through June 30, 2019, we responded to 28 borrower inquiries.

Our investigations did not discover any pattern or practice of deliberate discrimination, or an unwillingness of FCS institutions to serve eligible customers within their chartered territories. However, our examinations did find some technical violations of applicants' rights. Those violations were promptly corrected or addressed in follow-up plans by System institutions. We also found that System institutions continue to comply with equal credit opportunity and equal housing laws.

We are also concerned about the needs of disabled farmers and farmer veterans. In previous years, we have held presentations on these topics to raise awareness among our staff about the challenges these individuals face. In 2016, members of our staff met with the USDA undersecretary to discuss ways to better meet the credit needs of farmer veterans.

To ensure that Farmer Mac meets its responsibility to promote and encourage the inclusion of small and family farms in its programs, we have developed certain reporting requirements. We also provide Farmer Mac with feedback on various issues, including loan eligibility on prospective new lines of business.

Farmer Mac continues to work to make its programs accessible to all market participants, including those involved in rural utilities and federal agricultural loan guarantee programs. It seeks to ensure equitable treatment of all potential borrowers and the lenders that serve them. However, ensuring equitable treatment of borrowers within the operations of its primary lenders presents a challenge for Farmer Mac, as it would for any secondary market entity.

During examinations, we review loans presented to Farmer Mac to ensure that their underwriting and loan-approval standards are appropriate and consistent. Further, Farmer Mac's annual mission report includes a section covering its financing of rural utility cooperatives and small and family farmers.

FCA Bookletter (BL-066) "Providing Credit to Farmers and Ranchers Operating in Local/Regional Food Systems" encourages System associations to meet the credit and related service needs of farm-

ers who market their agricultural products through local and regional food systems. It explains that System associations have authority to finance local-food farmers and certain farm-related businesses under existing statutes and regulations and under prior FCA guidance. The booklet also provides guidance on how the regulations on System strategic business planning and senior officer compensation apply to financing local-food farmers (including those operating in urban areas).

### **Strategy 5: Encourage diversity on the boards and in the workforce of System institutions.**

Our oversight and examination programs include risk-based evaluation of each institution's human capital planning, director elections, and nominating committees. Examination guidance and procedures consider any significant changes in bylaws, policies, control systems, staffing, board membership, board involvement, election processes, or issues related to standards of conduct. As part of our review of the nominating committee's processes and practices, we evaluate the committee's outreach efforts to expand diversity on the board. In 2018 we updated examination guidance on this topic.

As part of the review of human capital management, we may evaluate conditions such as staff turnover levels or changes in key personnel (actual or upcoming), depth of management, changes in compensation and benefit programs or levels, involvement of the compensation committee, and extent of operational weaknesses cited in audit, review, and examination reports that could be connected to human capital issues.

### **Strategy 6: Consistent with the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their members and rural America.**

FCA analyzes and approves periodic requests by institutions to restructure or offer new programs designed to better serve their customers.

During the year, FCA approved a combination of operations. On July 1, 2019, two associations affiliated with CoBank, ACB, combined operations into a single association.

As a result, at fiscal year-end 2019, the System had 68 institutions (67 agricultural credit associations and 1 federal land credit association), compared with 69 associations a year earlier.

**Strategy 7: Encourage System institutions to be conscious of the reputation risk associated with their lending and investments decisions.**

We issue guidance on business planning, capital management, portfolio risk management, debt issuance, secondary liquidity sources, and related topics. We also work with FCS-wide committees and groups to discuss challenges, opportunities, and best practices in these areas. Further, we assess System institutions' use of programs undertaken jointly with other financial service providers. Through our supervisory and enforcement activities, we require institutions to develop plans to address any potential reputation risks associated with their lending and investment decisions.

**Strategy 8: Promote public trust in FCA's regulatory framework for the System and Farmer Mac by developing policy guidance that supports mission achievement, financial stability, and transparency.**

We promote public trust and investor confidence by helping ensure that the System and Farmer Mac meet their missions to serve agriculture and rural America. See strategies 2 and 3 for a discussion of some of the ways we have helped them achieve their missions.

We provide guidance to System institutions to help them better understand their lending authorities and, therefore, to more appropriately market their products and services to prospective eligible customers. We also publish our semiannual Regulatory Projects Plan on our website to notify the public of upcoming regulatory actions so that the public may participate in the regulatory process. Our e-government program allows the public to make comments in electronic format and to review comments from others on our website.

We further support public trust and investor confidence by reviewing borrower inquiries and complaints about the loan-granting process and by investigating any allegations of discrimination.

See strategy 4 above for more information about borrower inquiries and complaints.

Farmer Mac, too, has increased its focus on its public mission. Its year-end annual report and Form 10-K filing now include numerous references to its public mission, including a discussion of how pursuing its mission may contribute to lower returns to stockholders. Farmer Mac actively oversees its sellers/servicers, ensuring that loans sold into the secondary market meet its underwriting standards and that processes are in place to detect fraud and operational errors.

The guidance we have provided has had a positive impact on Farmer Mac's public disclosures related to its mission, and we will continue to encourage Farmer Mac to regularly disclose its mission accomplishments.

**Strategy 9: Encourage full participation of stakeholders in the development and review of regulatory and policy proposals as appropriate.**

We encourage stakeholders to provide input on regulatory proposals before we issue rules. We publish our semiannual Regulatory Projects Plan on our website to notify the public of upcoming regulatory actions. In addition, our e-government program allows the public to make comments in electronic format and to review comments from others on our website.

Where practicable, we solicit input from stakeholders before we publish rules for comment. In some cases, we use advance notices of proposed rulemaking to obtain input. In almost all cases, we publish our proposed rules with comment periods of at least 60 days. For regulatory proposals that relate to the System's GSE mission, we also reach out to nontraditional commenters for their input.

**Goal 2 — Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the System and Farmer Mac.**

We accomplish goal 2 by examining and supervising each System institution and Farmer Mac. We

have six strategies to accomplish this goal and six performance measures to evaluate our success.

**Strategy 1: Seek early FCA board input on policy and regulatory issues. Ensure that the board has timely and comprehensive information to be fully informed and able to respond appropriately.**

The FCA board provides early input on regulatory and policy projects. For regulatory projects, the board provides input before and during the development and approval of the semiannual Regulatory Projects Plan, which outlines our regulatory agenda. For policy projects, the board also provides early input; a policy project may produce a guidance document, or it may eventually become a regulatory project.

After we've started a regulatory or policy project, board involvement continues to be crucial. We obtain board input regarding the initial issues paper, and we provide board briefings and monthly progress reports throughout the project.

The Office of Examination and the Office of Secondary Market Oversight report important issues at least monthly or as needed to the FCA board, and they deliver reports to the board each quarter on the condition of the System and Farmer Mac.

**Strategy 2: Maintain strong and frequent two-way communication with stakeholders on issues of risk and safety and soundness.**

FCA management and staff participate regularly in FCS meetings and conferences to answer questions related to regulatory and FCS operational issues. We also use these opportunities to reinforce our expectations regarding these issues and to discuss new regulatory direction. FCA staff also participates in agencywide workgroups and FCS-wide committees and groups to discuss challenges, opportunities, and best practices.

Our approach to oversight and examination involves meeting with institution boards and audit committees on risk issues, interim examination activities, and corrective actions. Through direct interaction with System institutions, we hear about emerging issues and acquire a systemic view of issues warranting regulatory attention. Our

oversight and examination approach also involves timely written communication through interim activity letters and examination reports. We also regularly communicate with FCS management on upcoming examination practices that may affect their institutions.

Annually, we issue an informational memorandum on our National Oversight Plan in which we identify risk topics that we will emphasize in our examination and oversight activities. This informational memorandum provides perspective on our concerns and priorities. When needed, we use the supervisory and enforcement process to require institutions to take certain action. In addition, we review borrower inquiries and complaints about the lending process and investigate any allegations.

**Strategy 3: Continue proactive oversight of institution-specific and systemic risks.**

We proactively identify and evaluate emerging issues that create Systemwide risk and allocate oversight and examination resources based on that risk in accordance with board policy statement 53. FCA continues to prioritize oversight activities according to risk, and we develop individualized oversight and examination plans for each institution. A key element to this approach is the national oversight planning process, which guides our efforts to ensure the safety and soundness of the System. We manage and update this process on a regular basis. We strive to provide timely guidance related to how examinations are conducted and emerging risks.

Through examinations, we routinely evaluate the operations and risk management practices of System institutions, and we share our conclusions and recommendations with System boards of directors. We determine whether FCS institutions have internal control systems and processes to manage their operations and loan portfolios, and whether direct-lender institutions maintain systems that allow them to properly assess the loans and risk exposures in their portfolios. With two exceptions, all institutions had adequate internal control programs or adequate corrective actions in place in FY 2019. We are currently evaluating what improvements these institutions need.



Overall, we have found that FCS institutions have adequate lending systems in place and that they continue to enhance these systems. The FCS uses a two-dimensional risk rating system, consisting of a 14-point scale to measure each borrower's probability of default and a set of ratings to measure the borrower's loss given default. The FCS enhances this system through periodic refinements, and we closely evaluate those refinements. The System also performs database querying and stress testing. We consider the following elements when we examine loan portfolios:

- Management of risk concentrations
- Loan underwriting
- Collateral risk management
- Portfolio planning and analysis
- Credit administration
- Risk identification

#### **Strategy 4: Effectively remediate weakened institutions.**

We use a risk-based supervisory and enforcement program to differentially respond to the risks and particular oversight needs of FCS institutions. If we discover unacceptable risks, we take action to ensure that the identified risks are appropriately mitigated. Corrective actions include reducing risk exposures; increasing capital and enhancing earnings, which improve an institution's ability to bear risk; and strengthening risk management.

We use a three-tiered supervision program: normal supervision, special supervision, and enforcement actions. Institutions under normal supervision are performing in a safe and sound manner and operating in compliance with applicable laws and regulations. These institutions are able to correct identified weaknesses in the normal course of business.

For those institutions displaying more serious or protracted weaknesses, we shift from normal to special supervision, and our examination oversight increases accordingly. Under special supervision, we give an institution clear and firm regulatory guidance to address weaknesses, and we allow the institution time to correct the problems.

If informal supervisory approaches have not been or are not likely to be successful, we will use our formal enforcement authorities. We may take an enforcement action for a number of reasons:

- A situation threatens an institution's financial stability.
- An institution has a safety and soundness problem or has violated a law or regulation.
- An institution's board is unable or unwilling to correct problems we have identified.
- Our enforcement authorities include the following powers:
  - To enter into formal agreements
  - To issue cease-and-desist orders
  - To levy civil money penalties
  - To suspend or remove officers, directors, and other persons

If we take an enforcement action, the FCS institution must operate under requirements of action, and report back to our agency on the institution's progress in fulfilling the requirements. Our examiners oversee the institution's performance to ensure compliance with the enforcement action. As of June 30, 2019, there were no formal enforcement actions in place.

#### **Strategy 5: Ensure that technology, information management, and cybersecurity awareness are priorities at FCA and in the FCS.**

Through the FCS Loan Database Project, we built an enterprise system for the dependable collection and storage of data for examination activities and systemic risk analysis. The loan database provides a robust dataset for analyzing institution loan portfolios and facilitating the loan review activities of the Office of Examination, as well as supporting Systemwide systemic risk analysis.

We previously established uniform instructions for the timely and reliable reporting of accounts. We also worked with the System to improve data quality, systems, and analysis capabilities. This improvement effort included adding the ability to identify shared assets and systemically significant

customers by incorporating into the dataset both the System shared-asset and customer numbers and the attribution data on the largest System customers.

We deployed an agency-level data mart/data cube environment, which is a centralized data warehouse for transactional and indicative data provided by each financial institution in the Farm Credit System.

In 2019, we continued to improve our examination processes by better using technology:

- We implemented new business intelligence tools and examiner analysis applications to leverage the agency’s various information sources, including the data mart, for analytical purposes.
- We continued enhancements to the EDGe Loan Workpaper, a web-based application that accesses the FCS Loans2 database.
- We continued improvements to the FCS Loan Database.
- We continued developing and integrating new management reports and examination tools as part of the EDGe project.

We continually evaluate whether institutions are maintaining systems to analyze their portfolio risk and borrower profiles. We review their processes and tools for analyzing sensitivity and stress. In December 2018, we issued a System memorandum on cybersecurity risks titled “Use of Personal Email and Cybersecurity Concerns.”

**Strategy 6: Ensure that strong governance, standards of conduct, and ethical behavior are part of the organizational culture of the FCS.**

We evaluate the compliance of System institutions with governance regulations and their adherence to cooperative principles. We evaluate each institution’s standards of conduct, ethics, and organizational culture. We share our conclusions and recommendations with System boards of directors. As discussed under goal 2, strategy 4, we use a

three-tiered supervision program to ensure that institutions take appropriate measures to mitigate any risks our examiners identify.

In May 2018, we issued a proposed rule that would require FCS institutions to develop a standards of conduct program based on certain core principles. It would also require each institution to adopt a code of ethics and to develop strategies and a system of internal controls to promote institutional and individual accountability for ethical conduct. We are in the process of developing a final rule.

**Goal 3 — Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.**

The purpose of goal 3 is to ensure that FCA maintains a workforce that can carry out its mission. We have four strategies to accomplish this goal and two performance measures to evaluate our success.

**Strategy 1: Maintain a highly skilled and diverse workforce to meet FCA’s current and future regulatory development, risk analysis, examination, and supervision needs.**

Our success as an agency depends largely on our people, talent, and technology. We will continue to invest in hiring, developing, and retaining a talented, diverse workforce and to provide employees with the tools they need to be effective. We strive to keep our work environment positive, innovative, diverse, and family friendly, and we encourage teamwork and high productivity.

We have emphasized diversity in our recruiting, training, policies and procedures, and management/employee performance standards. We have made good use of the Schedule A, Persons with Disabilities, hiring authority. As a result, the diversity of our workforce is growing. According to FCA’s FY 2019 employment data, more than 17.5% of our workforce has disabilities and almost 4.2% of those employees have targeted disabilities, or conditions that can create significant barriers to employment. This surpasses the goal set in the Equal Employment Opportunity Commission’s

final rule, which directs federal agencies to aim for 12% of its workforce to be people with disabilities, 2% of whom are people with targeted disabilities.

By continually assessing human capital needs, we have established appropriate human capital requirements, and we have used our human capital assessments to develop, enhance, and redirect training and development programs. We have upgraded our information technology infrastructure to improve our ability to work, collaborate, gather information, review, approve, and store work products. As a result, our workforce has become more effective and efficient.

To address workforce gaps and challenges, we are taking the following measures:

- Identifying positions in which risk of key-person dependency exists and developing plans to build bench strength and manage succession for these positions
- Hiring to meet projected staffing needs
- Offering training programs and developing strategies to increase our employees' technical competencies
- Creating opportunities for employees to become more engaged with their work
- Increasing workplace diversity and promoting inclusion

Through our examiner commissioning program, we are building the next generation of diverse and highly motivated examiners, ensuring they have the knowledge, skills, and talents necessary to accomplish the agency's mission. The program helps examiners develop their skills in FCA's primary areas of oversight — credit, finance, and operations as well as examination management.

We also invest in the development of our commissioned examiners through human capital planning, examiner career development, and specialty programs. The specialty programs enable examiners to gain technical expertise and encourage them to pursue professional development and certification.

### **Strategy 2: Facilitate the development of the skills our workforce needs to evaluate FCS risk and provide timely and proactive oversight.**

In 2019, FCA continued to devote significant resources toward developing new employees through our examiner commissioning program. In addition, we increased our focus on helping midcareer staff develop their skills. For example, we took the following measures:

- Trained and developed examination staff with the necessary technical and soft skill sets
- Supported post-commission examiner career development and related specialist programs (for credit, finance, operations, and examination management) to ensure our staff has the expertise and credibility to carry out our mission, including training in the necessary soft skills.
- Helped our staff maintain its readiness to administer elevated supervision when necessary
- Ensured that all our examiners understand our risk supervision approaches and how to implement them

### **Strategy 3: Ensure adequate succession planning and knowledge transfer to ensure that future FCA leadership and staff possess the knowledge and skills required to be an effective arm's length regulator.**

We have updated our examiner career development program to help us replace retiring managers and supervisors by developing the leadership, management, and supervisory skills of our examiners. Our strategy is to develop a pool of candidates who could become successful supervisors and managers, including director of the Office of Examination. We recognize that retirements also create opportunity for diversity and inclusion in management.

We use the following methods to develop our next group of program managers and leaders:

- Creating leadership positions for program and portfolio managers

- Providing selected candidates with formal leadership training, on-the-job training, and opportunities to participate in other projects
- Helping staff build skill sets by providing developmental assignments such as serving as examiners-in-charge of complex institutions, completing special projects, and participating in Office of Examination specialist programs
- Providing internal rotational assignments between divisions in our Office of Examination
- Offering opportunities for Office of Examination employees to work in other FCA offices

To transfer knowledge from more tenured examiners to the new generation of examination staff, we use developmental initiatives. Our ongoing project to update the FCA Examination Manual also provides opportunities for knowledge transfer.

**Strategy 4: Encourage a workplace culture that motivates staff to be engaged, embraces diversity in all its forms, and promotes strong ethical behavior.**

According to the Federal Employee Viewpoint Survey, FCA's employee engagement index went up by one percentage point in 2019, from 78% to 79%. FCA is continually ranked among the top five best places to work among small federal agencies. We promote engagement in various ways, such as providing training and development opportunities for employees to build their skills and advance their careers.

We also strengthen engagement by having an inclusive workplace. For example, our Special Emphasis Programs, such as the Federal Women's Program, Blacks in Government, and HOLA-FCA (Hispanic Organization for Leadership and Advancement), sponsor regular presentations on issues affecting women and minority groups. And each year we have a Diversity Day when we celebrate the diverse cultures represented in our workplace.

We also strive to increase workforce diversity. We target at least 25% of our recruiting efforts toward

potential applicants who have a disability or who are members of a minority group. For example, during each recruiting season, we attend career fairs at historically black colleges and universities and schools with a high rate of minority enrollment.

And as a financial banking regulator, we emphasize ethical conduct among all employees. In 2011, our board adopted a policy statement on ethics, independence, and our role as an arm's length regulator. This document states the following:

- The FCA board will continue to hold itself to the highest standards of ethical conduct in recognition that its commitment and adherence to the agency ethics program sets the standard for the commitment and conduct of agency staff.
- FCA board members and employees must remain mindful of their duty to make independent determinations on matters being considered by the agency.
- As the arm's length regulator of the Farm Credit System, FCA is committed to carrying out its work without any undue influence, favoritism, or special access.

Our ethics program performs the following functions:

- Oversees financial disclosure reporting (that is, the completion of public, confidential, and certification forms) of covered FCA and FCSIC employees
- Provides ethics counseling to FCA and FCSIC employees
- Provides ethics training to all covered FCA and FCSIC employees annually, as well as to new employees during their orientation
- Provides a liaison to coordinate with other government agencies regarding ethics issues
- Helps develop regulations and policies related to ethics

**Table 5a. Goal 1 — Performance measures and results for public mission**

July 1, 2018, to June 30, 2019

Measure	Results	2018 Target	2018 Results	2019 Target	2019 Results	Results vs. target
1. Percentage of FCS institutions providing products and services that serve creditworthy and eligible persons and perform outreach to enhance diversity and inclusion.	All FCS institutions had satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons.	≥90%	100%	≥90%	100%	▲
2. Whether Farmer Mac’s business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans.	Farmer Mac’s business plan contains adequate strategies to promote and encourage the inclusion of all qualified loans, including small and family farm loans, in its secondary market programs. Its business activities further its mission to provide a source of long-term credit and liquidity.	Yes	Yes	Yes	Yes	✓
3. Percentage of direct-lender institutions with satisfactory consumer and borrower rights compliance.	Ninety-five percent of direct-lender institutions have satisfactory consumer and borrower rights compliance	≥90%	97.3%	≥90%	95%	▲
4. Percentage of direct-lender institutions with YBS programs that are in compliance with YBS regulations.	All direct-lender institutions with YBS programs are in compliance with YBS regulations.	≥90%	100%	≥90%	100%	▲
5. Whether the majority of objectives listed in the preamble of each final rule were met on the two-year anniversary of the rule’s effective or implementation date.	There were seven rules that met the reporting requirement. Most of the objectives listed in the preambles of the final rules were met on the two-year anniversary of the implementation dates.	Yes	Yes	Yes	Yes	✓
6. Percentage of pre-rulemaking projects and proposed rules on which FCA requested input from persons outside of FCA. (This measure considers all of the pre-rulemaking projects and proposed rules that were listed as completed on FCA’s Unified Agenda Abstracts for the reporting period.)	There were two proposed rules that met the reporting requirement; we did request input on these rules from persons outside of FCA.	100%	100%	100%	100%	✓

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: ≥ is greater than or equal to; NA indicates either that the measure is not applicable or that FCA’s performance could not be measured; ▲ indicates we exceeded the FY 2019 target; ✓ indicates we achieved the FY 2019 target; ▼ indicates we did not meet the FY 2019 target.

Notes: In April 2018, the FCA board adopted the FCA Strategic Plan for FYs 2018 – 2023. The performance measures in the new plan remain substantially the same as the measures in the previous plan.

**Table 5b. Goal 2 — Performance measures and results for safety and soundness**

July 1, 2018, to June 30, 2019

Measure	Results	2018 Target	2018 Results	2019 Target	2019 Results	Results vs. target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	Ninety-eight percent of System assets have composite CAMELS ratings of 1 or 2.	≥90%	98.6%	≥90%	98%	▲
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.	The agency does not have any supervisory agreements in place with FCS institutions.	≥80%	NA	≥80%	NA	NA
3. Percentage of institutions complying with regulatory capital ratio requirements.	All institutions complied with regulatory capital ratio requirements.	≥90%	100%	≥90%	100%	▲
4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed.	OSMO activities effectively identify emerging risks, and appropriate supervisory and corrective actions have been taken.	Yes	Yes	Yes	Yes	✓
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans.	All institutions but two have satisfactory audit and review programs, including institutions with acceptable corrective action plans.	100%	95.9%	100%	97%	▼
6. Whether five or more reports and dashboards were created that use data collected from the Farm Credit System to assess risk in the System.	We created at least five reports that use System data to assess risk.	Yes	Yes	Yes	Yes	✓

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: ≥ is greater than or equal to; NA indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates we exceeded the FY 2019 target; ✓ indicates we achieved the FY 2019 target; ▼ indicates we did not meet the FY 2019 target.

Notes: In April 2018, the FCA board adopted the FCA Strategic Plan for FYs 2018 – 2023. The performance measures in the new plan remain substantially the same as the measures in the previous plan.

**Table 5c. Goal 3 — Performance measures and results for workforce management**

July 1, 2018, to June 30, 2019

Measure	Results	2018 Target	2018 Results	2019 Target	2019 Results	Results vs. target
1. Whether, as part of its recruiting efforts for entry level examiners, FCA has ensured that at least 25% of its outreach efforts target applicants with a disability or who are members of a minority group.	At least 25% of our outreach efforts targeted disabled or minority potential applicants.	Yes	Yes	Yes	Yes	✓
2. Whether we have maintained or improved our score from last year in the annual employee satisfaction survey.	We achieved a 1 percentage point increase in our Employee Engagement Index score.	Yes	Yes	Yes	Yes	✓

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: ≥ is greater than or equal to; NA indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates we exceeded the FY 2019 target; ✓ indicates we achieved the FY 2019 target; ▼ indicates we did not meet the FY 2019 target.

Notes: In April 2018, the FCA board adopted the FCA Strategic Plan for FYs 2018 – 2023. The performance measures in the new plan remain substantially the same as the measures in the previous plan.

# Financial Section





## Statement of Chief Financial Officer

November 8, 2019

I am pleased to present the Farm Credit Administration's 2019 financial statements and the auditor's report on the financial position of the agency as of the fiscal year ended September 30, 2019. The audit was conducted by an independent public accounting firm contracted with the Office of Inspector General. The agency received an unmodified audit opinion on our financial statements for the 26th consecutive year. The auditors concluded that FCA's financial statements are presented fairly, in all material respects, and in accordance with U.S. generally accepted accounting principles.

As part of the financial audit, the auditors assessed our internal controls over financial reporting and compliance with selected provisions of applicable laws, regulations, and contracts that are material to the financial statements. No material weaknesses or significant deficiencies were reported.

FCA leadership and staff remain committed to sound financial management practices through governance, accountability and transparency. During fiscal year 2019, we enhanced our enterprise risk management capabilities to further strengthen our financial stewardship to rural America, the president, Congress, and the members and investors of the Farm Credit System.

We strongly support the cross-agency priority goal of the President's Management Agenda that promotes effectiveness and efficiency of administrative services through adoption of established governmentwide shared service providers. Per objectives laid out in Office of Management and Budget (OMB) memorandum M-19-16, Centralized Mission Support Capabilities for the Federal Government, we will continue to work toward increased economies of scale and operational cost savings. At FCA, we contract with the Department of the Treasury's Bureau of Fiscal Service for financial management, procurement, and travel services. We also contract with the Department of Transportation for management of employee transit benefits and with the National Finance Center for payroll processing.

This shared services approach helps us to maximize efficiency and enables us to focus more on data analytics and financial management reporting. Additionally, by sharing services, we are able to direct more dollars to deliver on our core mission of ensuring that the Farm Credit System meets the needs of our nation's farmers, ranchers, and rural communities.

Looking forward, we will continue to enhance our internal risk management practices and internal control activities to maintain effective and efficient operations, reliable reporting, and compliance with laws and regulations. We will seek opportunities to further reduce manual processes and improve data quality and reporting. Doing so will enhance our capabilities to work on behalf of rural America.

I would like to thank all the FCA financial personnel, as well as the staff from other offices who worked with them, for their conscientious management of agency resources. Our shared commitment to ensuring accountability and transparency in the execution of our fiduciary duties is the foundation of our strong stewardship and ability to deliver reliable financial information to our stakeholders.

Sincerely,



Stephen G. Smith  
Chief Financial Officer

## Transmittal Letter of Auditor's Report



November 13, 2019

The Honorable Glen R. Smith, Board Chairman and Chief Executive Officer  
The Honorable Jeffery S. Hall, Board Member  
Farm Credit Administration  
1501 Farm Credit Drive  
McLean, VA 22102-5090

Dear Chairman Smith and Board Member Hall:

We contracted with the independent public accounting firm of Harper, Rains, Knight & Company P.A. (HRK) to audit the financial statements of the Farm Credit Administration (FCA) as of and for the fiscal years ended September 30, 2019 and 2018 and provide a report on internal control over financial reporting and compliance with laws and other matters. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget audit guidance, and the U.S. Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency's *Financial Audit Manual*.

In its audit of FCA, HRK reported:

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- FCA had no material weaknesses in internal control over financial reporting and compliance with laws and other matters; and
- no reportable noncompliance with provisions of laws tested or other matters.

In connection with the contract, we reviewed HRK's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on FCA's financial statements or conclusions about the effectiveness of internal control over financial reporting, or on compliance with laws and other matters. HRK is responsible for the attached auditor's report dated November 8, 2019 and the conclusions expressed therein. However, our review disclosed no instances where HRK did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Respectfully,



Sonya K. Cerne  
Assistant Inspector General for Audits, Inspections, and Evaluations

Enclosure

## Independent Auditor's Report



### Independent Auditors' Report

FCA Board and Inspector General  
Farm Credit Administration

#### Report on the Financial Statements

We have audited the accompanying financial statements of the Farm Credit Administration (FCA). FCA's financial statements comprise the balance sheets as of September 30, 2019 and 2018, and the related statements of net cost and changes in net position, and statements of budgetary resources, for the fiscal years then ended; and the related notes to the financial statements.

#### *Management's Responsibility*

FCA's management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; (2) preparing, measuring, and presenting the Required Supplementary Information (RSI) in accordance with accounting principles generally accepted in the United States of America; (3) preparing and presenting other information included in documents containing the audited financial statements and auditors' report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the auditors' assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal

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FCA Board and Inspector General  
Farm Credit Administration (continued)

***Auditors' Responsibility (continued)***

control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion on the Financial Statements***

In our opinion, FCA's financial statements present fairly, in all material respects, FCA's financial position as of September 30, 2019 and 2018, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America issued by the Federal Accounting Standards Advisory Board (FASAB) require that the information in the Management's Discussion and Analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by FASAB who considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditors' inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on FCA's financial statements. The information in the Statement of Board Chairman and CEO, Statement of Chief Financial Officer, FCA Performance Report, and Other Information section contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional

FCA Board and Inspector General  
Farm Credit Administration (continued)

*Other Information (continued)*

analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements.

The Statement of Board Chairman and CEO, Statement of Chief Financial Officer, FCA Performance Report, and Other Information section has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

***Internal Control over Financial Reporting***

In planning and performing our audit of FCA's financial statements as of and for the year ended September 30, 2019, in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 19-03, *Audit Requirements for Federal Financial Statements*, we considered the entity's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the entity's internal control over financial reporting. We did not consider all internal controls relevant to operating objectives as broadly established by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to preparing performance information and ensuring efficient operations. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

FCA Board and Inspector General  
Farm Credit Administration (continued)

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether FCA's financial statements are free from material misstatement, we performed tests of its compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which would have a direct and material effect on the financial statements. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 19-03, *Audit Requirements for Federal Financial Statements*. We caution that noncompliance may occur and not be detected by these tests.

Management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the entity.

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to the entity that have a direct effect on the determination of material amounts and disclosures in the entity's financial statements and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to FCA.

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2019 that would be reportable under U.S. generally accepted government auditing standards or OMB Bulletin 19-03, *Audit Requirements for Federal Financial Statements*. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to FCA. Accordingly, we do not express such an opinion.

***Purpose of the Other Reporting Required by Government Auditing Standards***

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of FCA's internal control or compliance. These reports are an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Hazen, Rains, Knight & Company, P.A.*

November 8, 2019

## Financial Statements

We have prepared the accompanying financial statements in accordance with U.S. generally accepted accounting principles and with the Office of Management and Budget Circular A-136, as amended. For comparison purposes, we present our financial statements and notes for FY 2019 and FY 2018. All amounts are in whole dollars. The financial statements include the following:

- Balance sheets, which show our assets, our liabilities, and our net position (assets minus liabilities).
- Statements of net cost, which show our net cost of operations. We calculate our net costs by subtracting from our gross costs any revenue we earn. We break the statement of net cost into three program components: public mission, safety and soundness, and other activity.
- Statements of changes in net position, which show the change in our net position over the two-year period ending Sept. 30, 2019.
- Statements of budgetary resources, which show our resources, the status of our resources, and the outlay of resources during the fiscal year.
- Notes to the financial statements, which clarify and provide additional detail regarding the amounts in the financial statements.

Not all of the statements mentioned in Circular A-136 apply to our agency. For this reason, we do not include a statement of custodial activity, a statement of social insurance, or a statement of changes in social insurance amounts.



## Balance sheets

As of Sept. 30, 2019 and 2018

(In dollars)

		2019	2018
<b>Assets</b>	<b>Intragovernmental</b>		
	Fund balance with Treasury (note 2)	\$1,388,463	\$4,127,940
	Investments (note 3)	34,614,229	31,492,515
	Accounts receivable (note 4)	7,516	13,382
	<b>Total intragovernmental</b>	<b>36,010,208</b>	<b>35,633,837</b>
	Accounts receivable (note 4)	150,342	84,409
	General property, equipment, and software, net (note 5)	1,173,085	1,607,341
	Prepaid expenses	289,945	267,706
	<b>Total assets</b>	<b>\$37,623,580</b>	<b>\$37,593,293</b>
	<b>Liabilities</b>	<b>Intragovernmental</b>	
Accounts payable		\$37,859	\$49,426
Accrued post-employment compensation		35,914	32,618
Employer contributions and payroll taxes payable		549,182	484,936
Other		132	109
<b>Total intragovernmental</b>		<b>623,087</b>	<b>567,089</b>
Accounts payable		726,614	1,310,666
Actuarial workers' compensation liability (note 6)		1,595,070	1,509,392
Accrued payroll and benefits		7,659,548	7,253,008
Employer contributions and payroll taxes payable		544,827	521,259
Deferred revenue		5,572,620	5,907,939
<b>Total liabilities</b>		<b>\$16,721,766</b>	<b>\$17,069,353</b>
<b>Net position</b>		<b>Cumulative results of operations – Other funds</b>	<b>\$20,901,814</b>
	<b>Total net position</b>	<b>20,901,814</b>	<b>20,523,940</b>
	<b>Total liabilities and net position</b>	<b>\$37,623,580</b>	<b>\$37,593,293</b>

The accompanying notes are an integral part of these statements.

## Statements of net cost

For the years ended Sept. 30, 2019 and 2018

(In dollars)

	<b>Program Costs</b>	<b>2019</b>	<b>2018</b>
<b>Public mission</b>	Gross costs	\$20,472,180	\$20,089,846
	Less: Earned revenue	(18,833,677)	(18,156,025)
	Net program cost	\$1,638,503	\$1,933,821
<b>Safety and soundness</b>	Gross costs	\$59,441,216	\$55,986,290
	Less: Earned revenue	(54,672,029)	(50,641,483)
	Net program cost	\$4,769,187	\$5,344,807
<b>Other activity</b>	Gross costs	\$1,005,507	\$670,677
	Less: Earned revenue	(668,273)	(487,337)
	Net program cost	\$337,234	\$183,340
<b>Net cost of operations (note 7)</b>		<b>\$6,744,924</b>	<b>\$7,461,968</b>

The accompanying notes are an integral part of these statements.

## Statements of changes in net position

For the years ended Sept. 30, 2019 and 2018  
(In dollars)

	2019	2018	
<b>Cumulative results of operations</b>			
<b>Beginning balances</b>	\$20,523,940	\$20,915,620	
<b>Other financing sources (Non-exchange)</b>	<b>Imputed financing sources</b>		
	Federal employee benefits (note 8)	3,472,798	3,070,288
	Rent (note 8)	3,650,000	4,000,000
	Total financing sources	7,122,798	7,070,288
<b>Net cost of operations</b>	(6,744,924)	(7,461,968)	
<b>Net change</b>	377,874	(391,680)	
<b>Cumulative results of operations</b>	\$20,901,814	\$20,523,940	
<b>Net position</b>	<b>\$20,901,814</b>	<b>\$20,523,940</b>	

The accompanying notes are an integral part of these statements.

## Statements of budgetary resources

For the years ended Sept. 30, 2019 and 2018

(In dollars)

		2019	2018
<b>Budgetary resources</b>	Unobligated balance from prior year budget authority, net	\$21,951,094	\$21,406,841
	Spending authority from offsetting collections	73,430,739	69,496,735
	<b>Total budgetary resources (note 10)</b>	<b>\$95,381,833</b>	<b>\$90,903,576</b>
<b>Status of budgetary resources</b>	New obligations and upward adjustments (total)	\$73,954,318	\$68,952,482
	<b>Unobligated balance, end of year</b>		
	Exempt from apportionment, unexpired accounts	15,854,895	16,043,155
	Exempt from apportionment, not available	5,572,620	5,907,939
	Unobligated balance, end of year (total)	21,427,515	21,951,094
	<b>Total budgetary resources (note 10)</b>	<b>\$95,381,833</b>	<b>\$90,903,576</b>
<b>Outlays, net</b>	Outlays, net (total)	(264,710)	(1,280,081)
	<b>Agency outlays, net</b>	<b>\$(264,710)</b>	<b>\$(1,280,081)</b>

The accompanying notes are an integral part of these statements.

## Notes to the financial statements

### Note 1. Significant accounting policies

- A. **Reporting entity** — See the section titled Management’s Discussion and Analysis for a description of the reporting entity.
- B. **Basis of accounting and presentation** — The financial statements have been prepared in accordance with OMB Circular No. A-136, as amended. In addition, the financial statements have been prepared on an accrual basis from our books and records in accordance with GAAP and the Statements of Federal Financial Accounting Standards prescribed by the Federal Accounting Standards Advisory Board, the official body for setting accounting standards for the federal government. Under the accrual method, revenues are recognized when earned, and expenses are recognized when goods or services are received, without regard to receipt of funds or payment of cash. FCA is not subject to apportionment. Budgetary accounting has been applied to facilitate compliance with legal constraints and control over the use of funds.
- C. **Fund balance with Treasury** — We maintain a revolving, no-year account with the U.S. Treasury through which cash receipts and disbursements are processed. We do not receive appropriated funds. See note 2.
- D. **Investments** — The Farm Credit Act gives us the authority to invest in public debt securities with maturities suitable to our needs. We invest solely in U.S. Treasury securities, which are normally held to maturity and carried at cost. Investments are adjusted for unamortized premiums or discounts. Premiums and discounts are amortized and interest is accrued using the level-yield, scientific method of effective interest amortization over the term of the respective issues. We use interest earned on investments to build and maintain an agency reserve, which allows us to respond effectively and efficiently to unexpected, unbudgeted expenses without increasing assessments. See note 3.
- E. **Accounts receivable** — Accounts receivable are composed of
1. reimbursements for FCA administrative expenses according to agreements with other federal entities,
  2. assessments from institutions in accordance with the Farm Credit Act and FCA regulations, and
  3. amounts owed FCA that are generated through the normal course of business with employees and vendors.

Amounts due from federal agencies are considered fully collectible. An allowance for uncollectible amounts receivable from the public is established when we have determined that the collection is unlikely to occur after considering the debtor’s ability to pay.

The Office of the Chief Financial Officer, in conjunction with the agency’s accounting service provider, the Bureau of the Fiscal Service, reviews the agency’s accounts receivable on a regular basis. We have determined that all accounts receivable as of Sept. 30, 2019, are fully collectible. See note 4.

- F. **Advances and prepaid expenses** — Payments made before the receipt of goods and services are recorded as advances or prepaid expenses at the time of prepayment and are recognized as expenses when the goods and services are received. This process helps to minimize large dollar fluctuations in cost and provides for the recognition of cost based on use. When the prepayment amount has minimal impact on cost, it is more cost-effective to expense the advance or prepayment at the time of payment. We establish advances for prepaid maintenance agreements over \$20,000 and for prepaid training exceeding \$15,000.
- G. **General property, equipment, and software** — Property (including vehicles), equipment, and software are recorded at cost, net of an allowance for accumulated depreciation. Repairs and maintenance costs are expensed as incurred. We capitalize all property and equipment with itemized costs of \$50,000 or more and a useful life of two years or more. We also capitalize groups of items that individually are under \$50,000 but together meet the bulk purchase criteria of \$500,000 or more. We capitalize software when its costs exceed \$250,000 and when the software has a useful life of two years or more. We use the straight-line method of depreciation with half-year convention to allocate the cost of capitalized property, equipment, or software over its estimated useful life. See note 5.
- H. **Accounts payable** — Accounts payable consist of amounts owed to other federal agencies and the public. We strive to make payments in a timely manner in accordance with the Prompt Payment Act. If payments are late, we pay interest penalties.
- I. **Liabilities** — Liabilities may or may not be covered by budgetary or other resources. All of our liabilities are covered by budgetary resources with the exception of the actuarial workers' compensation liability (see note 6). Intragovernmental liabilities are claims against us by other federal agencies.
- J. **Inter-entity costs** — Goods and services are received from other entities at no cost or at a cost less than full cost to the providing entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by FCA are recognized as imputed cost on the statement of net cost, and are offset by imputed revenue on the Statement of Changes in Net Position. FCA's inter-entity costs that are reported as imputed costs include federal employee benefits and rent. See note 8.
- K. **Annual, sick, and other leave** — Annual leave, compensatory leave, credit hours, and some other types of leave are accrued as a funded liability when earned, with an offsetting reduction for leave taken. The accrued leave liability for each of these types of leave is calculated using current pay rates. Sick leave and other types of nonvested leave are expensed as the leave is taken. Our methodology for calculating the leave liability includes the cost of benefits associated with the compensation. This ensures that our estimated liability for leave reflects the current composition of our staff; most of our employees are under the Federal Employees Retirement System instead of the Civil Service Retirement System.
- L. **Assessments** — A substantial portion of our revenues is based on direct assessments billed to the System institutions we regulate or examine. We also recognize revenues based on examination services provided by the Office of Examination. We use a formula established in our regulations to calculate assessments. We base each institution's assessment, in part, on its average risk-adjusted assets and its overall financial health.
- M. **Deferred revenue** — Any funds received before the beginning of the new fiscal year are considered unearned revenue and are reported as deferred revenue on the balance sheet. These amounts are also reported as "exempt from apportionment, not available" on the statement of budgetary resources.

**N. Use of estimates** — We have made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses; we have also made estimates and assumptions in the note disclosures. Actual results could differ from these estimates. Some estimates include year-end accruals and accrued workers compensation.

**O. Financial data** — All amounts presented in this report are in whole dollars.

**P. Reclassifications** — Certain amounts presented in the prior years have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net position or budgetary resources.

**Q. Classified activities** — Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. FCA does not have any classified activities.

## Note 2. Fund balance with Treasury

	2019	2018
<b>Status of fund balance with Treasury</b>		
Unobligated balance		
Available	\$15,854,895	\$16,043,155
Unavailable	5,572,620	5,907,939
Obligated balance not yet disbursed	14,293,317	13,505,029
Subtotal — Status of fund balance	35,720,832	35,456,123
Funds invested with Treasury net of unamortized discount	(34,332,369)	(31,328,183)
<b>Total fund balance with Treasury</b>	<b>\$1,388,463</b>	<b>\$4,127,940</b>

The status of our fund balance with Treasury may be classified as unobligated available, unobligated unavailable, or obligated. Unobligated available amounts represent funds available for incurring new obligations. The unobligated unavailable amounts include funds not yet available for use and represent the amount of new fiscal year assessments received before Oct. 1. These unavailable amounts are also classified as deferred revenue on the Balance Sheet. Amounts noted as “obligated balance not yet disbursed” represent amounts designated for payment of goods and services received and not yet paid.

Unobligated balances noted above agree with unobligated balances reported on the Statement of Budgetary Resources.

All of our funds invested with Treasury are in U.S. Treasury securities.

**Note 3. Investments****Intragovernmental securities****Amounts for 2019 balance sheet reporting**

	<b>Cost</b>	<b>Amortized (premium) discount</b>	<b>Investments, net</b>	<b>Interest receivable</b>	<b>9/30/19 Investment balance</b>	<b>Market value disclosure</b>
Nonmarketable: market-based	\$34,345,472	\$178,865	\$34,524,337	\$89,892	\$34,614,229	\$34,611,584

**Amounts for 2018 balance sheet reporting**

	<b>Cost</b>	<b>Amortized (premium) discount</b>	<b>Investments, net</b>	<b>Interest receivable</b>	<b>9/30/18 Investment balance</b>	<b>Market value disclosure</b>
Nonmarketable: market-based	\$31,435,396	\$(24,955)	\$31,410,441	\$82,074	\$31,492,515	\$31,177,346

Premiums and discounts are amortized, and interest is accrued using the level-yield, scientific method of effective interest amortization over the term of the respective issues. Interest revenue on investments was \$805,339 and \$597,007 for FYs 2019 and 2018, respectively.

**Note 4. Accounts receivable**

	<b>2019</b>	<b>2018</b>
<b>Intragovernmental</b>		
Reimbursements for services provided	\$7,516	\$13,382
Subtotal	7,516	13,382
<b>With the public</b>		
Reimbursements for services provided	146,536	78,834
Expenditure refunds	3,806	5,575
Subtotal	150,342	84,409
<b>Total accounts receivable</b>	<b>\$157,858</b>	<b>\$97,791</b>

The intragovernmental receivables represent reimbursable services provided to USDA and FCSIC but unbilled as of Sept. 30.



**Note 5. General property, equipment, and software****As of September 30, 2019**

	<b>Estimated useful life</b>	<b>Depreciation method</b>	<b>Acquisition value</b>	<b>Accumulated/Amortized depreciation</b>	<b>Book value</b>
Equipment	3 years	Straight line	\$723,580	\$(723,580)	\$0
Equipment	5 years	Straight line	498,326	(239,595)	258,731
Equipment	10 years	Straight line	305,304	(136,910)	168,394
Internal use software	5 years	Straight line	1,270,813	(524,853)	745,960
<b>Total</b>			<b>\$2,798,023</b>	<b>\$(1,624,938)</b>	<b>\$1,173,085</b>

**As of September 30, 2018**

	<b>Estimated useful life</b>	<b>Depreciation method</b>	<b>Acquisition value</b>	<b>Accumulated/Amortized depreciation</b>	<b>Book value</b>
Equipment	3 years	Straight line	\$723,580	\$(602,983)	\$120,597
Equipment	5 years	Straight line	434,055	(146,358)	287,697
Equipment	10 years	Straight line	305,304	(106,379)	198,925
Internal use software	5 years	Straight line	1,270,813	(270,691)	1,000,122
<b>Total</b>			<b>\$2,733,752</b>	<b>\$(1,126,411)</b>	<b>\$1,607,341</b>

Capitalization thresholds for property and equipment are \$50,000 per individual asset and \$500,000 for bulk purchase of equipment. Capitalized internal use software is capitalized when costs exceed \$250,000.

**Note 6. Liabilities not covered by budgetary resources (actuarial workers' compensation liability)**

We record an unfunded liability (liability not covered by budgetary resources) for the actuarial liability under the Federal Employees' Compensation Act (FECA). The actuarial FECA liability is the estimated liability for future benefit payments and is recorded as a component of federal employee benefits. The actuarial liability estimate for benefits under FECA includes the expected liability for costs associated with death, disability, and medical care for approved compensation cases. The estimate also includes costs associated with incurred but unreported claims.

The Department of Labor estimates future workers' compensation liability for specified entities that are preparing statements under the Chief Financial Officers Act and the Government Management Reform Act. Because we are not one of the entities for which the Department of Labor provides individual estimates on a routine basis, we calculated our estimated FECA actuarial liability amount by using the Department of Labor's FY 2019 model to estimate FECA actuarial liability.

	<b>2019</b>	<b>2018</b>
Federal Employees' Compensation Act actuarial liability	\$1,595,070	\$1,509,392
Total liabilities not covered by budgetary resources	1,595,070	1,509,392
Total liabilities covered by budgetary resources	15,126,696	15,559,961
<b>Total liabilities</b>	<b>\$16,721,766</b>	<b>\$17,069,353</b>

**Note 7. Suborganization program costs/program costs by segment**

The following tables provide a detailed breakout of the statement of net cost for each of the fiscal years ended 2019 and 2018. We display our cost and earned revenue amounts by office within each program.

**For the year ended September 30, 2019**

		<b>Office of Examination</b>	<b>Office of Regulatory Policy</b>	<b>Office of Secondary Market Oversight</b>	<b>Other offices</b>	<b>Total</b>
<b>Public mission</b>	Gross costs	\$755,454	\$5,668,326	\$564,309	\$13,484,091	\$20,472,180
	Less: Earned revenue	(698,625)	(5,243,131)	(422,580)	(12,469,341)	(18,833,677)
	Net program cost	56,829	425,195	141,729	1,014,750	1,638,503
<b>Safety and soundness</b>	Gross costs	38,989,922	1,257,124	1,519,556	17,674,614	59,441,216
	Less: Earned revenue	(36,004,004)	(1,157,338)	(1,131,808)	(16,378,879)	(54,672,029)
	Net program cost	2,985,918	99,786	387,748	1,295,735	4,769,187
<b>Other activity</b>	Gross costs	311,999	122,189	2,047	569,272	1,005,507
	Less: Earned revenue	(207,358)	(81,208)	(1,361)	(378,346)	(668,273)
	Net program cost	104,641	40,981	686	190,926	337,234
<b>Net cost of operations</b>		<b>\$3,147,388</b>	<b>\$565,962</b>	<b>\$530,163</b>	<b>\$2,501,411</b>	<b>\$6,744,924</b>

**For the year ended September 30, 2018**

		<b>Office of Examination</b>	<b>Office of Regulatory Policy</b>	<b>Office of Secondary Market Oversight</b>	<b>Other offices</b>	<b>Total</b>
<b>Public mission</b>	Gross costs	\$585,548	\$5,476,669	\$571,224	\$13,456,405	\$20,089,846
	Less: Earned revenue	(531,923)	(4,975,058)	(446,357)	(12,202,687)	(18,156,025)
	Net program cost	53,625	501,611	124,867	1,253,718	1,933,821
<b>Safety and soundness</b>	Gross costs	36,583,724	1,268,009	1,325,825	16,808,732	55,986,290
	Less: Earned revenue	(33,196,083)	(1,150,304)	(1,033,734)	(15,261,362)	(50,641,483)
	Net program cost	3,387,641	117,705	292,091	1,547,370	5,344,807
<b>Other activity</b>	Gross costs	220,211	56,537	634	393,295	670,677
	Less: Earned revenue	(160,013)	(41,081)	(460)	(285,783)	(487,337)
	Net program cost	60,198	15,456	174	107,512	183,340
<b>Net cost of operations</b>		<b>\$3,501,464</b>	<b>\$634,772</b>	<b>\$417,132</b>	<b>\$2,908,600</b>	<b>\$7,461,968</b>

**Note 8. Inter-entity costs****Federal employee benefits**

	<b>2019</b>	<b>2018</b>
Imputed pension costs	\$1,445,263	\$1,150,819
Other imputed retirement benefits	2,027,535	1,919,469
<b>Total</b>	<b>\$3,472,798</b>	<b>\$3,070,288</b>

We report the amount of our pension expense and other retirement benefits in accordance with SFFAS No. 5, Accounting for Liabilities of the Federal Government. These expenses are treated as an imputed expense, which is recognized when amounts remitted to OPM are less than the full cost to the government. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

**Pension expenses** — Our employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which we make contributions according to plan requirements. CSRS and FERS are multiemployer plans. We do not maintain or report information about the assets of the plan, nor do we report actuarial data for accumulated plan benefits. The reporting of such amounts is the responsibility of OPM.

**Other retirement benefit expenses** — We also recognize an expense for the cost of providing health benefits and life insurance to our employees after they retire. OPM provides the factors used to calculate these costs.

**Rent**

	<b>2019</b>	<b>2018</b>
Leased field offices	\$1,380,013	\$1,378,394
FCA headquarters	2,269,987	2,621,606
<b>Total</b>	<b>\$3,650,000</b>	<b>\$4,000,000</b>

In accordance with the Farm Credit Act, we occupy buildings owned and leased by the Farm Credit System Building Association (FCSBA). Our administrative headquarters building and land are located in McLean, Virginia. In addition, the FCSBA leases office space for field offices on our behalf at various locations throughout the United States. Rent is provided at no cost to us. Our imputed rent expense is an estimate based on the FCSBA's estimated budget for 2019. In accordance with SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, the rent expense and the associated imputed revenue are recorded as a nonmonetary transaction.

**Note 9. Undelivered orders at the end of the period**

As of Sept. 30, 2019, budgetary resources obligated for undelivered orders were as follows:

	<b>Federal</b>	<b>Nonfederal</b>	<b>Total</b>
Paid undelivered orders	\$0	\$289,945	\$289,945
Unpaid undelivered orders	468,338	4,877,209	5,345,547
<b>Total undelivered orders</b>	<b>\$468,338</b>	<b>\$5,167,154</b>	<b>\$5,635,492</b>

As of Sept. 30, 2018, budgetary resources obligated for undelivered orders were as follows:

	<b>Federal</b>	<b>Nonfederal</b>	<b>Total</b>
Paid undelivered orders	\$0	\$267,706	\$267,706
Unpaid undelivered orders	671,538	4,017,579	4,689,117
<b>Total undelivered orders</b>	<b>\$671,538</b>	<b>\$4,285,285</b>	<b>\$4,956,823</b>

**Note 10. Explanation of differences between the Statement of Budgetary Resources and the budget of the U.S. government**

SFFAS 7 requires the reporting of material differences between amounts reported in the Statement of Budgetary Resources and the actual amounts reported in the Budget of the United States Government. There are no material differences between the amounts reported in the FY 2018 Statement of Budgetary Resources and the FY 2018 actual amounts reported in the FY 2020 Budget of the United States Government. The FY 2021 Budget of the United States is not yet available to compare the FY 2019 actual amounts to the FY 2019 Statement of Budgetary Resources. The budget is expected to be available in February 2020.

**Note 11. Incidental custodial collections**

Our custodial collections include receipts to cover the costs of fulfilling Freedom of Information Act requests; they also include other receipts, such as interest and penalties. During the fiscal year, we include these collections in the Fund Balance with Treasury. However, since these collections are immaterial to the financial statements and incidental to our mission, we do not provide a Statement of Custodial Activity. Custodial collections totaled \$215 for the period ended Sept. 30, 2019, and \$557 for Sept. 30, 2018. The funds collected in FY 2019 were transferred to the Department of the Treasury at the end of FY 2019.

**Note 12. Reconciliation of net cost to net outlays**

As prescribed by SFFAS 53, Budget and Accrual Reconciliation, this note explains the relationship between our net outlays on a budgetary basis and the net cost of operations during the reporting period. It is a reconciliation between budgetary and financial accounting information.

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash. Because financial accounting is intended to provide a picture of the government's financial operations and financial position, it presents information on an accrual basis. The accrual basis includes information about costs arising from consuming assets and incurring liabilities. The analysis in the table on page 61 illustrates this reconciliation by listing the key differences between net cost and net outlays.

**Note 12. Reconciliation of net cost to net outlays (continued)**

	Intragovernmental	With the public	Total
<b>Net Operating Cost</b>	<b>\$19,573,348</b>	<b>\$(12,828,424)</b>	<b>\$6,744,924</b>
<b>Components of net operating cost that are not part of budgetary outlays</b>			
Property, plant, and equipment depreciation	0	(498,528)	(498,528)
<b>Increase/(decrease) in assets</b>			
Accounts receivable	1,953	65,933	67,886
Other assets	0	22,238	22,238
Investments	109,710	0	109,710
<b>(Increase)/decrease in liabilities not affecting budgetary outlays</b>			
Accounts payable	11,566	584,051	595,617
Salaries and benefits	(67,542)	(430,533)	(498,075)
Other liabilities	(23)	250,066	250,043
<b>Other financing sources</b>			
Federal employee retirement benefit costs	(3,472,798)	0	(3,472,798)
Other imputed finance	(3,650,000)	0	(3,650,000)
<b>Total components of net operating cost that are not part of budgetary outlays</b>	<b>(7,067,134)</b>	<b>(6,773)</b>	<b>(7,073,907)</b>
<b>Components of budgetary outlays that are not part of net operating cost</b>			
Acquisition of capital assets	0	64,273	64,273
Other	238	(238)	0
<b>Total components of budgetary outlays that are not part of net operating cost</b>	<b>238</b>	<b>64,035</b>	<b>64,273</b>
<b>Net outlays (calculated total)</b>	<b>\$12,506,452</b>	<b>\$(12,771,162)</b>	<b>\$(264,710)</b>
<b>Related amounts on the Statement of Budgetary Resources</b>			
Outlays, gross			(264,710)
<b>Outlays, net</b>			<b>\$(264,710)</b>

# Other Information





## Letter from Inspector General on FCA's Management Challenges



October 7, 2019

The Honorable Glen R. Smith, Chairman and Chief Executive Officer  
 The Honorable Jeffery S. Hall, Board Member  
 Farm Credit Administration  
 1501 Farm Credit Drive  
 McLean, Virginia 22102-5090

Dear Chairman Smith and Board Member Hall:

As part of the Farm Credit Administration's (FCA or Agency) annual Performance and Accountability Report, the Reports Consolidation Act of 2000 requires Inspectors General to provide a summary perspective on the most serious management and performance challenges facing the Agency. We solicited the FCA Board and management for thoughts on this issue and identified the following top five management challenges:

1. Examination and Supervision Program
2. Information Technology
3. Data Quality and Analysis
4. Human Capital
5. Secondary Market Oversight

Please note that we added a fifth challenge this year, "Data Quality and Analysis," to reflect the growing importance of obtaining and using quality data to monitor and ensure the safety and soundness of the Farm Credit System.

We appreciate the continued, ongoing support of Agency leadership. We will continue to work with you in addressing these and other challenges faced by the Agency in achieving FCA's mission. If you have any questions, please call me at (703) 883-4234.

A handwritten signature in blue ink that reads "Wendy R. Laguarda".

Wendy R. Laguarda  
 Inspector General

## MANAGEMENT CHALLENGES

As part of the Farm Credit Administration's (FCA or Agency) annual Performance and Accountability Report, the Reports Consolidation Act of 2000 requires Inspectors General to provide a summary perspective on the most serious management and performance challenges facing the Agency. These challenges reflect ongoing vulnerabilities identified by the 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.

### Data Quality and Analysis

- Obtaining consistent, quality data vital to the Farm Credit Administration's mission to ensure the Farm Credit System remains a dependable source of credit for agriculture and rural America.

### Human Capital

- Maintaining a well-trained, 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 and strongly capitalized, the System continues to be impacted by changing risk conditions. Macroeconomic factors, such as changing interest rates, slowing global economic growth, and low margins will likely impact risk in the System. Additionally, changing trade policies (including revised trade agreements and potential new tariffs) with several key U.S. partners will likely cause more volatility for agricultural products in the near future. FCS institutions must continue to be proactive and responsive to these risks. 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 must align with evolving threats, risks, and conditions. FCA uses a risk-based approach for oversight of the System. The Agency will require more sophisticated risk evaluation techniques to align with existing and 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. The control environment must also evolve to address increasing expectations associated with internal controls.

From time to time, 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) has issued Informational Memoranda with guidance for institutions.

An Informational Memorandum (IM) titled, *Guidelines for Requesting Certificates of Good Standing, Authenticity, and Merger or Consolidation* (October 26, 2018), provides guidance on requesting certificates of good standing, authenticity, and merger or consolidation for System institutions. OE issued an IM concerning Regulation Z and Regulation M requirements, *2019 Threshold Adjustments Under Regulation Z and Regulation M* (December 13, 2018). Another IM titled, *Statutory Limit on Maximum Farm Credit System Bank Director Compensation Repealed* (January 22, 2019), informs System institutions that FCA will no longer calculate the maximum annual compensation adjustment, but will continue to review System bank director compensation to ensure that pay levels do not adversely affect the safety and soundness of System institutions. Another IM titled, *2019 Threshold Adjustment for Escrow Requirements, Protections for Tenants at Foreclosure, and Compliance-Related Resources* (April 23, 2019), provides updates and resources from the Consumer Financial Protection Bureau. On September 10, 2019, FCA notified System Institutions that it issued a *Notice of Prohibition* to a former employee of a System institution.

The Agency issued a Bookletter on *Revised Capital Treatment for Certain Water and Wastewater Exposures* (November 8, 2018) that provides guidance on the capital treatment for rural water and wastewater exposures.

Each year, OE identifies National Oversight Plan risk topics that are emphasized in ongoing examinations and

oversight activities. For Fiscal Year 2019, OE identified two risk topics: to concentrate on portfolio risk and how institutions are “navigating rough waters” and maintaining “three lines of defense” of internal controls (risk owners, risk management, and independent assurance).

### **Relevant OIG Work**

FCA’s Office of Inspector General (OIG) completed a benchmarking study on the organizational structure of OE as compared to the other federal financial regulatory agencies. FCA was the smallest of the benchmarked agencies in size and in the number of institutions it examines. The benchmarking study found that the agencies surveyed varied in size, location, and organizational structure. The study found similar supervisor ratios and that most agencies surveyed were not using resident examiners. Each agency had unique responses on the location of examination staff and whether examiners were located in the same duty stations as their supervisors.

The OIG also completed an audit on FCA’s Stress Testing Guidance, and Use of Data and Analytical and Examination Tools. The objective of this audit was to evaluate FCA’s progress in updating stress testing guidance and related data, and analytical and examination tools. FCA made some progress in updating stress testing guidance since completing a stress testing project in March 2018. As a result of this audit, the Office of the Chief Operating Officer agreed to develop a project plan to ensure the timely completion of tasks related to stress testing.

The OIG also plans to address other challenges faced by the examination and supervision program, including a review of the Agency’s criminal referral process and the Agency’s Risk Project.

### **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.

Evolving cybersecurity threats and vulnerabilities present significant challenges across the federal government. These challenges require an IT security program that is both 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 sector. 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.

As IT challenges grow, it is imperative that FCA has the necessary tools and staff to operate more 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.

The successful implementation of IT provides FCA staff with the tools and skills that enable the Agency to continue to:

- Analyze risks and implement an effective examination program across the System;
- Streamline business processes and build business intelligence to provide decision-makers with timely information and allow coordination with staff from multiple offices;

- Develop electronic recordkeeping and management capabilities for capturing, maintaining, and sharing institutional knowledge; and
- Protect and secure FCA information systems and data from ever-increasing external and internal threats.

### **Agency Progress**

Over the past few years, FCA has invested in various IT tools to increase efficiency and effectiveness. FCA invested in analytical tools with the goal of improving risk identification in the System by analyzing System loan data. FCA's risk-based information security program continues to mature as it continuously identifies areas to strengthen and improve security. OIT supplemented its staff with a privacy officer to address privacy requirements, including compliance with the Privacy Act.

### **Relevant OIG Work**

The OIG performs an annual evaluation of FCA's compliance with the Federal Information Security Modernization Act of 2014. The OIG conducted a benchmarking study of the OIT and its use of contractors. When compared to the IT budgets of the other federal financial regulators, FCA's IT budget, as a percentage of the Agency budget, falls in the middle of the benchmarked agencies, and FCA's use of contractors was the lowest of the other agencies. Looking ahead, the OIG will continue to focus on OIT operations and implementation of IT systems.

## **CHALLENGE THREE: DATA QUALITY AND ANALYSIS**

Obtaining consistent, quality data is vital to FCA's mission of ensuring that the System remains a dependable source of credit for agriculture and rural America.

System data allows FCA to better monitor the System's condition and identify current and emerging risks, enhancing the development of a risk-based examination agenda and the promulgation of evidence-based policies and regulations. FCA is not an exception to the challenge of leveraging data to carry out its mission. The January 14, 2019 enactment of the Foundations of Evidence-Based Policymaking Act of 2018 (Evidence Act) emphasizes the better use of data governmentwide.

Collecting useful data from the System is no simple task, as varying practices and technical capabilities among its 69 institutions can result in inconsistent data, inhibiting FCA's ability to perform robust data analysis. Notwithstanding the inconsistency in System data, the Agency must consider the burdens to these 69 institutions when imposing reporting requirements. Further, FCA must ensure 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 underscores that effective data analysis is critical to its oversight of the FCS. In the interest of improving its data analytics, FCA has made investments in related IT. The Agency is also in the process of developing and implementing analytical and examination tools that will enhance its ability to perform systemic risk and data analysis. FCA continues to work with the System to prioritize the most critical data fields for the overall improvement of data quality and consistency.

In June 2018, FCA created a new position to coordinate data and analytics at FCA and elevate the importance of obtaining consistent quality data from the FCS. In accordance with the Evidence Act and implementing U.S. Office of Management and Budget guidance, this position was subsequently designated as the Chief Data Officer. Going forward, the Chief Data Officer will be responsible for coordinating Agencywide data governance and lifecycle data 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. The OIG will continue monitoring the Agency's progress in obtaining and analyzing data in furtherance of its oversight mission.

### **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.

Employees are FCA's most valuable asset. The Agency's success depends greatly on its ability to recruit, retain, and develop a capable workforce. 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 developing 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.

### **Agency Progress**

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. 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. In 2019, FCA accepted applications for its 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

The OIG has performed several reviews that have touched upon the subject of human capital in recent years, including, most recently, 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, an inspection of FCA's travel compensation program, 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 agricultural 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 is diverse, nationwide, and includes commercial and community banks, insurance companies, non-bank lenders, agricultural funds, rural utilities and other FCS institutions.

FCA, acting through 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. It also ensures that Farmer Mac complies with applicable laws and regulations, and it 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 Chairman 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 continually challenged to ensure that it fulfills its 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.

It is a challenge for OSMO to conduct its oversight and examination activities with a relatively small staff (approximately 5 employees, with additional rotational staff), while balancing resources sourced from FCA's Office of Examination 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. 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 scale and complexity. 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.

OSMO is further challenged by Farmer Mac's corporate governance structure and changes in leadership. The Farmer Mac board of directors is made up of 15 directors, including five Presidential appointees and ten

directors representing the different classes of stockholders. Over the last decade, Farmer Mac has experienced many changes among members of its executive management team that result in disruptions in Farmer Mac operations. 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 and the changes to its executive management.

### **Agency Progress**

In its oversight role, OSMO provided guidance and implemented regulatory and other changes related to Farmer Mac. These changes were made in addition to OSMO's supervision and safety and soundness reviews of Farmer Mac. In February 2019, OSMO issued an IM outlining the 2019 examination focus areas as: emerging credit risks, capital stress testing and planning, earnings adequacy under less favorable agricultural economic conditions coupled with a rising interest rate environment, follow-up of recommendations, and Farmer Mac's new operating structure. In March 2019, FCA issued a Bookletter on Interest Rate Risk Management Guidance for Farmer Mac. The Bookletter described the policies, procedures, and internal controls that Farmer Mac should have in place to manage its exposure to interest rate risk and covered necessary risk measurement, monitoring, and reporting systems. In April 2019, OSMO provided guidance to Farmer Mac on providing a secondary market for mortgage loans and related participation interests secured by first liens on agricultural real estate that is used for the production or processing of hemp.

In October 2018, OSMO issued an IM providing guidance to Farmer Mac on planning and preparing for the expected phase out of the London Interbank Offered Rate. OSMO also revised its Risk Based Capital Stress Test for Farmer Mac to reflect changes to the corporate tax code, and FCA revised regulations that define the criteria that a nonprogram investment must meet for Farmer Mac investment.

In response to Section 5414 of the Agriculture Improvement Act of 2018,<sup>1</sup> FCA issued a study to Congress in June 2019 comparing loan risk and capital requirements for the FCS and Farmer Mac. The study was a collaborative effort of an interoffice workgroup comprised of members from the OE, OSMO, Office of General Counsel, and Office of Regulatory Policy. OSMO staff stated the study established a clear position on the fundamental differences between the two agricultural government-sponsored enterprises and the different risk profiles that translate into support for differing approaches to capital oversight and minimum requirement metrics. OSMO staff also stated the study may be used for internal training purposes to promote a convergence of opinions among FCA oversight functional offices on key differences.

### **Relevant OIG Work**

In 2018, the OIG completed an audit to assess staffing arrangements and the reporting process for OSMO. Our review included recommendations to improve OSMO's processes and increase transparency. Because of our review, OSMO revised a directive to address conflicts of interest. In addition, OSMO developed a conflict of interest questionnaire and added a conflict of interest statement to rotational assignment agreements. OSMO also created a directive on the Farmer Mac assessment procedures. FCA's Office of the Chief Financial Officer documented methodologies used to calculate Farmer Mac's assessments. Lastly, based on our review,

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<sup>1</sup> Section 5414 of the Agriculture Improvement Act of 2018 stated the Farm Credit Administration shall conduct a study that (1) analyzes and compares the financial risks inherent in loans made, held, securitized, or purchased by Farm Credit banks, associations, and the Federal Agricultural Mortgage Corporation and how such risks are required to be capitalized under statute and regulations in effect as of the date of the enactment of this Act; and (2) assesses the feasibility of increasing the acreage exception provided in section 8.8(c)(2) of the Farm Credit Act of 1971 to 2,000 acres.



the FCA Board created a delegation addressing the OSMO Director's reporting relationship with the FCA Board. Going forward, the OIG will review other aspects of OSMO oversight.

## Management's Response to Challenges Identified by FCA's Inspector General

### Farm Credit Administration

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



November 8, 2019

Ms. Wendy Laguarda  
Inspector General  
Farm Credit Administration  
1501 Farm Credit Drive  
McLean, VA 22102-5090

Dear Ms. Laguarda:

We concur with your assessment of the management challenges as described in your letter dated October 7, and we value your recommendations in addressing these challenges. Overcoming them will require long-term strategies for ensuring stable operations, adequate risk mitigation, and sustained resources, but we are committed to continuing our progress.

We remain focused on ways to mitigate our operational risks. We recognize that risk management and risk mitigation are critical to our ability to fulfill our mission as the regulator of the Farm Credit System. During FY 2019, we updated our agency risk profile to better evaluate and report on the top risks to the agency. We enhanced our enterprise risk management (ERM) capabilities and applied the ERM framework to document our assessment of the risks posed by the management challenges you identified. In addition to evaluating the likelihood of certain risk events and their impact on our agency, we identified actions we can take to mitigate those risks. We plan to further improve our ERM capabilities in the new fiscal year so that we can better assess, coordinate, and lead the agency's various risk management efforts.

Another way we seek to improve our operations is by enhancing the quality of our data and data systems. For example, we recently designated a chief data officer to coordinate these efforts at our agency. Our focus on data integrity is consistent with recent congressional initiatives to improve evidence-based decision-making across government.

Sincerely,

A handwritten signature in blue ink, appearing to read "Glen R. Smith", is written over a light blue horizontal line.

Glen R. Smith  
Board Chairman and CEO

## Summary of Financial Statement Audit and Management Assurances

FCA has no reported material weakness, and we are in conformance with the Federal Managers' Financial Integrity Act (FMFIA) and in compliance with the Federal Financial Management Improvement Act (FFMIA).

**Table 6. Summary of financial statement audit**

Audit opinion: Unmodified  
Restatement: No

Material weaknesses	Beginning balance	New	Resolved	Consolidated	Ending balance
No material weaknesses	0	0	0	0	0

**Table 7. Summary of management assurances**

### Effectiveness of internal control over financial reporting (FMFIA § 2)

Statement of assurance: Unmodified

Material weaknesses	Beginning balance	New	Resolved	Consolidated	Reassessed	Ending balance
Total material weaknesses	0	0	0	0	0	0

### Effectiveness of internal control over operations (FMFIA § 2)

Statement of assurance: Unmodified

Material weaknesses	Beginning balance	New	Resolved	Consolidated	Reassessed	Ending balance
Total material weaknesses	0	0	0	0	0	0

**Conformance with federal financial management system requirements (FMFIA § 4)**

Statement of assurance: Federal systems conform

<b>Nonconformances</b>	<b>Beginning balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending balance</b>
Total nonconformance	0	0	0	0	0	0

**Compliance with FFMIA section 803(a)**

<b>Compliance requirements</b>	<b>Agency</b>	<b>Auditor</b>
1. Federal financial management system requirements	Not applicable	Not applicable
2. Applicable federal accounting standards	Not applicable	Not applicable
3. U.S. Standard General Ledger at transaction level	Not applicable	Not applicable

## Payment Integrity

### Background

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), outlines legislative and administrative requirements with which agencies must comply in order to identify, estimate, and report on their improper payment activities. Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement, provides implementation guidance for agencies to comply with IPIA, IPERA, and IPERIA. OMB Circular A-136 provides the guidance for reporting on payment integrity in the Performance and Accountability Report.

### Payment reporting

Agencies are required to report annual improper payment estimates for OMB-designated high-priority programs and programs that are susceptible to significant improper payments. A program is considered to be high priority if it has \$2 billion in estimated improper payments. A program is deemed susceptible to significant improper payments if its improper payments amount to more than \$10 million and more than 1.5% of all payments made under that program, or if the program has more than \$100 million in estimated improper payments.

Detailed information on improper payments for the U.S. government is available online at [www.payment-taccuracy.gov](http://www.payment-taccuracy.gov). FCA data are not included on this website because we do not have any programs that were designated by OMB as high priority, and our risk assessments did not identify any programs or activities that were susceptible to significant improper payments. Thus, we are not required to perform any statistically valid estimates of improper payments or report on root cause identification, corrective actions, or reduction targets.

### Risk assessments

In accordance with legislative requirements and OMB guidance, we conduct risk assessments at least once every three years to identify programs that may have a significant risk of improper payments. We perform our assessment on contract payments, purchase cards, travel cards, claims and vouchers, and payroll. Following our most recent risk assessment in FY 2017, we determined that our programs and activities are low risk and are not susceptible to significant improper payments. The next assessment will be for the period ending Sept. 30, 2020.

### Payment recapture audits

To recover improper payments, the Improper Payments Elimination and Recovery Act requires agencies to conduct payment recapture audits for each program and activity that expends \$1 million or more annually — provided that conducting these audits would be cost-effective.

We have determined that a payment recapture audit is not cost-effective for our agency because of the low risk for our programs. The benefits of any recaptured amounts would not exceed the cost of a payment recapture audit program. As required by OMB A-123, Appendix C, we have notified both OMB and our inspector general of our determination that a payment recapture audit is not cost-effective for FCA. OMB concurred with our assessment.

ARC, our service provider, has internal control procedures to ensure that payments are made properly. One such procedure is the post-payment audit in which ARC reviews a random sample of 10% of invoices processed each month. In addition, our agency invoice approvers review payments before they are processed to ensure payments are appropriate. We also work closely with ARC to ensure that payroll and charge card payments are reviewed and monitored to ensure payments are complete, accurate, and timely. Additionally, we perform routine operational reviews and oversight to help identify improper payments.

For FY 2019, we identified improper payments amounting to \$25,286, or 0.03% of total outlays for the year. The improper payments were a combination of travel and vendor overpayments. We have collected or are in the process of collecting all overpayments.

### **Agency improvement of payment accuracy with the Do Not Pay initiative**

Treasury's Do Not Pay system is the legislatively mandated and OMB-designated source of centralized data and analytic services to help agencies verify eligibility and identify and prevent potential fraud, waste, and abuse associated with improper payments. We work closely with ARC to ensure that all payments are proper and paid to valid vendors. ARC continually monitors the vendor file in the financial system and cross-checks it against the various Do Not Pay databases. This process serves both the prepayment and the pre-award review requirement to ensure that only eligible recipients are paid. To date, we have not had any vendors with a match to the Do Not Pay databases.

## **Fraud Reduction Report**

The Fraud Reduction and Data Analytics Act of 2015 requires agencies to take steps to improve financial and administrative controls and procedures to assess and mitigate fraud risks. We maintain effective processes and systems to detect and prevent potential fraud. Whether an act is in fact fraud is a determination made through the judicial or other adjudicative system and is beyond management's professional responsibility for assessing the likelihood and impact of fraud risk.

Through our internal assessments, in accordance with OMB Circular A-123, we monitor and evaluate controls to ensure that our business units are preventing, detecting, and responding to potential fraud. No instances of fraud in our programs have surfaced through management's internal identification and reporting mechanisms or from internal and external auditors.

## Civil Monetary Penalty Adjustment for Inflation

Under the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, agencies must make annual inflation adjustments to civil monetary penalties and report on these adjustments. Table 8 below shows the adjustments FCA has made this year.

**Table 8. Civil monetary penalties annual inflation adjustments**

Statutory authority	Penalty name & description	Year enacted	Latest year of adjustment (via statute or regulation)	Current penalty (dollar amount or range)	Bureau name	Location for penalty update details
Section 5.32(a) of the Farm Credit Act of 1971, as amended	Violation of a final order	1985	2019	\$2,326		84 FR 1354
Section 5.32(a) of the Farm Credit Act of 1971, as amended	Violation of the act or regulation	1985	2019	\$1,052		84 FR 1354
Section 102(f) of the Flood Disaster Protection Act of 1973	Pattern or practice of committing violations of the National Flood Insurance Program	1994	2019	\$2,187		84 FR 1354

## Additional Information

The Farm Credit Administration Performance and Accountability Report Fiscal Year 2019 is available on FCA's website at [www.fca.gov/about/reports-publications](http://www.fca.gov/about/reports-publications). While supplies last, printed copies of this publication and earlier editions may be obtained without charge from

Office of Congressional and Public Affairs  
Farm Credit Administration  
1501 Farm Credit Drive  
McLean, VA 22102-5090  
Telephone: 703-883-4056  
Fax: 703-790-3260  
Email: [info-line@fca.gov](mailto:info-line@fca.gov)

The Federal Farm Credit Banks Funding Corporation, with the support of the System banks, prepares the financial press releases and the System's annual and quarterly information statements, which contain the System's combined financial statements. Copies are available on the Funding Corporation's website at [www.farmcredit-ffcb.com](http://www.farmcredit-ffcb.com) or from

Federal Farm Credit Banks Funding  
Corporation  
10 Exchange Place  
Suite 1401  
Jersey City, NJ 07302  
Telephone: 201-200-8000

The Farm Credit System Insurance Corporation publishes an annual report. Copies are available on FCSIC's website at [www.fcsic.gov](http://www.fcsic.gov) or from

Farm Credit System Insurance Corporation  
1501 Farm Credit Drive  
McLean, VA 22102  
Telephone: 703-883-4380

In addition, FCS banks and associations are required by regulation to prepare annual and quarterly financial reports. Copies of these documents are available for public inspection at FCA headquarters in McLean, Virginia.