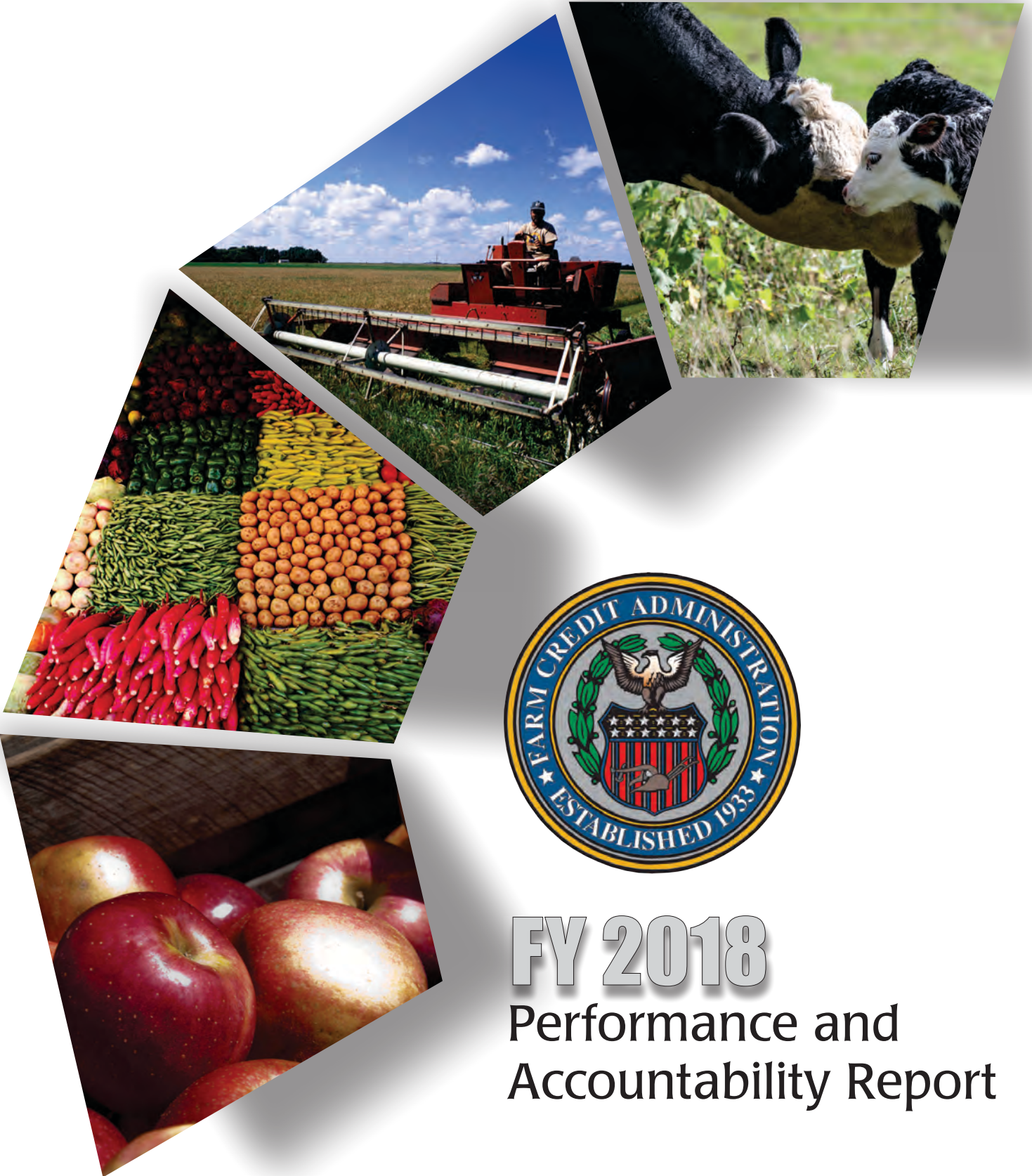


Farm Credit Administration

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



FY 2018 Performance and Accountability Report

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List of Acronyms Appearing in Report

Farmer Mac	Federal Agricultural Mortgage Corporation
FCA	Farm Credit Administration
FCS	Farm Credit System
FCSIC	Farm Credit System Insurance Corporation
FMFIA	Federal Managers’ Financial Integrity Act
FIRS	Financial Institution Rating System
FY	fiscal year
GAAP	generally accepted accounting principles
GAO	Government Accountability Office
GSE	government-sponsored enterprise
IT	information technology
NCB	National Consumer Cooperative Bank
OE	Office of Examination
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSMO	Office of Secondary Market Oversight
SFFAS	Statements of Federal Financial Accounting Standards
USDA	United States Department of Agriculture
YBS	young, beginning, and small (farmers and ranchers)

STATEMENT OF BOARD CHAIRMAN AND CEO

November 13, 2018

I invite you to review the Farm Credit Administration Performance and Accountability Report for Fiscal Year 2018. I am pleased to report that we achieved the goals outlined in our strategic plan and achieved or exceeded almost all 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 almost 41 percent 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 \$334 billion in assets as of June 30, 2018, up 4.2 percent from the year before. Farmer Mac had a net worth of \$766 million as of that date, up 12.5 percent 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 more than 50 formal reports of examination and more than 30 interim activity letters
- Issued proposed rules on standards of conduct and governance requirements for System institutions
- Issued final rules governing the eligibility of investments for the System and Farmer Mac
- Analyzed and reported on the System's service to young, beginning, and small farmers and ranchers
- Issued guidance to System institutions on various topics, such as how to strengthen lending and loan servicing controls and how to prepare for the expected phase-out of the London Interbank Offered Rate (LIBOR)
- Responded to borrower inquiries and complaints

In addition, we have continued our focus on improving the engagement of our employees. I am pleased to report that our employee engagement index on the Federal Employee Viewpoint Survey improved by three points for the second year in a row. It went up from 72 in 2016 to 78 in 2018. Last year, we were ranked in the top three among small agencies in the Partnership for Public Services' Best Places to Work in the Federal Government.

Thanks to the hard work and dedication of our employees, we had a successful year in FY 2018, and we look forward to further success in FY 2019 and beyond.



Dallas P. Tonsager
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.

MISSION

The Farm Credit Administration ensures 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.

FCA offices

As of Sept. 30, 2018, FCA had 324 full- and part-time employees. These employees are divided among 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. Dallas P. Tonsager 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 FCA's day-to-day operations and leads the agency's efforts to achieve and manage a diverse workforce. Dallas P. Tonsager 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 human capital and administrative services for the agency. This includes providing the following services to the agency: staffing and placement, job evaluation, compensation and benefits, payroll administration, performance management and awards, employee relations, employee training and development, contracting, acquisitions, records and property management, supply services, agency purchase cards, design, publication, and mail service.

The **Office of the Chief Financial Officer** manages and delivers timely, accurate, and reliable financial services to the agency. The office establishes financial policies and procedures and oversees the formulation and execution of the agency's budget. The office reports periodically on the status of the agency's financial position, results of operations, and budgetary resources. It also oversees the agency's travel management, internal controls, and personnel security programs.

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 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** manages and delivers the agency's information technology, data analysis infrastructure, and the security supporting agency technology resources. The office is responsible for the planning and control of 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 processes. The office provides strategies to collaborate across offices on business intelligence tools to develop analysis models to meet the strategic needs of the agency.

The **Office of Inspector General** provides independent and objective oversight of agency programs and operations through audits, inspections, 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.

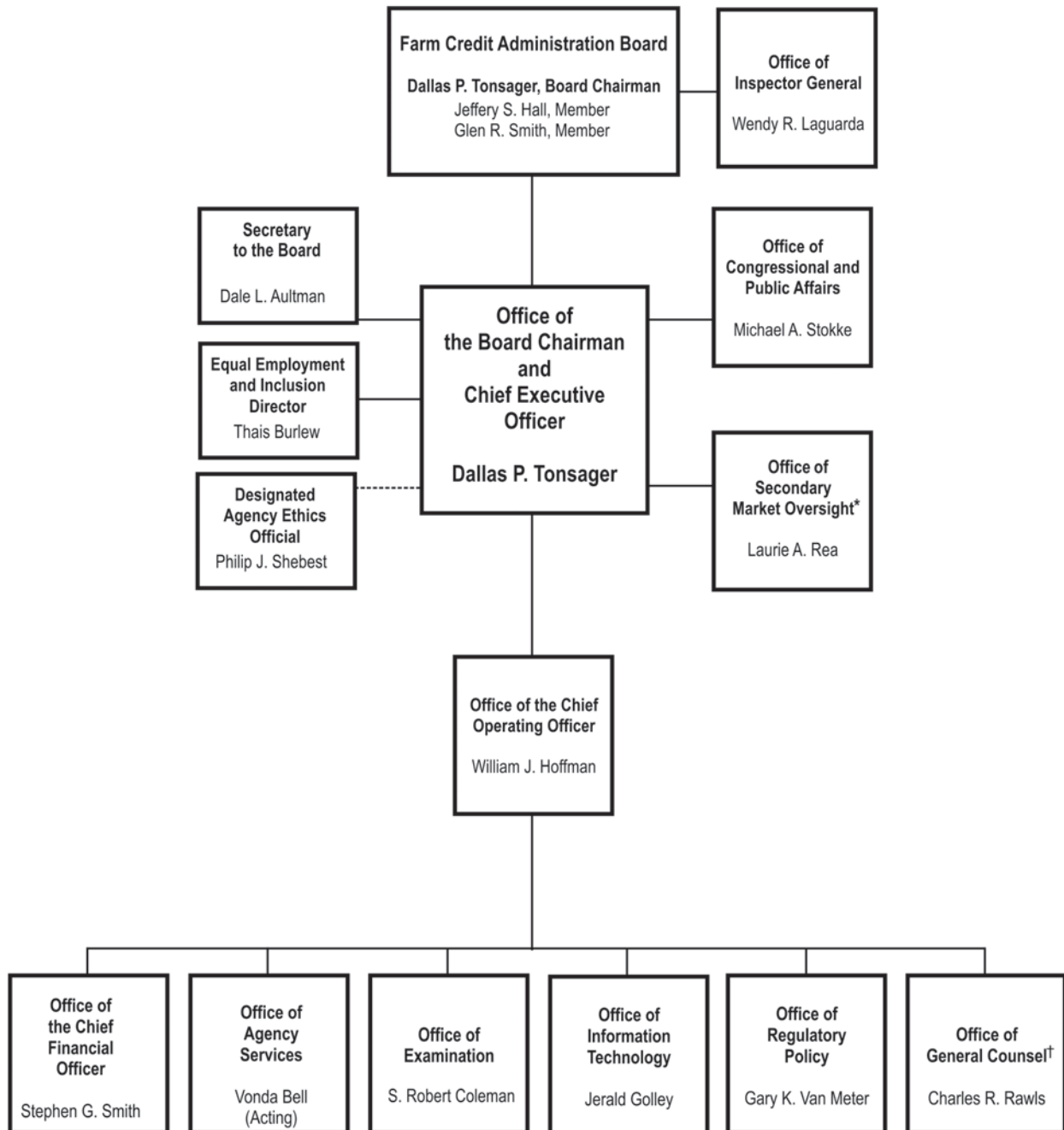
The **secretary to the board** serves as the parliamentarian for the board and keeps permanent and complete records of the acts and proceedings of the board. He or she ensures that the board complies with statutory, regulatory, and internal operation reporting requirements. The secretary to the board 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. Organization of the Farm Credit Administration

As of September 30, 2018



*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 the FCA 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 shows that we achieved the goals identified in our Strategic Plan and achieved 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: 100 percent)
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: ≥ 90 percent)
4. Percentage of direct-lender institutions with YBS programs that are in compliance with YBS regulations. (Target: ≥ 90 percent)
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 percent)

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: ≥ 90 percent)
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: ≥ 80 percent)
3. Percentage of institutions complying with regulatory capital ratio requirements. (Target: ≥ 90 percent)
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 percent)
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 percent because three 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 percent of its outreach efforts target disabled or minority potential applicants. (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. In fact, for the second measure, our employee engagement index score on the Federal Employee Viewpoint Survey increased by 3 percentage points — from 75 in 2017 to 78 in 2018.

For more information about our performance results, see the performance results tables on pages 30 to 32.

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 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 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 2018 and 2017. Our financial statements are provided on pages 40 to 52.

FCA's assets, liabilities, and net position

As shown in table 1, our total assets (the resources we own) for FY 2018 are composed of the following:

- Our fund balance with Treasury (11.0 percent)
- Investments (83.7 percent)
- Accounts receivable and prepayments (1.0 percent)
- Property and equipment (4.3 percent)

During FY 2018, total assets increased by \$1,152,808, or 3.2 percent, from amounts reported in FY 2017.

Our investment portfolio, which accounts for the largest portion of our total assets, decreased by \$1,400,885 in FY 2018. This decrease occurred in part because we received a large influx of cash on the last business day of September — after the cutoff for investing. The large cash influx occurred because we received some prepaid assessments (that is, assessments due on Oct. 1 but received on or before Sept. 30). Another reason for the decline in investments is the decrease in our carryover funds. As we continue to reduce carryover from year to year, the amount available for investing decreases as well.

We purchased \$23,986,730 in U.S. Treasury securities during fiscal year 2018, using an investment strategy that enables us to both maintain a steady cash flow for agency operations and to earn interest to build the agency reserve. We hold the reserve funds in contingency to address specific, onetime, unforeseen events.

As of Sept. 30, 2018, the agency held \$4,127,940 in cash. We prefer to keep our cash balances lower than this by investing all excess cash in U.S. Treasury securities; however, we received funds from a number of FCS institutions on Sept. 30 — after the cutoff time for investing.

Table 1. Composition of assets

Fiscal Year	Fund Balance with Treasury	Investments	Accounts Receivable and Prepayments	Property and Equipment	Total
2018	\$4,127,940	\$31,492,515	\$365,497	\$1,607,341	\$37,593,293
2017	\$1,457,378	\$32,893,400	\$499,409	\$1,590,298	\$36,440,485

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

- Accounts payable (8.0 percent)
- Payroll and benefits (42.5 percent)
- Employer contributions and taxes payable (5.9 percent)
- Workers’ compensation (9.0 percent)
- Deferred revenue (34.6 percent)

Like total assets, our total liabilities (what we owe to the public and other government agencies) increased. Driven primarily by the increase in accounts payable, overall liabilities increased by \$1,544,487 or 9.9 percent from 2017 to 2018.

Accounts payable, which accounted for approximately half of the increase in total liabilities from 2017 to 2018, increased primarily because of travel and other expense accruals. The Office of Examination held an examiner conference in late September 2018. Because of the timing, vouchers for the travel obligations could not be submitted before Sept. 30, so we recorded them as year-end accruals. Other expense accruals also increased because of various year-end awards that were approved before Sept. 30 but were not paid until October.

Deferred revenue, which consists of assessments received from FCS institutions that are not yet due, increased slightly this year. At the beginning of each fiscal year, we reclassify any prepaid assessments as revenue earned in October of the new year.

Figure 2. Composition of liabilities

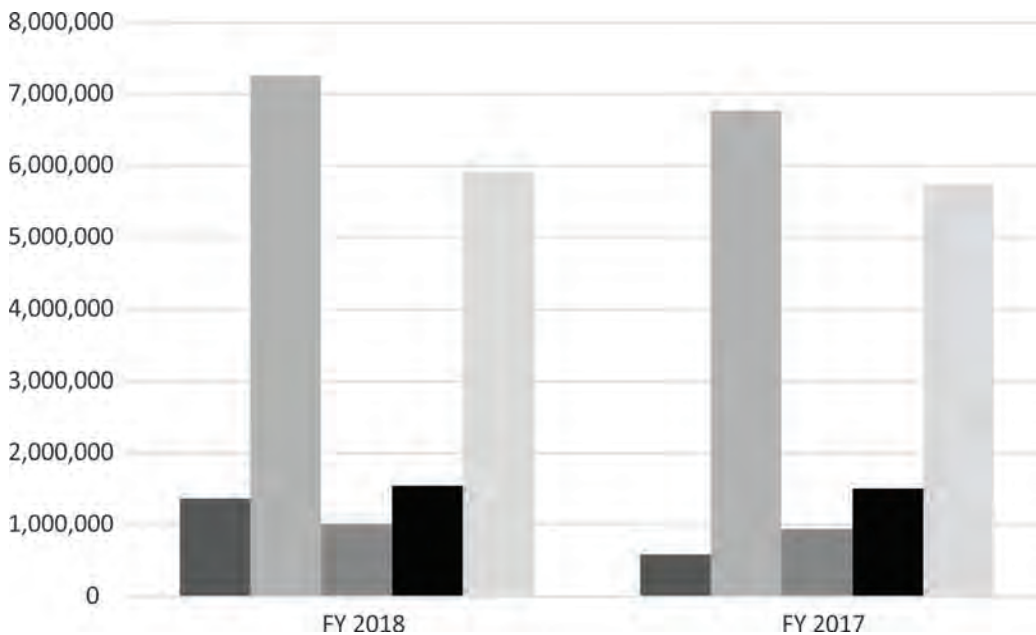


Table 2. Composition of liabilities

Liabilities	FY 2018	FY 2017
Accounts payable	\$1,360,201	\$578,143
Accrued liabilities (payroll and benefits)	7,253,008	6,771,200
Employer contributions and taxes payable	1,006,195	942,048
Workers’ compensation (funded and unfunded)	1,542,010	1,499,584
Deferred revenue	\$5,907,939	\$5,733,890

The net position, which represents the cumulative results of operations since the agency began, decreased by \$391,680, or 1.9 percent, during FY 2018. The net position decreased in part because of the increase in the net cost of operations (see the Program Costs and Revenues section) but also because of an increase in imputed financing sources (that is, rent and federal employee benefits). For a breakdown of the net position, see the statement of changes in net position on page 44.

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 2018 and 2017. The overall FY 2018 budget increased by 3.0 percent over the 2017 budget.

In FY 2018, we continued to carry out our mission, program goals, and objectives within the available budget.

While our board-approved budget for FY 2018 was \$73.2 million, the congressional limitation on our spending was \$70.6 million. The FY 2017 limitation was \$68.6 million.

As table 4 shows, we used \$69,637,676 of the funds available in 2018, compared with \$67,628,714 of the funds available in 2017. The funds we used in 2018 amounted to 98.1 percent of our congressional limitation in 2018. The increase in personnel compensation, driven by salary and benefit increases, accounts for the largest dollar amount increase in funds used from 2017 to 2018. Personnel compensation and benefits continue to account for the most significant use of funds at FCA, representing 84.5 percent of total funds used in 2018.

Property and equipment costs represented the largest decrease in funds used this year. These costs declined by 49.0 percent in part because we had fewer capitalized property additions in 2018 compared with 2017.

Table 3. Agency budget

	2018	2017
Assessments (current year)*	\$71,200,000	\$69,800,000
Assessments (carryover from prior years)	1,400,000	0
Reimbursable activity	600,000	600,000
Total	\$73,200,000	\$70,400,000

* Assessments for both FY 2017 and 2018 were reduced by \$3 million in the fourth quarter of each year.

Table 4. Funds used by major budget category

Budget Category	FY 2018	Percentage of Total	FY 2017	Percentage of Total
Personnel compensation and benefits	58,821,237	84.4%	56,719,365	83.9%
Travel and transportation	3,029,833	4.4%	2,441,070	3.6%
Contractual services	5,487,623	7.9%	5,919,695	8.8%
Property and equipment	526,704	0.8%	1,032,465	1.5%
Other	1,772,279	2.5%	1,516,119	2.2%
Total	\$69,637,676	100.0%	\$67,628,714	100.0%

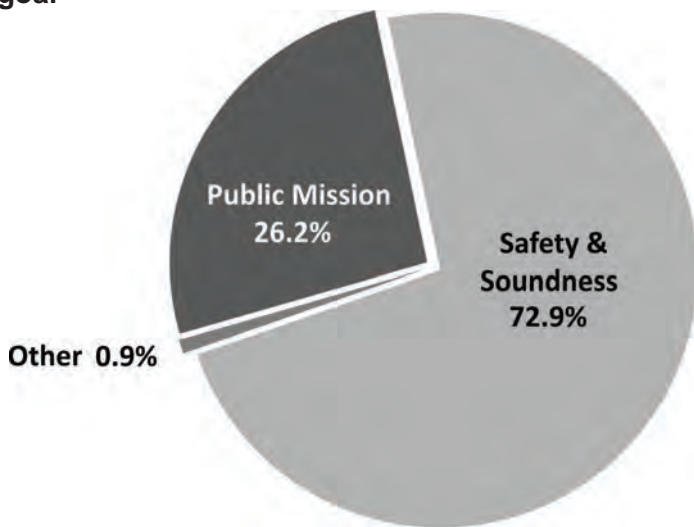
Program costs and revenues

This section describes our program costs and revenues for the fiscal years ended Sept. 30, 2018, and Sept. 30, 2017. 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 sections of this report that cover budgetary obligations.

We manage agency costs through sound business planning and effective resource management. The net cost of our programs totaled \$7,461,968 for the 12 months ended Sept. 30, 2018, compared with \$3,705,568 for the same period the previous year. Because gross costs increased more than gross revenue, net costs increased in FY 2018.

The total cost of our programs for FY 2018 is \$76,746,813, compared with \$71,366,166 for FY 2017. This represents an increase of \$5,380,647, or 7.5 percent, from 2017. Figure 3 shows the breakdown of FY 2018 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

Figure 3. FY 2018 gross costs by agency goal

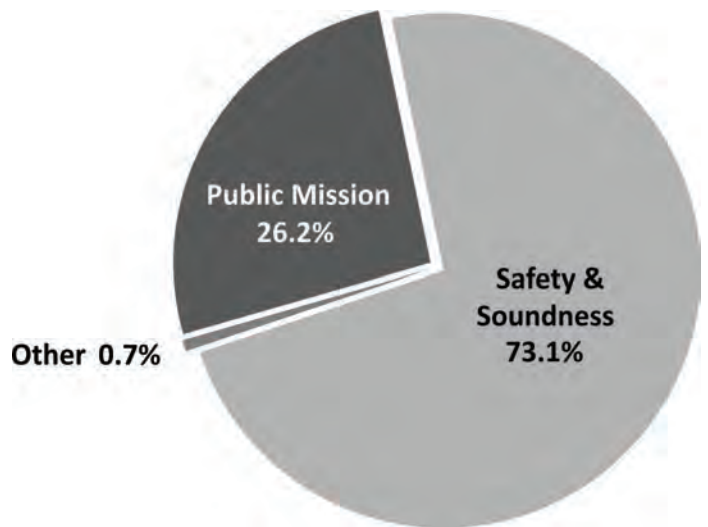


to increases in staff, employee compensation, and information technology.

Employee salaries and benefits represent our greatest overall cost. For 2018, employee compensation totaled \$61,625,113, or 80.3 percent of total cost. Increases in staff, pay-for-performance and employee benefits, and career ladder promotions contributed to the cost increase in 2018. 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 4 shows the breakdown of FY 2018 gross revenue for each of our goals. Earned revenue for 2018 totaled \$69,284,845, up \$1,624,247, or 2.4 percent, from 2017. Earned revenue went up because of increases in institution assessments and interest earned on investments.

Figure 4. FY 2018 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 2018, 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.

Our costs for the 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, 2018, program costs for public mission was \$20,089,846, representing an increase of \$1,226,262, or 6.5 percent, from the same period the previous year. The cost for the public mission program represents 26.2 percent of our total costs for 2018.

Safety and soundness program

The examination and supervision of the FCS account for the largest portion of our costs at the program level. In 2018, 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 2018, 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 \$4,401,812 to \$55,986,290, which represents 72.9 percent of our total costs in 2018.

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. Because we provided fewer reimbursable services this year, costs associated with this category declined by \$247,427 from 2017 to \$670,677. The costs for providing reimbursable services represented approximately 0.9 percent of our total costs in 2018, a decrease from 1.3 percent of total costs in 2017.

Earned revenue for other activity totaled \$487,337 for 2018, compared with \$541,833 for 2017. Since the amount of reimbursable work declined, so did the revenue from these activities.

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

The Federal Managers' Financial Integrity Act requires executive branch agencies to establish and maintain internal controls to ensure that federal programs operate effectively, efficiently, and in accordance with applicable laws.

Agencies must evaluate and report on the effectiveness of their internal controls for achieving the objectives of effective and efficient operations, reliable reporting, and compliance with laws and regulations. They must also assess whether their financial management systems comply with requirements outlined in section 4 of the Federal Managers' Financial Integrity Act.

Through our financial management system strategy, management control program, and compliance with applicable laws and regulations, we ensure our compliance with the Federal Managers' Financial Integrity Act.

Financial management system strategy

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.

We have access to core financial systems without having to maintain the necessary technical and systems architectures. The partnership has also improved our data reliability, which helps us comply with 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 as required by two OMB Memorandums:

- M-13-08, Improving Financial Systems Through Shared Services
- M-10-26, Immediate Review of Financial Systems IT Projects

Management control program

We have established management controls to reasonably ensure that our programs and financial systems operate effectively and comply with applicable laws and regulations. We use management controls to hold managers accountable for the performance of their programs.

Managers evaluate management controls annually to ensure controls conform to the principles and standards established by the Office of Management and Budget and the Government Accountability Office (GAO). We use the results of these evaluations to identify and report any material weaknesses.

The FCA Senior Assessment Team assesses our internal controls every two years in accordance with GAO's Standards for Internal Control in the Federal Government (Green Book). During the FY 2018 assessment, the team concluded that our system of internal controls is effective, and we did not report any material weaknesses.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act requires certain executive branch 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 OMB Circular A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996, for FY 2018. We assess available information from audit reports and other relevant sources to determine whether our financial management systems substantially comply with the Federal Financial Management Improvement Act.

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 2018, we paid on time 99.9 percent of the 3,064 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 to require that debts outstanding for more than 120 days be transferred to the Treasury Department for collection under the Treasury Offset Program. During FY 2018, we transferred one debt after it exceeded the 120-day outstanding debt requirement.

Improper payments

The Improper Payments Elimination and Recovery Improvement Act of 2012 requires agencies to annually report 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 in the "Other information" section of this report.

Digital Accountability and Transparency Act

The Digital Accountability and Transparency Act of 2014 (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.

The DATA Act requires executive branch agencies to report spending data using the standardized data structure established by the Treasury Department and OMB. Expenditure information for contracts, loans, and grants is posted on the USASpending.gov website for each appropriations account. 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 semiannual reports prepared by the FCA 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 of its public reports, including its semiannual reports, on its website within three days of final submission to the agency. These reports are also posted on Oversight.gov, which contains OIG reports from across the federal government.

Below is a summary of the recommendations or agreed-upon actions in these reports, as well as our progress in taking corrective action. The OIG continues to report recommendations to correct audit, inspection, or evaluation findings as "agreed-upon actions" whenever we reach agreement with the OIG on an acceptable way to resolve a recommendation.

Summary of OIG audit, inspection, and evaluation activities

The OIG issued eight audit, inspection, or evaluation reports during FY 2018, resulting in 17 new agreed-upon actions. Twenty-eight agreed-upon actions have been closed (including 13 from prior fiscal years). Therefore, two actions remain open this fiscal year. The reports are available on the FCA OIG's website at www.fca.gov/about/inspector-general-plans-and-reports.

- **Oct. 27, 2017:** The OIG issued a final report on an evaluation of our compliance with the Federal Information Security Modernization Act for FY 2017. The report contained four recommendations.
- **Nov. 8, 2017:** The OIG issued a report on the audit of FCA's financial statements, internal controls over financial reporting, and compliance with certain provisions of laws and regulations for FY 2017. The audit produced no recommendations.
- **March 19, 2018:** The OIG issued the inspection report, "Physical Security in FCA's Bloomington Field Office." The inspection resulted in five agreed-upon actions. For security purposes, this report was not made public.
- **March 20, 2018:** The OIG issued the final audit report, "FCA's Office of Secondary Market Oversight." The audit resulted in five agreed-upon actions.
- **March 30, 2018:** The OIG issued the final inspection report, "FCA's Travel Compensation and Incentives." The inspection resulted in no recommendations.
- **April 19, 2018:** The OIG issued the final inspection report, "Physical Security in FCA's Dallas Field Office." The inspection resulted in no recommendations. For security purposes, this report was not made public.
- **June 19, 2018:** The OIG issued the final inspection report, "Physical Security in FCA's Sacramento Field Office." The inspection resulted in three agreed-upon actions. For security purposes, this report was not made public.
- **Sept. 6, 2018:** The OIG issued the final evaluation report, "Information Technology Benchmarking Study." The evaluation resulted in no recommendations.

Summary of OIG recommendations

Recommendations or agreed-upon actions uncorrected as of Oct. 1, 2017:	13
New agreed-upon actions during FY 2018:	17
Agreed-upon actions closed during FY 2018:	28
Open agreed-upon actions as of Sept. 30, 2018:	2
Recommendations or agreed-upon actions open more than one year:	2

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 quarterly reports and a fiscal year summary report to the FCA chief examiner and the FCA board.

Average numerical ratings remained high for FY 2018, 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.

STATEMENT OF ASSURANCE

The Farm Credit Administration's management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act.

We conducted an assessment of our internal control to determine the effectiveness and efficiency of our operations and compliance with applicable laws and regulations. We conducted the assessment in accordance with the Office of Management and Budget Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control.

Based on the results of this evaluation, we can provide reasonable assurance that our internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, as of Sept. 30, 2018, was operating effectively, and no material weaknesses were found in the design or operation of the internal controls.

In addition, in accordance with M-13-21, Implementation of the Government Charge Card Abuse Prevention Act of 2012, appropriate policies and controls are in place to mitigate the risk of fraud and inappropriate charge card practices.

We also conducted an assessment of our internal control over financial reporting, which includes safeguarding assets and complying with applicable laws and regulations. We conducted this assessment in accordance with the requirements of appendix A of circular A-123.

Based on the results of this evaluation, we can provide reasonable assurance that our internal control over financial reporting as of Sept. 30, 2018, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

We are in conformance with the Federal Managers' Financial Integrity Act, and our financial management systems are substantially in compliance, as of Sept. 30, 2018, with the requirements for federal financial management systems as presented in appendix D of circular A-123. Our financial management systems also comply with applicable federal accounting standards and the U.S. Standard General Ledger at the transaction level.



Dallas P. Tonsager
Chairman and Chief Executive Officer
FARM CREDIT ADMINISTRATION

September 30, 2018

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 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 2018 we issued a final rule for Farmer Mac governing the eligibility of non-program investments.

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 2018:

- Issued a final rule governing the eligibility of investments made by the System's banks and associations
- Continued to study the loan syndication market
- Issued a final rule governing the eligibility of Farmer Mac's nonprogram investments
- Provided guidance to the System on strengthening lending and loan servicing controls
- Issued guidance to the System on regulatory capital treatment of centrally cleared derivative contracts

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 plan to address the comments from this solicitation in FY 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 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

to 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. 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, 2017, through June 30, 2018, we responded to 33 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 they face. In 2016, members of our staff met with the USDA under secretary 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 re-

porting 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.

The FCA booklet (BL066) "Providing Credit to Farmers and Ranchers Operating in Local/Regional Food Systems" encourages System associations to meet the credit and related service needs of farmers 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 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 one merger. On Oct. 1, 2017, two associations affiliated with CoBank, ACB, merged to become one association.

As a result, at fiscal year-end 2018, the System had 69 institutions (68 agricultural credit associations and 1 federal land credit association), compared with 70 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 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 reach out to stakeholders to encourage their 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 agency-wide 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 three exceptions, all institutions had adequate internal control programs or adequate corrective actions in place in FY 2018. We are currently evaluating the three institutions for needed improvements.

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 en-

hances 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

We also evaluate Farmer Mac's risk management practices through examinations and oversight reviews. During 2018, Farmer Mac focused on strengthening its risk and compliance areas by adding three new positions: a risk officer, a compliance and corporate integrity officer, and a human capital officer. Farmer Mac also promoted a staff member to quality assurance manager in the treasury operations division.

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 improves 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, and report back to, our agency. Our examiners oversee the institution's performance to ensure compliance with the enforcement action. As of June 30, 2018, 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 Loans Database Project, we built an enterprise system for the dependable collection and storage of data for examination activities and systemic risk analysis. In addition, we established uniform instructions for the timely and reliable reporting of accounts and exposures. In 2014, the System improved its ability to identify shared assets by implementing the System shared-asset and customer numbers.

Then, in December 2015, the System began reporting exposures caused by "systemically significant customers." And we continue to work with the System to improve data completeness and reliability. In FY 2016, we continued to support the tools and workpapers that our examiners use to analyze loan data and evaluate loan assets. In addition, we worked with the FCA Risk Project to explore business

intelligence tools that our examiners can use in analyzing risk and reviewing loans.

In 2018, the Office of Examination, the FCA Risk Project, and the Office of Information Technology continued to work together to improve our examination processes by better utilizing technology.

- We finished developing the FCA Data Mart, a centralized data warehouse for transactional and indicative data provided by each financial institution in the Farm Credit System.
- We developed two new examiner analysis applications that utilize the Data Mart.
- We completed implementation of the EDGe Loan Workpaper, a web-based application that accesses the FCS Loans2 database.
- We continued developing new management reports 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 June 2017, we issued an informational memorandum on cybersecurity risks titled “Reporting Security Incidents and Business Continuity Events to FCA.”

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.

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.

The Office of Personnel Management has formally recognized our agency for fostering accountability in diversity and inclusion. 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.

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 technical competencies of employees
- 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.

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 2018, FCA continued to devote significant resources toward developing new employees through our examiner commissioning program. In addition, we increased our focus on helping mid-career staff develop their skills. For example, we took the following measures:

- Trained and developed examination staff with the necessary technical and soft skill sets.
- Completed revisions to the commissioning program's training curriculum and tested certifications based on the 2015 updated job analysis.
- Supported post-commission examiner career development and related specialist programs (for credit, finance, operations, and examination management) to ensure that our staff has the expertise and credibility to carry out our mission. We also provided training in the necessary soft skills. And we revised an operations directive related to our examiner career development program.

- 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 3 percentage points in 2018, from 75 percent to 78 percent. FCA was ranked in the top three 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, sponsor regular presentations on issues affecting women and minority groups. And each year we have a Diversity Day on which we celebrate the diverse cultures represented in our workplace.

We also strive to increase workforce diversity. We target at least 25 percent of our recruiting efforts toward disabled and minority potential applicants. For example, during each recruiting season, we attend career fairs at historically black colleges and universities and high minority enrollment schools.

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, 2017, to June 30, 2018

Measure	Results	2017 Target	2017 Results	2018 Target	2018 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-nine percent of direct-lender institutions have satisfactory consumer and borrower-rights compliance.	≥90%	100%	≥90%	97.3%	▲
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 five 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 was one project that met the reporting requirement, and we did request input on this project from persons outside of FCA.	100%	89%	100%	100%	✓

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

July 1, 2017, to June 30, 2018

Measure	Results	2017 Target	2017 Results	2018 Target	2018 Results	Results vs. Target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	99 percent of System assets have composite CAMELS ratings of 1 or 2.	≥90%	99.6%	≥90%	98.6%	▲
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 three have satisfactory audit and review programs, including institutions with acceptable corrective action plans.	100%	99%	100%	95.9%	▼
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	✓

Table 5c. Goal 3 — Performance measures and results for workforce management
July 1, 2017, to June 30, 2018

Measure	Results	2017 Target	2017 Results	2018 Target	2018 Results	Results vs. Target
1. Whether, as part of its recruiting efforts for entry level examiners, FCA has ensured that at least 25 percent of its outreach efforts target disabled or minority potential applicants.	At least 25 percent 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 3 percentage point increase in our Employee Engagement Index score.	Yes	Yes	Yes	Yes	✓

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.

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: > is greater than; ≥ is greater than or equal to; N/A indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates we exceeded the FY 2018 target; ✓ indicates we achieved the FY 2018 target; ▼ indicates we did not meet the FY 2018 target.

FINANCIAL SECTION

STATEMENT OF CHIEF FINANCIAL OFFICER

November 13, 2018

I am pleased to present the Farm Credit Administration's 2018 financial statements. This report provides an assessment of FCA's detailed financial status and demonstrates how FCA management has used the resources entrusted to us to support our important mission.

Our independent auditor released an unmodified opinion on the financial statements and identified no significant issues. This achievement marks the 25th consecutive year that FCA has published a clean opinion. It underscores our commitment to transparency, accountability, and stewardship to rural America, the president, Congress, and the members and investors of the Farm Credit System.

FCA leadership and staff remain dedicated to sound financial management practices. As the arm's length regulator of the Farm Credit System, we appreciate the value of strong financial management. We work hard to maintain the expertise we need for proper financial reporting.

Looking forward, we are committed to sustaining our success in achieving clean financial statement audits. We are also committed to strengthening our internal controls, reducing manual processes, and improving data quality and reporting. We will continue to mature our enterprise risk management program so that we can provide agency leadership with a portfolio view of risk. Doing so will allow us to improve our decision making and allocate our resources more effectively to achieve our mission. We will continue to refine our internal controls to proactively identify and mitigate financial, operational, and compliance risks.

I appreciate the FCA professionals who plan, execute, and account for the agency's resources. Their commitment to ensuring sound financial management provides the foundation for our strong stewardship and ensures that we can deliver reliable financial information to our stakeholders.

Sincerely,



Stephen G. Smith
Chief Financial Officer

TRANSMITTAL LETTER OF AUDITOR'S REPORT

Farm Credit Administration

Office of Inspector General
1501 Farm Credit Drive
McLean, VA 22102-5090



November 13, 2018

The Honorable Dallas P. Tonsager, Board Chairman
The Honorable Jeffery S. Hall, Board Member
The Honorable Glen R. Smith, Board Member
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Board Chairman Tonsager and Board Members Hall and Smith:

The attached report is the audit of the Farm Credit Administration's (FCA's or Agency's) financial statements for the fiscal year (FY) ended September 30, 2018. The Office of Inspector General (OIG) contracted with Harper, Rains, Knight & Company, P.A., an independent public accounting firm, to perform the audit.

Harper, Rains, Knight & Company issued an unmodified opinion on the Agency's financial statements. In the auditors' opinion, FCA's financial statements present fairly, in all material respects, the financial position of the Agency as of the FY ended September 30, 2018, in accordance with accounting principles generally accepted in the United States of America (U.S.).

Harper, Rains, Knight & Company considered FCA's internal control over financial reporting as a basis for designing audit procedures that are appropriate to express an opinion on the financial statements. Although they did not express an opinion on the FCA's internal control over financial reporting, they did not identify any deficiencies considered to be material weaknesses.

Additionally, Harper, Rains, Knight & Company performed tests of FCA's compliance with selected provisions of applicable laws and regulations that could have a direct and material effect on the financial statements. Although they did not express an opinion on compliance with those provisions, they did not identify any instances of noncompliance that would be reportable under U.S. generally accepted *Government Auditing Standards* or Office of Management and Budget (OMB) Bulletin 19-01, *Audit Requirements for Federal Financial Statements*.

Harper, Rains, Knight & Company was required to perform the audit in accordance with *Government Auditing Standards* and OMB Bulletin 19-01, *Audit Requirements for Federal Financial Statements*. To ensure the quality of the work performed, the OIG:

- reviewed Harper, Rains, Knight & Company's approach to and planning of the audit,
- evaluated the qualifications and independence of the auditors,
- attended key meetings with auditors and Agency officials,
- monitored the progress of the audit,
- examined workpapers, and
- reviewed the audit report.

Harper, Rains, Knight & Company is responsible for the attached auditors' report and the conclusions expressed in the report. The OIG is responsible for technical and administrative oversight regarding the audit firm's performance under the terms of the contract. Our review was not intended for us to express, and accordingly we do not express, an opinion on the Agency's financial statements or conclusions on internal control over financial reporting and compliance with laws and regulations, including whether the Agency's financial management systems substantially complied with the Federal Financial Management Improvement Act. However, our monitoring review disclosed no instances in which Harper, Rains, Knight & Company did not comply, in all material respects, with the auditing standards.

Respectfully,



Wendy R. Laguarda
Inspector General

Enclosure

INDEPENDENT AUDITOR'S REPORT



Independent Auditors' Report

The 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, 2018 and 2017, and the related statements of net cost and changes in net position, and combined 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 19-01, *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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The 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, 2018 and 2017, 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, 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 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 Board and Inspector General
Farm Credit Administration (continued)

Other Matters (continued)

The Statement of Board Chairman and CEO, Statement of Chief Financial Officer, 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, 2018, in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 19-01, *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 (FMFIA), 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.

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 19-01, *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.

The Board and Inspector General
Farm Credit Administration (continued)

Compliance and Other Matters (continued)

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 2018 that would be reportable under U.S. generally accepted government auditing standards or OMB Bulletin 19-01, *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.

Harper, Rainis, Knight & Company, P.A.

November 13, 2018

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 2018 and FY 2017. 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, 2018.
- 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 September 30, 2018 and 2017
(In dollars)

		2018	2017
Assets	Intragovernmental		
	Fund balance with Treasury (note 2)	\$4,127,940	\$1,457,378
	Investments (note 3)	31,492,515	32,893,400
	Accounts receivable (note 4)	13,382	10,994
	Total intragovernmental	35,633,837	34,361,772
	Accounts receivable (note 4)	84,409	154,726
	General property, equipment, and software, net (note 5)	1,607,341	1,590,298
	Prepaid expenses	267,706	333,689
	Total assets	\$37,593,293	\$36,440,485
Liabilities	Intragovernmental		
	Accounts payable	\$49,426	\$27,806
	Accrued post-employment compensation	32,618	36,536
	Employer contributions and payroll taxes payable	484,936	455,088
	Other	109	0
	Total intragovernmental	567,089	519,430
	Accounts payable	1,310,666	550,337
	Actuarial workers' compensation liability (Note 6)	1,509,392	1,463,048
	Accrued payroll and benefits	7,253,008	6,771,200
	Employer contributions and payroll taxes payable	521,259	486,960
	Deferred revenue	5,907,939	5,733,890
	Total liabilities	\$17,069,353	\$15,524,865
	Net position	Cumulative results of operations – Other funds	\$20,523,940
Total net position		20,523,940	20,915,620
Total liabilities and net position		\$37,593,293	\$36,440,485

The accompanying notes are an integral part of these statements.

Statements of net cost

For the years ended September 30, 2018 and 2017
(In dollars)

	Program Costs	2018	2017
Public mission	Gross costs	\$20,089,846	\$18,863,584
	Less: Earned revenue	(18,156,025)	(17,954,870)
	Net program cost	\$1,933,821	\$908,714
Safety and soundness	Gross costs	\$55,986,290	\$51,584,478
	Less: Earned revenue	(50,641,483)	(49,163,895)
	Net program cost	\$5,344,807	\$2,420,583
Other activity	Gross costs	\$670,677	\$918,104
	Less: Earned revenue	(487,337)	(541,833)
	Net program cost	\$183,340	\$376,271
Net cost of operations (note 7)		\$7,461,968	\$3,705,568

The accompanying notes are an integral part of these statements.

Statements of changes in net position

For the years ended September 30, 2018 and 2017
(In dollars)

		2018	2017
Cumulative results of operations			
Beginning balances		\$20,915,620	\$18,976,664
Other financing sources (Non-ex-change)	Imputed financing sources		
	Federal employee benefits (note 8)	3,070,288	2,044,524
	Rent (note 9)	4,000,000	3,600,000
	Total financing sources	7,070,288	5,644,524
Net cost of operations		(7,461,968)	(3,705,568)
Net change		(391,680)	1,938,956
Cumulative results of operations		\$20,523,940	\$20,915,620
Net position		\$20,523,940	\$20,915,620

The accompanying notes are an integral part of these statements.

Statements of budgetary resources

For the years ended September 30, 2018 and 2017
(In dollars)

		2018	2017
Budgetary resources	Unobligated balance from prior year budget authority, net	\$21,406,841	\$19,207,882
	Spending authority from offsetting collections	69,496,735	69,042,437
	Total budgetary resources (note 11)	\$90,903,576	\$88,250,319
Memorandum (non-add) entries	Net adjustments to unobligated balance brought forward, Oct. 1	(12,558,636)	(8,871,267)
Status of budgetary resources	New obligations and upward adjustments (total)	\$68,952,482	\$66,843,478
	Unobligated balance, end of year		
	Exempt from apportionment, unexpired accounts	16,043,155	15,672,951
	Exempt from apportionment, not available	5,907,939	5,733,890
	Unexpired unobligated balance, end of year	21,951,094	21,406,841
	Unobligated balance, end of year (total)	21,951,094	21,406,841
	Total budgetary resources (note 11)	\$90,903,576	\$88,250,319
Outlays, net	Outlays, net (total)	(1,280,081)	(4,123,352)
	Agency outlays, net	\$(1,280,081)	\$(4,123,352)

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, 2018, 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. Therefore, FCA recognizes dollar thresholds in the recording of advances and prepayments.
- 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. **Federal employee benefits** — Federal employee benefits include benefits earned by employees for pension, post-retirement health insurance, and life insurance. For reporting purposes, each employing federal agency is required to recognize its share of the federal government's cost and imputed financing for these benefits. To meet this requirement, the Office of Personnel Management provides to each agency the cost factors used in the calculation of these federal employee benefit expenses. See note 8.
- K. **Rent** — The Farm Credit Act allows us to occupy buildings and to use land owned and leased by the FCS Building Association, an entity owned by the System banks. The FCA board oversees the Building Association activities on behalf of its owners. We are not charged for the use of the buildings or land, nor do we pay for maintenance and repair of buildings and land improvements. Rent is reflected on our books as an imputed cost and an imputed financing source. See note 9.
- L. **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.
- M. **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.
- N. **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.
- O. **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.
- P. **Financial data** — All amounts presented in this report are in whole dollars.
- Q. **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.
-

Note 2. Fund balance with Treasury

	2018	2017
Status of fund balance with Treasury		
Unobligated balance		
Available	\$16,043,155	\$15,672,951
Unavailable	5,907,939	5,733,890
Obligated balance not yet disbursed	13,505,029	12,769,200
Subtotal — Status of fund balance	35,456,123	34,176,041
Funds invested with Treasury net of unamortized discount	(31,328,183)	(32,718,663)
Total fund balance with Treasury	\$4,127,940	\$1,457,378

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 prior to 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.

Obligated and unobligated balances listed under “status of fund balance with Treasury” agree with obligated and 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 2018 balance sheet reporting**

	Cost	Amortized (Premium) Discount	Investments Net	Interest Receivable	9/30/18 Investment Balance	Market Value Disclosure
Nonmarketable market-based	\$31,435,396	\$(24,955)	\$31,410,441	\$82,074	\$31,492,515	\$31,177,346

Amounts for 2017 balance sheet reporting

	Cost	Amortized (Premium) Discount	Investments Net	Interest Receivable	9/30/17 Investment Balance	Market Value Disclosure
Nonmarketable market-based	\$32,928,707	\$(89,972)	\$32,838,735	\$54,665	\$32,893,400	\$32,767,237

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 \$597,007 and \$317,990 for FYs 2018 and 2017, respectively.

Note 4. Accounts receivable

	2018	2017
Intragovernmental		
Reimbursements for services provided	\$13,382	\$10,994
Subtotal	13,382	10,994
With the public		
Reimbursements for services provided	78,834	145,890
Expenditure refunds	5,575	8,836
Subtotal	84,409	154,726
Total accounts receivable	\$97,791	\$165,720

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, 2018

	Estimated Useful Life	Depreciation Method	Acquisition Value	Accumulated/ Amortized Depreciation	Book Value
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
Total			\$2,733,752	\$(1,126,411)	\$1,607,341

As of September 30, 2017

	Estimated Useful Life	Depreciation Method	Acquisition Value	Accumulated/ Amortized Depreciation	Book Value
Equipment	3 years	Straight line	\$723,580	\$(361,790)	361,790
Equipment	5 years	Straight line	347,055	(68,246)	278,809
Equipment	10 years	Straight line	305,304	(75,849)	229,455
Internal use software	5 years	Straight line	718,049	(71,805)	646,244
Software in development			74,000	0	74,000
Total			\$2,167,988	\$(577,690)	\$1,590,298

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 Labor Department provides individual estimates on a routine basis, we calculated our estimated FECA actuarial liability amount by using the Labor Department's FY 2018 model to estimate FECA actuarial liability.

	2018	2017
Total liabilities not covered by budgetary resources	\$1,509,392	\$1,463,048
Total liabilities covered by budgetary resources	15,559,961	14,061,817
Total liabilities	\$17,069,353	\$15,524,865

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 2018 and 2017. We display our cost and earned revenue amounts by office within each program.

For the year ended September 30, 2018

		Office of Examination	Office of Regulatory Policy	Office of Secondary Market Oversight	Other Offices	Total
Public mission	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
Safety and soundness	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
Other activity	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
Net cost of operations		\$3,501,464	\$634,772	\$417,132	\$2,908,600	\$7,461,968

For the year ended September 30, 2017

		Office of Examination	Office of Regulatory Policy	Office of Secondary Market Oversight	Other Offices	Total
Public mission	Gross costs	\$531,629	\$5,374,750	\$726,926	\$12,230,279	\$18,863,584
	Less: Earned revenue	(507,308)	(5,128,844)	(649,992)	(11,668,726)	(17,954,870)
	Net program cost	24,321	245,906	76,934	561,553	908,714
Safety and soundness	Gross costs	34,589,419	1,197,363	728,794	15,068,902	51,584,478
	Less: Earned revenue	(32,986,710)	(1,142,555)	(624,897)	(14,409,733)	(49,163,895)
	Net program cost	1,602,709	54,808	103,897	659,169	2,420,583
Other activity	Gross costs	315,070	31,674	860	570,500	918,104
	Less: Earned revenue	(185,943)	(18,693)	(508)	(336,689)	(541,833)
	Net program cost	129,127	12,981	352	233,811	376,271
Net cost of operations		\$1,756,157	\$313,695	\$181,183	\$1,454,533	\$3,705,568

Note 8. Federal employee benefits

	2018	2017
Imputed pension costs	\$1,150,819	\$564,494
Other imputed retirement benefits	1,919,469	1,480,030
Total	\$3,070,288	\$2,044,524

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.

Note 9. Rent

	2018	2017
Leased field offices	\$1,378,394	\$1,232,874
FCA headquarters	2,621,606	2,367,126
Total	\$4,000,000	\$3,600,000

In accordance with the Farm Credit Act, we occupy buildings owned and leased by the 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 Building Association's estimated budget for 2018. 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 10. Undelivered orders at the end of the period

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

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

As of Sept. 30, 2017, budgetary resources obligated for undelivered orders were as follows:

	Federal	Nonfederal	Total
Paid undelivered orders	\$0	\$333,689	\$333,689
Unpaid undelivered orders	855,688	4,458,848	5,314,536
Total undelivered orders	\$855,688	\$4,792,537	\$5,648,225

Note 11. Explanation of differences between the SBR and the budget of the U.S. government

SFFAS 7 requires the reporting of material differences between amounts reported in the SBR 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 2017 Statement of Budgetary Resources and the FY 2017 actual amounts reported in the FY 2019 Budget of the United States Government. The FY 2020 Budget of the United States is not yet available to compare the FY 2018 actual amounts to the FY 2018 Statement of Budgetary Resources. The budget is expected to be available in February 2019.

Note 12. 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 \$557 for the period ended Sept. 30, 2018, and \$272 for Sept. 30, 2017. The funds collected in FY 2018 were transferred to the Department of the Treasury at the end of FY 2018.

Note 13. Reconciliation of net cost of operations to budget

As prescribed by SFFAS No. 7, this note reconciles our Resources Used to Finance Activities (budgetary basis of accounting) to the Net Cost of Operations (proprietary basis of accounting). The reconciling items are added in or reversed out based on whether the item has a budgetary or proprietary impact on the statements.

		2018	2017
Resources Used to Finance Activities	Budgetary resources obligated		
	Obligations incurred	\$68,952,482	\$66,843,478
	Spending authority from offsetting collections and recoveries	(69,496,735)	(69,042,437)
	Net obligations	(544,253)	(2,198,959)
	Other resources		
	Imputed financing from costs absorbed by others	7,070,288	5,644,524
	Other resources	174,049	1,057,103
	Net other resources used to finance activities	7,244,337	6,701,627
	Total resources used to finance activities	6,700,084	4,502,668
Resources used to finance items not part of net cost of operations	207,753	(1,188,279)	
Total resources used to finance net cost of operations	6,907,837	3,314,389	
Components of the net cost of operations that will not require or generate resources in current period	554,131	391,179	
Net cost of operations		\$7,461,968	\$3,705,568

OTHER INFORMATION

LETTER FROM INSPECTOR GENERAL ON FCA'S MANAGEMENT CHALLENGES

Farm Credit Administration

Office of Inspector General
1501 Farm Credit Drive
McLean, VA 22102-5090



October 1, 2018

The Honorable Dallas P. Tonsager, Board Chairman
The Honorable Jeffery S. Hall, Board Member
The Honorable Glen R. Smith, Board Member
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Board Chairman Tonsager and Board Members Hall and Smith:

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 four management challenges:

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

Please note that the fourth challenge has changed from last year's "Organization Structure and Governance," which addressed the structure and governance of the Agency, to "Secondary Market Oversight." I believe that FCA's oversight of the Federal Agricultural Mortgage Corporation should be separately noted as a management challenge for the Agency, given its significant growth, publicly-traded profile, public purpose mission as a government-sponsored enterprise, and executive management challenges over the years.

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.

Sincerely,

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

Wendy R. Laguarda
Inspector General

Enclosure

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 the System remains safe and sound.

Information technology

Leveraging investments in information technology while maintaining a secure environment.

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 (Farmer Mac) through FCA'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.

The System continues to be impacted by changing risk conditions. Over the last number of years, net farm income has declined and price levels for key commodities have been low. Macroeconomic factors, such as changing interest rates and energy prices, will likely also 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 requires 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 titled *Planning for LIBOR Phase-Out* (September 11, 2018), provides guidance on planning and preparing for the expected phase-out of the London Interbank Offered Rate. OE issued several Informational Memoranda concerning Regulation Z requirements, including one on *TILA-RESPA Rule Revisions* (August 10, 2018); one on *2016 Mortgage Servicing Rule Amendment* (May 2, 2018); and one on *Regulation Z Adjustment to Asset-Size Exemption Threshold and Military Lending Act* (March 8, 2018). Another Informational Memorandum titled *Regulatory Capital of Certain Centrally Cleared Derivative Contracts* (April 5, 2018) provides guidance regarding the regulatory capital treatment of certain centrally cleared derivative contracts. Another Informational Memorandum titled *Maximum Farm Credit System Bank Director Compensation for 2018* (January 23, 2018), provides the pay cap allowance in accordance with statute and regulation.

The Agency issued a Bookletter on *Strengthening Lending and Loan Servicing Controls* (March 8, 2018) that provides guidance on the Agency's expectation for FCS institutions to continuously assess their lending and loan servicing controls to ensure controls remain effective and comply with FCA regulation.

Each year, OE identifies National Oversight Plan risk topics that are emphasized in ongoing examinations and oversight activities. For Fiscal Year 2018, two risk topics were identified: *Portfolio Risk – Weathering the Storm and Internal Controls Over Financial Reporting*. Other areas of emphasis in the 2018 plan include stress testing and earnings trends/operating expenses. 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). Another area of emphasis includes underscoring the importance of stress testing to Farm Credit System institutions.

Currently underway is an OIG benchmarking study on the organizational structure of OE as compared to the other Federal Financial Regulatory Agencies. The OIG also plans to address other challenges faced by the examination and supervision program, including a review of the Agency's oversight of internal controls and the Agency's progress in developing stress-testing applications.

CHALLENGE TWO: INFORMATION TECHNOLOGY

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

Cybersecurity threats and vulnerabilities require an IT security program that is both realistic and forward-looking. The continuous challenge created by cybersecurity threats is highlighted by security incidents and data breaches involving both the public and private sector. Cybersecurity threats could have a direct impact on FCA and other government agencies' abilities to perform their missions. As such, it is imperative to prevent and respond to these types of attacks to ensure that the Agency can continue to perform its mission.

While cybersecurity threats are increasing, FCA is increasingly reliant on IT software to identify and analyze potential risks from the sensitive financial data that the Agency receives from the System. Hence, it is imperative that FCA has the necessary IT tools and staff to stave off cybersecurity threats and to operate more efficiently and effectively. At the same time, the Agency must be prudent and responsible with its spending. Finally, to be effective, FCA needs a well-trained staff that can successfully integrate new tools into its operations.

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

- Improve the quality and availability of financial data used to examine potential risks across the System without creating an undue burden on the System;
- Streamline business processes and build business intelligence to provide decision-makers with timely management information while coordinating with staff from multiple offices;
- Develop electronic recordkeeping and management capability 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. The Office of Information Technology (OIT) provided training for the new analytical tools.

FCA's risk-based information security program continues to mature as it continuously identifies areas to strengthen and improve security. The OIT supplemented its staff with an information security contractor to assist with further development of its security program.

The OIG performs an annual evaluation of FCA's compliance with the Federal Information Security Modernization Act of 2014. Recently, the OIG conducted a benchmarking study of the OIT and its use of contractors. Our benchmarking study revealed OIT's office budget increased 20% from FY 2016 to 2018, and OIT's budget for other contractual services increased 48% from FY 2016 to 2018. 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 the operations of OIT to ensure that it is receiving value for its increased use of contractors and effectively utilizing its full-time staff.

CHALLENGE THREE: 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 must continue to invest in its employees and their development. FCA's success depends on its workforce. When the workforce changes, the disruption can affect the Agency. FCA continues to have a significant amount of retirement eligibilities. Agency staffing currently has a dearth of employees poised to step into the shoes of departing managers and supervisors. This presents a challenge for the Agency because of key personnel dependencies and a loss of institutional knowledge when these individuals retire.

With the loss of experienced managers and supervisors, the Agency faces a challenge in replacing key personnel. It is important for the Agency to have succession plans in place to pass down the knowledge and experience gained throughout employees' careers and to reduce dependencies. Workforce training and developing takes a significant investment of resources. Using tools, such as data analytics, can help the Agency identify training gaps. Succession management planning and career development can also be accomplished through job sharing, as well as detail and micro-assignment opportunities. Mentoring programs are also an effective way of preparing employees for management positions.

Increasing diversity also remains a human capital challenge for FCA. A diverse staff brings different perspectives to problem-solving, enhances the Government's duty to be an inclusive employer, and enriches the Agency's ability to effectively regulate. 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 includes goals and performance measures related to human capital. 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 2018, 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.

The OIG has completed various audits and inspections relating to human capital at FCA. This year, the OIG completed physical security inspections of FCA headquarters and field offices. Looking ahead, the OIG will continue to focus on the succession planning and training efforts of the Agency.

CHALLENGE FOUR: SECONDARY MARKET OVERSIGHT

A significant management challenge for FCA is to ensure that it effectively and impartially regulates the Federal Agricultural Mortgage Corporation (otherwise known as Farmer Mac) through the Office of Secondary Market Oversight (OSMO). Farmer Mac is a stockholder-owned, publicly-traded company that was chartered by the United States federal government in 1988 to serve as 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. Many of Farmer Mac's customers directly compete with other FCS institutions for a share in the agricultural lending market.

FCA, acting through the 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), OSMO was established with a degree of independence not shared by other FCA offices. For instance, unlike most other FCA office directors, 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 and independent staff (approximately 6 employees), 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 credit, trade, and interest rate challenges to farmers, ranchers, rural communities and their lenders.

Finally, OSMO is further challenged by Farmer Mac's complicated corporate governance structure and changes in leadership. The Farmer Mac board 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 implemented regulatory and other changes related to Farmer Mac. In 2018, OSMO revised its Risk Based Capital Stress Test for Farmer Mac to reflect changes to the corporate tax code. FCA also revised regulations that define the criteria a nonprogram investment must meet for Farmer Mac investment. These changes were made in addition to OSMO's supervision and safety and soundness reviews of Farmer Mac.

This year, 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, 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. 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.

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



October 29, 2018

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

Dear Ms. Laguarda:

Thank you for your statement on the management and performance challenges facing FCA. We are committed to financial efficiency and operational effectiveness at FCA, and we appreciate your role in this effort. The attached information contains our response to each of the challenges you identified in your statement.

The actions outlined in our response demonstrate our commitment to ensuring the safety and soundness of the Farm Credit System and improving the agency's performance. We look forward to working with you to address the challenges we face.

Sincerely,

A handwritten signature in black ink that reads 'Dallas P. Tonsager'. The signature is written in a cursive style with a horizontal line through the middle.

Dallas P. Tonsager
Board Chairman and CEO

Enclosure

Challenge 1: Examination and supervision program

FCA management agrees with the IG's assessment of this challenge and provides the following additional thoughts for consideration.

FCA assigns resources for examination and supervision according to the risks at each institution. In addition, we develop a national oversight plan for each new fiscal year. This plan identifies risk topics that affect institutions across the System. Our examiners focus on these topics during their examinations of System institutions in the coming fiscal year.

We issued our national oversight plan for FY 2019 as an informational memorandum to System institutions in October 2018. In the plan, we outlined the following risk topics:

- Portfolio risk — Navigating rough waters
- Internal controls — Three lines of defense (operational management, risk management, and internal audit)

Also, in March 2018, we issued an FCA booklet to provide guidance to System institutions on lending and loan servicing controls.

In FY 2019, we will further enhance our examination program for internal controls. We are currently working with a consulting firm to assess our examination guidance, training, and practices for evaluating the internal controls of System institutions. Internal controls was a key topic at our recent Office of Examination conference.

Also during FY 2019, we are developing and implementing new and improved analytical and examination tools to enhance our ability to perform systemic risk and data analysis. We will enhance our use of agency data sources and tools such as the new Data Mart, a centralized data warehouse for information provided by System institutions, and Power BI, a business analytics tool. We expect to roll out the Data Mart tool to staff in the first quarter of FY 2019.

Challenge 2: Information technology

FCA management agrees with the IG's assessment of this challenge and provides the following additional thoughts for consideration.

The agency's information resources management planning process supports timely and cost-effective IT services and identifies new application development needs. FCA will continue to improve and automate tasks to optimize business processes and gain efficiencies. By partnering with agency business units on IT initiatives from inception, our Office of Information Technology ensures that final products are effective in meeting the agency's mission.

The agency has initiated a business effort to identify ways to enhance the use and value of collected data, and the Office of Information Technology is working with the business units to improve data quality and implement business intelligence tools. We are using these tools to create reports to model and analyze

Farm Credit System loan data to better identify and address risks in the System. We have also begun using these tools for internal operational analysis.

In addition, we have developed new examination applications, including EDGe, the EDGe Loan Workpaper, and the FIRS application, to address examiner technology needs. We have also purchased IT resources to increase our use of videoconferencing so that we can reduce travel costs.

The agency continues to mature its security program and position FCA to better identify and address risks in our IT environment. We recently approved a dedicated privacy officer position to help us ensure that our technologies do not erode privacy protections.

We have also enhanced our technical security controls by improving our intrusion prevention, encryption, and mobile device management capabilities. We continue to invest in contract support to improve security and address new government-wide mandates. We are working to provide services in the cloud so that we can benefit from cloud security. And we will continue to work with the director of national intelligence and the Department of Homeland Security to enhance our network monitoring.

Through training and communication, we have created a corporate culture in which employees are aware that security is everyone's responsibility. For example, we conduct phishing exercises to help employees recognize possible cyberattacks. Since we began these exercises, the number of employees reporting potential phishing emails has improved. In addition to these exercises, annual training related to IT security and periodic articles in the employee newsletter remind staff of the need to be cautious. Increasing the vigilance of our employees strengthens our security.

Challenge 3: Human capital

FCA management agrees with the IG's assessment of this challenge and provides the following additional thoughts for consideration.

Because a large percentage of the agency's workforce will be eligible to retire in the next few years, we will need to attract and retain well-qualified staff. To fill the gaps created by retirements, we are hiring additional employees, including veterans and persons with disabilities. To help us retain our current employees, we are providing leadership development opportunities to current staff. We are also hiring contract support where necessary. This multi-pronged approach has helped us fill key positions, and it has given us the opportunity to increase the diversity of our workforce.

For early career talent, the agency continues to participate in recruiting and outreach events that attract a wide cross-section of candidates. By sending our recruiters to career fairs at universities with high minority enrollment and active internship programs, we have been able to attract a diverse pool of early career talent.

In FY 2017, we identified certain succession planning needs when we prepared our reform plan submission to the Office of Management and Budget. In particular, we identified a significant skill gap emerging in the field of data analytics. As a result, in FY 2018, we undertook the challenge of hiring experienced talent for certain specialist roles. Several FCA offices (IT, Examination, and Regulatory Policy) hired individuals to meet specific succession planning needs.

Our training activities in FY 2018 focused on two areas. The first was building the capacity of our first-line supervisors to be more effective and engaged leaders. The second was to deliver training that reinforced employee engagement. At the agency level, we piloted a supervisor orientation program and a "Meet the Leaders" new hire orientation. At the office-level, office directors partnered with the Learning and Organizational Change Team to create and deliver customized training to address leadership skill gaps and employee engagement issues that had been identified in the 2017 Federal Employee Viewpoint Survey, the agency reform plan, and related documents.

We continue to work to improve career paths and growth opportunities for employees. For example, our employees can participate in rotational assignments (both within the agency and throughout the federal government), attend external training and learning events, and serve on cross-functional teams. We have also increased our focus on developing and retaining more tenured examiners by updating our FCA examiner career development directive.

Challenge 4: Secondary market oversight

FCA management agrees with the IG that providing effective and impartial oversight of the Federal Agricultural Mortgage Corporation (Farmer Mac) is a challenge.

Effectiveness and impartiality are among the highest priorities of FCA's Office of Secondary Market Oversight. At the same time, OSMO seeks to balance these two objectives with budgetary efficiency. As the IG points out, office directives and procedures directly address these challenges. Directives cover examination activity planning, enforcement procedures, FCA's annual assessment fees for regulating Farmer Mac, and ethics related to potential conflicts of interest involved in the oversight of Farmer Mac. New procedures have been adopted requiring all members of the annual examination team to certify that they have no conflicts of interest.

The size of OSMO's staff continues to grow at a pace proportionate to the growth in Farmer Mac's business market share, its customer base, and the complexity of its financial products. In addition to OSMO's current six FTEs, it now has three part-time examiners on rotational assignment from OE and ORP. OSMO's current budget includes a plan to supplement staffing by half an FTE in FY 2019 and by one FTE in FY 2020.

To strengthen the independence of OSMO's oversight of Farmer Mac, OSMO will develop Farmer Mac-specific informational memorandums and bookletters, two of which are planned for issuance in FY 2019. OSMO will strengthen its ability to conduct impartial and effective oversight by continuing to use consultants for specialized oversight of highly technical areas, including economic capital modeling, interest rate risk modeling, and allowance modeling.

In addition, OSMO continues to strengthen its ability to collect and analyze data. The OSMO data system now includes a comprehensive database of the Farm & Ranch loan portfolio, as well as core accounting reporting and other key financial metrics. Also, OSMO continues to build skills in business intelligence software for the purpose of improving the visual presentation of its financial analysis.

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

Reinstatement: 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
No 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
No material weaknesses	0	0	0	0	0	0

Conformance with FMFIA section 4

Statement of assurance: Federal systems conform

Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total nonconformance	0	0	0	0	0	0

Compliance with FFMIA section 803(a)

Compliance Requirements	Agency	Auditor
1. Federal financial management system requirements	No lack of compliance noted	No lack of compliance noted
2. Applicable federal accounting standards	No lack of compliance noted	No lack of compliance noted
3. U.S. Standard General Ledger at transaction level	No lack of compliance noted	No lack of compliance noted

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. For FY 2018, 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 percent 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.paymentaccuracy.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 have a significant risk of improper payments. We performed 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 signif-

icant improper payments. The next assessment will be for the period ended 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 percent 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. Plus, we perform routine operational reviews and oversight to help identify improper payments.

For FY 2018, we identified five improper payments amounting to \$674, or 0.001 percent of total outlays for the year. In all instances, the amounts were fully recovered.

Agency improvement of payment accuracy with the Do Not Pay Initiative

Treasury's Do Not Pay Working System is the legislatively mandated and OMB-designated source of centralized data and analytic services to help agencies verify eligibility and to 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 these 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. According to GAO’s Green Book, the objective of fraud risk management is to proactively facilitate a program’s mission by continuously and strategically mitigating the likelihood and impact of 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 risk.

We maintain effective processes and systems to detect and prevent potential fraud. This includes a leadership culture that fosters integrity, ongoing training to help employees identify and report potential fraud, an independent inspector general to conduct investigations, a strong system of internal controls, appropriate segregation of duties, routine risk assessments, quality assurance reviews, and quality control programs. We place the highest value on our people and expect them to act with a high degree of integrity.

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.

GRANTS OVERSIGHT AND NEW EFFICIENCY ACT

The Grants Oversight and New Efficiency Act requires agencies to report on federal grant awards and the status of these awards. We do not award any grants or have any grant-related activity. Therefore, the reporting requirements under this act do not apply to FCA.

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	2018	\$2,269		83 FR 1293
Section 5.32(a) of the Farm Credit Act of 1971, as amended	Violation of the act or regulation	1985	2018	\$1,026		83 FR 1293
Section 102(f) of the Flood Disaster Protection Act of 1973	Pattern or practice of committing violations of the National Flood Insurance Program	1994	2018	\$2,133		83 FR 1293

ADDITIONAL INFORMATION

The Farm Credit Administration Performance and Accountability Report Fiscal Year 2018 is available on FCA's website at www.fca.gov. 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
E-mail: 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 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 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.

Copies are available from
Office of Congressional and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
703-883-4056
www.fca.gov
1118/100