

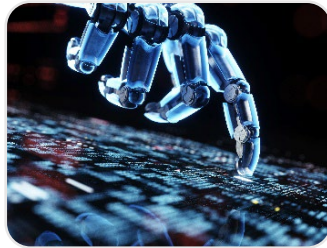
October 15, 2024

MANAGEMENT CHALLENGES



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



**Regulating and
Supervising a
Complex Farm
Credit System**

**Innovation in
the Farm
Credit System
and Farm
Credit
Administration**

**Agility in
Adapting to a
Fast-Changing
Information
Technology
World**

**Recruiting and
Retaining a
Talented and
Diverse
Workforce**

CHALLENGE ONE: *Regulating and Supervising a Complex Farm Credit System*

As the Farm Credit System (System) evolves and changes, FCA will be challenged to maintain effective oversight. Technology, risk management, data analysis, and automation are advancing at a rapid rate. This environment has a significant impact on the operations of System institutions, and, in turn, oversight needs at FCA. In addition to these changes, agricultural lending is subject to unpredictable economic factors such as interest rates, commodity prices, labor markets, climate, and geopolitical influences. These conditions further contribute to continuous changes in both individual institutions and the System as a whole. FCA will be challenged to develop and maintain appropriate examination resources to respond to the dynamic lending environment. In addition, FCA personnel and plans will need to adapt quickly and be proactive while understanding the impact of changes.



Regulating and Supervising a Complex Farm Credit System

Consolidation across the System also increases complexity and contributes to oversight challenges. Mergers and joint management agreements yield organizational, leadership, geographic, and portfolio benefits and issues. Larger institutions support diversification and technological efficiencies. However, as the number of institutions decreases, FCA must ensure it has the resources to evaluate emerging risks and respond accordingly. Systemwide consolidation also impacts regulatory and supervisory activities. As institutions become more complex, resources and oversight priorities need to shift and align with the most significant risks. Further, FCA will be challenged to provide timely regulations and guidance while acting within statutory limitations.

FCA is responsible for ensuring the System is a dependable source of credit for all eligible borrowers. Underserved communities are an essential component of this mission. FCA will be challenged to ensure the System is positioned to serve and support the diverse needs of rural America. This includes outreach and data analysis to best understand and evaluate whether these needs are being met. This challenge is enhanced by a competitive lending landscape. Effective policies and guidance will bolster diverse, accessible agricultural lending in a safe and sound manner.

Overall, changes across the System will place greater demands on limited Agency resources. Timely and thorough identification of corrective actions and appropriate follow-up are critical to prevent the escalation of issues and maintain safety and soundness. The Agency also needs to predict and respond to challenging scenarios. Internal and external factors can lead to significant changes in conditions that must be managed efficiently. The Agency will be challenged to find the appropriate balance to maintain a robust oversight plan while preparing for unique, difficult, and unexpected scenarios. The Office of Examination's Fiscal Year 2025 National Oversight Plan includes six focus areas: sustainability of capitalization practices; innovation through automation and artificial intelligence (AI); mission-focused lending; sound governance; credit and collateral risk exposure; and cyber risk management.

CHALLENGE TWO: *Innovation in the Farm Credit System and at FCA*

With the proliferation and innovation of financial products and services, FCA will continue to face significant regulatory, oversight, and human capital challenges in the System and at FCA. The field of financial technology encompasses a broad range of products and services that assist System institutions in servicing their customers while remaining competitive. Examples of types of financial technologies include generative and predictive AI, digital lending and credit, distributed ledger technology (including blockchain), automated advisors, and regulatory technology.

FCA is challenged in ensuring policy and examination staff have the required knowledge and expertise of financial technologies in order to provide effective and efficient regulation and oversight of System institutions. Staff that are developing policies to regulate the use of financial technologies must not only understand the current use of the technologies, but also consider future innovations in the field in order to develop lasting requirements that will promote the safety and soundness of System Institutions. Similarly, examination staff must understand the different ways System institutions utilize financial technologies and whether those practices are safe, sound, and consistent with best practices.

Internally, the innovation of existing FCA processes through the use of new and evolving technologies could increase efficiencies throughout the Agency. Specifically, the Agency could benefit from improving prediction of risk, furthering the use of predictive analytical tools, increasing automation, enhancing access and analysis of data, and facilitating remote examinations, as appropriate. As such, understanding the current skills and skills gaps of current staff, planning for and executing a skill development and training strategy that fills current gaps, and recruiting knowledgeable staff all pose challenges to the Agency as innovative tools increase both in the System and internally.

The Agency continues to make strides in addressing the challenges posed by innovation in the System and at FCA. In January 2024, the FCA Board issued an innovation philosophy statement that outlines the Agency's position on innovation in the System and the Agency. Earlier this year, FCA's Office of Data Analytics and Economics (ODAE) completed a project to automate existing processes in the Office of Examination. Additionally, ODAE continues to foster innovation at FCA by providing technical training to staff throughout the Agency. In September 2024, FCA hosted its first innovation symposium with industry and System leaders to better understand and facilitate conversations about innovations that are revolutionizing the financial services industry. Finally, in September 2024, the Agency also developed and launched an AI landing page for the FCA website that outlines existing regulations and how they may need to be considered when utilizing AI. While these are important first steps, FCA will continue to be challenged to plan, design, and implement strategies relating to innovation in the System and internal to FCA.



**Innovation in
the Farm
Credit System
and Farm
Credit
Administration**

CHALLENGE THREE: *Agility in Adapting to a Fast-Changing Information Technology World*

FCA faces significant challenges in balancing the need for timely, effective changes with maintaining a robust, strategic information security program. Cybersecurity threats and vulnerabilities, which continue to evolve, present significant challenges to information technology security. These challenges require a security program that is responsive, agile, and forward-looking.



**Agility in
Adapting to a
Fast-changing
Information
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The Office of Inspector General performs an annual review to independently assess the effectiveness of FCA’s information security program and practices, as required under the Federal Information Security Modernization Act of 2014, using metrics developed by the Office of Management and Budget, the Council of the Inspectors General on Integrity and Efficiency, and other stakeholders. The review assesses progress toward achieving outcomes that strengthen federal cybersecurity, including implementing government-wide priorities and best practices. For fiscal year 2024, FCA received an overall rating of effective, but challenges remain to keep the information security program at an effective level. Three domains were rated below an effective level: information security continuous monitoring, supply chain risk management, and contingency planning. Specifically, FCA remains behind on the implementation of certain requirements in meeting continuous monitoring and contingency plan testing standards. Successful implementation of these requirements will involve costly resources and strategic planning.

Cyber incidents can cause demonstrable harm to national security, agencies, and the American people. Security threats, events, and breaches across the world highlight the prevalence of cybersecurity threats and risks and the importance of robust detection, response, and prevention processes. Cyber attacks have evolved and have become more complex. The tactics and techniques of adversaries increasingly use tools that are harder to detect, and the use of external providers can increase visibility challenges. FCA depends on information technology systems for its operations. The Agency will continue to be challenged in meeting all the requirements and strategies for a robust information technology security program as more resources and approaches may be needed to address emerging threats.

FCA’s information security program needs to be able to pivot quickly in certain scenarios to adapt to changing threats and requirements. As a small agency with limited resources, there are difficulties in balancing the resources needed for a properly controlled and secure environment with having an agile workforce that can make changes to internal processes, policies, procedures, and technologies in a responsive, efficient manner.

Overall, information technology and cybersecurity requirements and guidance frequently change to keep pace with evolving threats. It is imperative that FCA’s systems and internal processes are able to adapt and change as needed in a timely manner. FCA continues to plan for resources and adopt new technologies that could enhance its ability to improve the everchanging information security program. Looking forward, the Agency needs to ensure there is a strategy to advance the program into a more agile, responsive model. However, implementation in these areas is not easy and will continue to challenge the Agency.

CHALLENGE FOUR: *Recruiting and Retaining a Talented and Diverse Workforce*

Recruiting and retaining a talented and diverse workforce remains a critical challenge facing the Agency. An ever-present concern that is not unique to FCA, human capital management is imperative to achieving the Agency's mission. FCA's success will depend greatly on its capacity to identify current and future staffing needs, to consider the various disciplines and skillsets needed in its McLean, Virginia headquarters and field offices, and to meet those needs through recruitment and retention.



Recruiting and Retaining a Talented and Diverse Workforce

This challenge has been somewhat eased by a cooling labor market. FCA must still compete with private-sector employers and other Federal agencies, however, for a limited pool of highly qualified workers. Additionally, hiring at the mid-career level continues to be a challenge for FCA. The Agency will need to ensure that it can offer compensation and benefits that are suitably competitive to attract candidates for employment. In this regard, FCA is well-served by its authority to maintain comparability with other financial regulatory agencies. The Agency's recruitment efforts will also benefit from educating potential employees on the importance of FCA's mission to the nation's vitality and security.

The Agency must continue to provide training and development opportunities to help ensure that FCA maintains a workforce that meets its needs. In addition, job enrichment and flexibilities will attract skilled personnel. Programs such as job-sharing, rotational details, intra-office assignments, and mentorships can promote career development as well as cultivate a sense that FCA is an employer rich with career opportunities.

Diversity, equity, inclusion, and accessibility (DEIA) are priorities across the federal government and critical aspects to the Agency's recruitment and retention efforts. The Agency must continuously assess and implement strategies, such as evaluating FCA's recruiting data, to meet its strategic goals and ensure its employees feel valued and included. The Agency will need to identify and reduce barriers that may exclude certain groups from full participation, while continuing to foster appreciation in its workforce with programs that celebrate and promote DEIA.

The FCA Board continued to address this ever-present challenge by approving a 2024 compensation program that included merit increases ranging from 1.0% to 3.8%; continuing contributions and matching to the FCA employees' 401(k) accounts; cash awards for length-of-service milestones; and supporting the childcare subsidy and student loan repayment programs. In August, the Board approved performance-based bonus payouts to certain employees in recognition of FY 2023 performance that met or exceeded expectations. The Agency also added other benefits, such as access to passport photo services in its headquarters and an onsite flu vaccination clinic and reimbursement program. These incentives and benefits sought to maintain comparability with other federal bank regulatory agencies and better enable the Agency to recruit and retain employees.