Farm Credit Administration

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

Performance and Accountability Report Fiscal Year 2004

Contents

Statement of the Chairman and CEO

November 2004

As the Chairman and Chief Executive Officer of the Farm Credit Administration (FCA or Agency) and on behalf of the Board of Directors and the staff of FCA, I invite you to review this report on the Agency's accomplishments and program and financial performance during fiscal year 2004. Through the publication of this Performance and Accountability Report, we share with you our efforts to fulfill our mission, to meet the day to day challenges that we face as an operating entity, and to remain steadfast in our goal to manage change by planning for the future.

Among the performance highlights provided in this year's report is the Agency's establishment of its Fiscal Years 2004–2009 Strategic Plan. The Strategic Plan slightly amended Performance Goals 1 and 2, which focus on the "public mission" and "safety and soundness" of the Farm Credit System, including Farmer Mac. As shown in this report, FCA met or exceeded most of the performance goals and measures established for fiscal year 2004. In addition to our programmatic results, FCA is also accountable for financial results. I am pleased to report that our fiscal year 2004 financial statements have received an unqualified ("clean") opinion from the Agency's independent auditor. Our financial statements present fairly the financial results of the Agency and demonstrate our commitment to sound financial management.

As the Chief Executive Officer, one of my goals is to administer the programs of the Agency as efficiently and effectively as possible. As such, I rely on the Agency's systems of management controls to adhere to sound financial management practices, to comply with Federal law, and to protect the Agency's assets. I am happy to report that based on internal management evaluations, and in conjunction with the results of independent financial statement audits, the Agency can provide reasonable assurance that the objectives of Section 2 (internal controls) of the Federal Managers' Financial Integrity Act (FMFIA) have been achieved. The Agency can also provide reasonable assurance that the objectives of Section 4 (financial management systems) of FMFIA have been achieved as the Agency's financial systems conform to government-wide standards.

As we bring to close another successful year for the FCA, I am proud to report that we were able to accomplish our mission to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. Thanks to the highly experienced, hard working, and dedicated FCA staff, we made and will continue to make a positive difference. As reflected in our work, we are committed to doing what is best for agriculture, rural America, and the American people whom we serve.

Nancy C. Pellett

Nancy C. Pellett
Chairman and CEO
Farm Credit Administration

Part I
Management's Discussion and Analysis

Organization and Mission

The Farm Credit Administration (FCA or Agency) is an independent agency within the executive branch of the U.S. Government responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac). The FCS is a nationwide network of borrower-owned financial institutions that provide credit to farmers, ranchers, and agricultural and rural utility cooperatives.

Originally created by a 1933 Executive order of President Franklin D. Roosevelt, today's FCA derives its powers and authorities from the Farm Credit Act of 1971, as amended (Farm Credit Act or Act). The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee the FCA and the FCS.

The FCA Mission

The Farm Credit Administration will promote a safe and sound, competitive Farm Credit System to finance agriculture and rural America as authorized by Congress.

The FCA is responsible for ensuring a dependable source of credit for agriculture and rural America. We do this in two specific ways. First, we conduct on-site examinations of Farm Credit System institutions to monitor and oversee the safety and soundness of their ongoing activities. These examinations also focus on whether System institutions are meeting their public mandate to serve all eligible borrowers. Second, we approve corporate charter changes and research, develop, and adopt rules, regulations, and other guidelines that govern how System institutions conduct their business and interact with their customers.

If a System institution violates a law or regulation, or its operations are unsafe or unsound, FCA may use its enforcement authority to ensure that the problem is corrected. FCA also protects the rights of borrowers, issues and changes the charters of FCS institutions, reports to Congress on the financial condition and performance of the FCS, and approves the issuance of System debt obligations.

The Agency maintains its headquarters and a field office in McLean, Virginia. There are also field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

FCA policy and its regulatory agenda 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. They serve six-year terms and may not be reappointed after serving full terms or more than three years of previous members' terms. The President designates one member as Chairman of the Board, who serves until the end of his own term. The Chairman also serves as FCA's Chief Executive Officer (CEO).

The FCA does not receive a Federal appropriation. We are funded through assessments paid by System institutions.

FCA Offices

The 287 full- and part-time employees of the Farm Credit Administration work together to ensure that the Farm Credit System remains a dependable source of credit for agriculture and rural America. The following paragraphs explain the functions of each of the Agency's offices.

The FCA Board approves the policies, regulations, charters, and enforcement activities that ensure a strong Farm Credit System. The Board also provides for the examination and supervision of the FCS, including the Farmer Mac, and oversees the FCS Building Association's (FCSBA) activities.

The Secretary to the Board ensures that the FCA Board complies with statutory, regulatory, and internal operation procedures requirements and is the Parliamentarian to the FCA and Farm Credit System Insurance Corporation (FCSIC) Boards. Other functional responsibilities include Federal Register authorizing, certifying, and liaison officer duties; creation and maintenance of the Agency's public rule making files; issuance and maintenance of the FCA Handbook; direct data entry and Agency submission of the Unified Agenda of Federal Regulatory and Deregulatory Actions.

The Chief Executive Officer is responsible for directing the implementation of policies and regulations adopted by the FCA Board and is responsible for planning, organizing, directing, coordinating, and controlling Agency operations.

The Office of Congressional and Legislative Affairs directs all Agency congressional relations activities, informs and advises the FCA Board and senior management of developments and issues affecting the Agency or the System, drafts testimony, and coordinates all Agency communication with Congress. The office conducts briefings and provides information and educational materials to Members of Congress and their staffs and monitors and analyzes information obtained from multiple sources.

The Office of Communications and Public Affairs manages the production of all Agency information disseminated to the Agency's various stakeholders, including FCS institutions and borrowers, Congress, the media, other federal agencies, employees, and the public. It provides information to external audiences through news releases, information brochures and fact sheets, the annual FCA Performance and Accountability Report, and other publications. The office manages media relations regarding Agency activities and the content of FCA's Web site and provides graphic design and duplicating services to the Agency. The office also coordinates special meetings, briefings for international visitors, field hearings, and other special events.

The Office of Examination supervises FCS institutions through examination, comprehensive oversight programs, and regulatory standards that are designed to ensure safe and sound operations. This allows the System to accomplish its Congressional mandate as a Government-sponsored enterprise (GSE) for agriculture and rural America. The Office ensures that FCS institutions comply with applicable laws and regulations, directs a program of examination policy formulation, and manages the Agency's enforcement activities.

The Office of the General Counsel provides the FCA Board and staff with legal counsel, as well as guidance on general corporate, personnel, ethics, and administrative matters. The office supports the Agency's development and promulgation of regulations, civil litigation, enforcement of applicable laws and regulations, and implementation of conservatorships and receiverships. The office also handles Freedom of Information Act requests and matters pertaining to the Privacy Act.

The Office of the 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 of Policy and Analysis manages all regulation and policy development activities that ensure the safety and soundness of the FCS and supports the System's mission as a dependable source of credit and related services for agriculture and rural America. The office monitors economic trends and emerging risk factors that affect the System and its customers and collects and analyzes data from FCS institutions. The office also manages the chartering and other corporate approvals for System institutions, as well as other statutory, regulatory, and funding approval activities on behalf of the FCA Board.

The Office of the Chief Administrative Officer oversees and administers the Agency's Human Capital Program. It also provides administrative services that include payroll, training, contracting, procurement, mail, supply, transportation services, and property management.

The Office of the Chief Information Officer oversees all activities related to planning, managing, and administering FCA's information technology (IT). The office ensures adequate security and integrity of Agency IT. It provides office automation software; database administration; systems development; customer assistance; and network, videoconferencing, Web, and e-business services. The office also provides records management advice and services as well as library services.

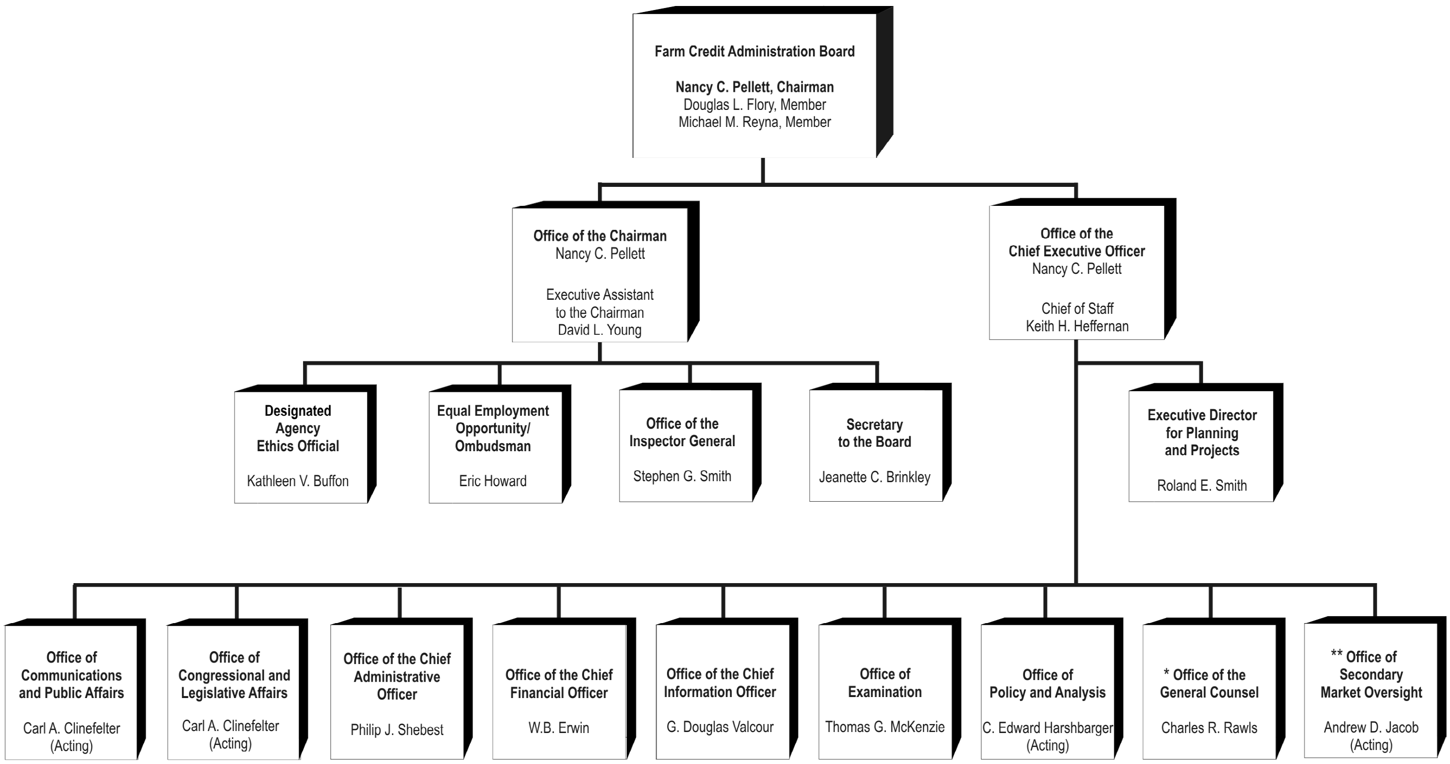
The Office of the Chief Financial Officer provides financial services to the Agency, including preparation of the budget, financial reporting, and financial systems operations.

The Office of Secondary Market Oversight provides for the examination, regulation, and supervision of the Federal Agricultural Mortgage Corporation's activities to ensure the Corporation's safety and soundness and accomplishment of its public policy purpose as authorized by Congress. It also ensures that the Federal Agricultural Mortgage Corporation complies with applicable laws and regulations, as well as manages the Agency's enforcement activities with respect to the Federal Agricultural Mortgage Corporation.

Figure 1

Farm Credit Administration Organizational Structure

As of September 30, 2004



*Maintains a confidential advisory relationship with each of the Board members.

** Reports to the Board for policy and to the CEO for administration.

Highlights of FCA's Performance Goals and Results

The principal foundation on which the Farm Credit Adminsitration (FCA or Agency) established its Fiscal Years (FY) 2004–2009 Strategic Plan and its 2004 Annual Performance Plan is embedded in the objectives on which Congress established the Farm Credit System (FCS or System). As stated in the Farm Credit Act of 1971, as amended, the overall objective of the FCS is to further provide for the farmer-owned cooperative system of making credit available to farmers and ranchers and their cooperatives, for rural residences, and to associations and other entities upon which farming operations are dependent, and to provide for an adequate and flexible flow of money into rural areas. Further, it is the stated intent of Congress that the farmer-owned cooperative FCS be designed to accomplish the objective of improving the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm-related businesses necessary for efficient farm operations.

Through the establishment of goals, performance measures, and targeted results in the planning process, the Agency channeled its limited resources toward serving the public good. As a result, much was accomplished in FY 2004 that reflects favorably on the overall results achieved by the FCA in regulating the FCS to ensure it carries out its public mission in a safe and sound manner, providing a dependable source of constructive credit to farmers and ranchers and their cooperatives and to rural America. Measuring the results achieved by the Agency was complicated in some respects because the FCA adopted a new strategic plan in December 2003 to cover FY 2004 through FY 2009. The new plan modified FCA's goals and changed targeted results that measure its overall performance. With respect to the targets for the six-month reporting period, explained below, the FCA achieved its objectives in meeting the targets that were measurable for the period ended June 30, 2004.

In developing the FY 2004–2009 Strategic Plan, FCA conducted an assessment of the internal and external environments affecting the Agency and the FCS. As a result of the assessment, Goals 1 and 2 were amended while retaining their focus on the "public mission" and "safety and soundness" of the System. Also, the Federal Agricultural Mortgage Corporation (Farmer Mac), which is a part of the System, was more comprehensively addressed than in prior strategic plans. The assessment also resulted in the FCA's adopting Goal 3 to implement the President's Management Agenda. The FY 2004 goals stated in their entirety are as follows:

1. Ensure that the Farm Credit System and Farmer Mac fulfill their public missions for agriculture and rural areas.
2. Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the Farm Credit System and Farmer Mac.
3. Implement the President's Management Agenda (PMA).

Each goal is accompanied by a "Desired Outcome" as well as in-depth descriptions of the "Means and Strategies" that FCA will use to accomplish the goals and achieve the desired outcome and result. Also, each goal contains performance measures and associated "targets" that are used to determine the "results" achieved. With the adoption of the FY 2004–2009 Strategic Plan, numerous FY 2004 performance measures are either new, amended, or discontinued, and their targeted effectiveness was measured starting on January 1, 2004. Also, we adjusted our cutoff date for measuring performance to June 30, 2004, in order to meet the new Office of Management and Budget (OMB) reporting requirements due date of November 15, 2004. Therefore, FY 2004 was a "transition year" for measuring the FCA's performance. As a result, several targets were not measurable, were discontinued, or were replaced. The following provides a summary analysis of FCA's performance serving the public good.

Goal 1 Highlights—Public Mission: Ensure that the Farm Credit System and Farmer Mac fulfill their public missions for agriculture and rural areas.

Six performance measures are applicable to Goal 1. Two of those measures, discussed in the next paragraph, require calendar year evaluations and will be evaluated and reported on in the 2005 report. For the four remaining measures, we achieved or exceeded our targets. Three measures that were achieved pertained to ensuring FCS institutions (1) maintain effective strategic plans, (2) comply with borrower rights requirements, and (3) maintain effective young, beginning, and small farmer programs. The fourth measure that was exceeded pertained to using supplemental approaches to gather a broad range of public input on regulatory initiatives.

Two measures that require calendar year evaluations pertained to the amount of Farmer Mac's program assets in relation to the total eligible mortgage market and the System's participation in Federal and state guarantee programs. These areas were not measurable during the six-month period this report covers. However, we are developing the necessary processes to report on these measures, and we anticipate being able to measure that performance in 2005 when the information is available.

Goal 2 Highlights—Safety and Soundness: Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the Farm Credit System and Farmer Mac.

Seven measures exist for Goal 2. The target pertaining to all FCS institutions having a composite Financial Institutions Rating System (FIRS) rating of "1" or "2" was exceeded. Other safety and soundness targets were achieved. For example, neither Farmer Mac nor any FCS institution was placed in receivership, all direct-lender institutions maintained adversely classified assets at levels within their risk-bearing capacity, and Farmer Mac and FCS institutions complied with all capital adequacy regulations. Also, the target that measures institution compliance with laws and regulations was accomplished. One institution was cited in the examination process for not resolving a compliance matter to our satisfaction initially, but that institution committed to fixing the problem to our satisfaction. Therefore, we believe the target for 100 percent compliance was substantially achieved.

Another target that all FCS institutions maintain effective audit and review programs was also substantially achieved. One target that was difficult to measure pertained to the percentage of FCS institutions with FIRS ratings of "3," "4," or "5" having satisfactory corrective action plans. Since all FCS institutions had been supervised to the extent that all had FIRS ratings of "1" or "2," we believe the substance of the measurement was fully achieved because the institutions' action plans precluded deterioration to the less favorable FIRS ratings. Finally, there were six measures that were discontinued when the new Strategic Plan was implemented. Overall, those measures duplicated other safety and soundness targets and thus were eliminated.

Goal 3 Highlights—President's Management Agenda: Implement the President's Management Agenda.

For Goal 3, which is new for FY 2004, 15 performance measures were developed and targets established. Our targets were exceeded in performance measures pertaining to (1) newly developed training courses available electronically, (2) percentage of the agency staff with remote broadband connectivity, (3) percentage of FCA Web pages and electronic devices that were Section 508 compliant, and (4) percentage of time that FCA's network and Web components were available. Targets were achieved in performance measures pertaining to human capital needs supporting FCA's mission and the PMA-enhancing the pool of qualified applicants for entry-level positions, establishing career paths for high-potential candidates and the annual inventory of FCA's commercial activities for evaluation of outsourcing alternatives. Targets also were achieved in the performance measures pertaining to vacancy announcements with multiple grade levels and filling nonentry level positions from within. In regard to multiple grade level announcements, we issued six vacancy announcements for the rating period of which four included multiple grade levels. The remaining two announcements were excepted by the Chief Executive Officer as provided for in the Agency's Affirmative Employment Program. Therefore, we believe that we achieved this target within the purview of operational and statutory authority.

The final target that we achieved measured FCA's performance in providing financial reports to agency managers within the specified time period, which was achieved. With respect to other measures for Goal 3, several were not measurable because of timing issues related to the six-month period evaluated, which required measurement at year-end instead of at June 30, 2004, the cutoff date for this report. These measures included (1) assessment of FCA's structure, (2) staff adherence to individual development plans, (3) external auditor opinion of FCA's annual financial statements, and (4) the number of material internal control weaknesses reported by FCA's external auditors. Regarding the first performance measure, we anticipate FCA's structure will be assessed in early 2005. Regarding the final three performance measures, we anticipate that the results will be available in the fall of 2004 and will be reported in the FY 2005 report.

Management Challenges

With the changing nature of agriculture, producers adapt their operations to keep pace with technology, production methods, and national and global agricultural economic policies. As an agricultural lender and the Government-sponsored enterprise (GSE) chartered by Congress to provide a reliable and competitive source of credit to agricultural producers and rural America, the Farm Credit System (FCS or System) must also continually adapt to the changing agricultural environment. As the Federal regulator for the FCS, the Farm Credit Administration (FCA or Agency) ensures that FCS institutions operate safely and soundly and in compliance with all applicable laws and regulations. Just as producers and lenders must adapt to change, the Agency must also both anticipate and react to change in order to provide the System a regulatory environment within which it can fulfill its Congressional mandate to provide dependable and constructive credit and related services to agriculture and rural America.

The following four areas represent challenges facing the Agency in continuing to carry out its own Congressional mandate, that is, to be an effective regulator for the FCS.

The Farm Credit Act of 1971, as Amended

Since 1971, the rural U.S. population and the rural economy have declined. The need for better levels of health care, educational opportunities, and off-farm business opportunities, for example, have influenced the migration to metropolitan areas and regional economic hubs and the general decline in the infrastructure of rural America. Current FCS statutory authorities were formulated when farming was more self-sufficient, rural economies were more robust, and credit markets were less complex. The authorities that were relevant in the late 1960s and early 1970s are not as effective in today's agricultural economy and rural America. The absence of modernization of System lending authorities may impair the FCS's continued ability to contribute to the growth of agriculture and the revitalization of rural America.

GSE Status of Farm Credit System

During recent years, revelations regarding possible accounting and governance failures by the housing GSEs have heightened public attention on the public policy role of GSEs, the advantages of GSE status in the marketplace, the adequacy of regulatory oversight of GSEs, and the explicit and implicit Federal financial underpinning of GSEs. This debate, while largely focused on the housing GSEs, may influence public comments regarding proposed System governance regulations, the Farm Credit System's GSE status, and any changes to the Farm Credit Act of 1971, as amended, whether the changes are in the form of additional amendments to or a wholesale redrafting of the System's enabling legislation.

The recent announced intention to terminate FCS status by a large System association has also sparked wide debate, intensive media coverage, and a congressional hearing. Whether just the association's announced intent to terminate or its ultimate termination will have an effect on the System's GSE status remains in question.

Farmer Mac

The Federal Agricultural Mortgage Corporation (Farmer Mac) is a publicly traded GSE mandated by Congress to establish and maintain a secondary market for agricultural mortgage loans. The Agency's supervision of Farmer Mac focuses on its safety and soundness and mission achievement. In recent years, Farmer Mac has received increased attention from investors, the media, Congress, and FCA with respect to evaluating its safety and soundness and the pace and direction of its development of a viable secondary market for agricultural mortgage loans. Like the housing GSEs, Farmer Mac is publicly traded. The Agency's increased attention on Farmer Mac is closely monitored by investors. Often, communication and interaction between Farmer Mac and the Agency causes significant reaction in the debt and equity markets. Therefore, as the Agency carries out its examination and regulatory activities with respect to Farmer Mac, FCA must strive to maintain accurate and clear communication on Farmer Mac to the institution, Congress, and investors in Farmer Mac securities and stock. Such communication must balance the goal of transparency with objectivity and the confidentiality of Farmer Mac's proprietary information.

Human Capital

The FCA's human capital strategies are linked to its mission, goals, and objectives. In achieving these, it is critical that FCA maintains a highly competent work force in the face of attrition and other pressures. Since FCA has less than 300 full-time employees, the Agency is involved in strategic work force planning on an ongoing basis. With the retirement of senior level staff, the average tenure of FCA employees will decrease, making it essential for FCA to face the challenges of securing the stability and skill level of its work force by effective succession planning and cross training. FCA has identified two primary methods for strategic work force planning: an ongoing Work Force Analysis and a Five-Year Human Resource Plan. The Work Force Analysis project examines the age ranges of employees, their grade levels, their diversity, their retirement and separations over the past five years, as well as employees eligible for retirement and a projection of anticipated retirements and separations over the next five years. The Five-Year Human Resources Plan will help ensure the FCA to align its work force to accomplish strategic goals and objectives, to remain focused on mission and customer needs, to maintain continuity of leadership and employee skills and competencies, and to encourage a results-oriented work place. Work on these projects began during the last quarter of 2004 and will continue during 2005 and beyond. Analyzing FCA work force trends and future needs will help us to identify our human capital challenges and to invest properly in staff development.

Analyses and Highlights of FCA's Financial Statements

Financial Highlights

Financial Operation of the FCA

The Farm Credit Administration (FCA or Agency) operates under the authority of the Farm Credit Act of 1971, as amended. FCA maintains a revolving fund in which moneys are obtained primarily from assessments received from the Farm Credit System (FCS or System) institutions, including the Federal Agriculture Mortgage Corporation (Farmer Mac) and service corporations. Moneys are also received for reimbursable services provided to other government agencies. FCS institutions, including Farmer Mac, are assessed and charged directly or billed in accordance with a formula established by FCA regulations. Assessments and other income earned in excess of obligations are either refunded or considered in determining the amount to assess System institutions in the subsequent fiscal year. Congress usually imposes a limitation on the amount of obligations that may be incurred in a given fiscal year from assessments collected from FCS and from Farmer Mac.

FCA's Assets, Liabilities, and Net Position

As reflected on the balance sheet and in Tables 1, 2, and 3, FCA's total assets, liabilities, and net position decreased in FY 2004. Total assets decreased by $1,289,764; liabilities decreased by $957,374; and net position decreased by $332,390. These amounts represent decreases in the amounts reported in FY 2003 of 5.7%, 11.4%, and 2.4%, respectively. Additional information about each of the reported decreases is available in the appropriate subsections following.

As in years past, FCA's proportion of current assets to current liabilities is more than a 2:1 ratio, which indicates that FCA's current assets are more than sufficient to cover current liabilities. Also, as in years past, investments represent the highest percentage of FCA's assets. However, in FY 2004, the investment percentage decreased from 92.0% to 85.0%. At fiscal year end, of the $18,007,000 in investments at par value, $9,007,000 represent investments in long-term nonmarketable, market-based securities. The remaining balance of $9,000,000 comprises one-day investments in which interest is earned overnight. In FY 2003, the par value of the long-term investments was $10,984,000, and the overnight investment amount was $9,400,000. Decisions regarding the investment of funds are based on market conditions and the amount of immediate cash needed to cover current liabilities and obligations.

Additional information about FCA's financial condition for fiscal years 2004 and 2003 is included in the following subsections. Fiscal year data summaries of the various asset, liability, and net position accounts are also provided for comparative purposes.

Composition of Assets

As depicted in Table 1, on page 13, although the total amount of assets decreased by 5.7% in FY 2004, FCA's cash balance and capitalized property items increased approximately 122.9% and 138.4%, respectively. In compliance with good cash management practices, FCA would have preferred that the Fund Balance with Treasury remained equal to or less than the amount reported in FY

Table 1 Composition of Assets

Fiscal Year	Fund Balance With Treasury	Investments	Accounts Receivable and Prepayments	Property and Equipment	Total
2004	$1,065,048	18,073,634	902,751	1,227,115	$21,268,548
2003	$ 477,787	20,744,440	821,380	514,705	$22,558,312

2003. However, funds in the amount of $760,364 were received on September 30, 2004, after the investment cutoff period. The net increase in the property and equipment accounts is from bulk purchases of information technology equipment and software that FCA employees use in their daily work.

The largest decrease in assets from FY 2003 to FY 2004 was in the investments account, which decreased by $2,670,806. This represents a decrease of 12.9%. The decrease can be attributed to FCA's use of prior year moneys to fund the assessment carryover in the FY 2004 budget and to make refunds to the FCS institutions. Although there was an increase in the accounts receivable and prepayment accounts, the amount of the increase was not significant.

Composition of Liabilities

As depicted in Table 2, below, the total liabilities for FY 2004 decreased from the amount reported in FY 2003 by 11.4%, although there were increases in accrued payroll and benefits and employer contributions and taxes payable of 8.3% and 31.8%, respectively. The increases in accrued salaries and benefits and the related employer contributions are due to the increase in the number of FCA employees and the pay adjustments given during FY 2004 to employees who received a fully successful or higher performance rating. The decreases in the other liability components vary significantly. The accounts payable liability decreased from $751,653 to $307,372. This represents a decrease in the amount reported for FY 2003 of 59.1%. To meet the accelerated

Table 2 Composition of Liabilities

Fiscal Year	Accounts Payable	Accrued Payroll and Benefits	Employer Contributions and Taxes Payable	Workers' Compensation (Funded and Unfunded)	Deferred Revenue and Advances	Total
2004	$307,372	3,812,861	208,515	1,403,115	1,743,270	$7,475,133
2003	$751,653	3,520,323	158,214	1,868,227	2,134,090	$8,432,507

due date of November 15, 2004, for the Annual Performance and Accountability Report, FCA focused on the early processing of documents. FCA employees were encouraged to submit all claims by the established due dates. Employees were successful in meeting these dates, thereby eliminating the need for the establishment of accruals. The amount of the decrease in the actuarial liability for worker's compensation and the liability for Federal Employees Compensation Act charges (classified as workers' compensation) is $465,112, which represents a decrease of 24.9%. The major portion of the decrease was in the amount of the actuarial liability, which was computed using a model provided by the Department of Labor (DOL). The decrease in the actuarial liability amount may be attributed to the decrease in the number of employees considered in the formula over the reporting periods and the slight changes in the model provided by the DOL. The total liability decrease for deferred revenue and advances was $390,820 or 18.3%. This liability component includes moneys received from Federal and public sources for which services have not yet been provided. During FY 2004, FCA received $1,695,438 in assessments from financial institutions within the FCS that are not yet due. The amount of moneys received represents a decrease of 7.8% from the amount that was received in FY 2003 for FY 2004 services. The amount of the advance balance for reimbursable services provided to other government agencies is $3,363. This is a decrease in the balance from FY 2003 of 98.9%. Instead of obtaining an advance of funds from other government agencies, FCA will bill and collect moneys due as services are provided.

Composition of Net Position

As shown in Table 3, below, the significant changes in the net position from FY 2003 to FY 2004 are the $1,158,788 and $1,019,219 decreases in the net cost of operations and imputed cost, respectively. These amounts decreased 22.8% and 21.8%, respectively. In FY 2004, although the Agency's total cost increased by $1,422,602 or 3.4%, revenue from assessments to the FCS institutions, including Farmer Mac, earned reimbursable income,

Table 3 Composition of Net Position

Fiscal Year	Beginning Balance*	Imputed Costs	Net Cost of Operations	Ending Balance
2004	$14,070,303	3,658,717	(3,935,605)	$13,793,415
2003	$14,542,262	4,677,936	(5,094,393)	$14,125,805

*As Adjusted

and interest from the investment of cash increased by $2,581,390 or 7.1%. The increase in total revenue over total cost accounts for the improvement reflected in the net cost reported for FY 2004. The decrease in imputed cost of 21.8% can be attributed to the decrease in the rental cost paid by the FCS Building Association for FCA. Additional information related to FCA's revenue and cost can be found in the subsection on the Performance and Financial Results located on page 16.

FCA's Funding and Fund Sources

As previously stated, FCA maintains a revolving fund in which moneys are obtained primarily from assessments to System institutions, including Farmer Mac and service corporations. In addition, FCA provides reimbursable services to other government agencies and earns interest from investments with the Department of the Treasury. Table 4, below, depicts the funding that was available and/or collected by FCA for fiscal years 2004 and 2003.

As reflected in Table 4, there was an increase in the total available funding for FY 2004, as compared to FY 2003, of $2,729,362 or 6.8%. The increase in current year assessments of $1,700,000 and the $800,000 increase in the amount of the assessment carryover from prior years represent 91.6% of the increase. The remaining increase is from funds received from reimbursable activity.

During FY 2004, total obligations as reported on the Statement of Budgetary Resources equaled $39,702,551, compared to total obligations for FY 2003 of $38,441,500. This represents a net increase in obligations from FY 2003 to FY 2004 for all budget fiscal years of $1,261,051. The major expenditures affecting the difference in the amount of the obligations for budget fiscal years 2004 and 2003 are the payroll and benefit charges and equipment purchases. As reflected in Table 5, on page 16, payroll and benefit charges increased by $2,200,968 for budget fiscal year 2004, and the property and equipment obligations decreased by $1,110,188.

Table 4 Available Funding

Funding and Funding Sources	2004	2003
Assessments (Current Year)	$38,400,000	$36,700,000
Assessments (Carry-Over from Prior Years)	2,500,000	1,700,000
Reimbursable Activity	1,478,536	1,241,940
Interest from Investments	446,656	453,890
Total	$42,825,192	$40,095,830

The remaining net difference of $3,845 can be attributed to the decrease in obligations related to prior budget fiscal years.

In FY 2004, FCA used approximately 92.9% of the funds available as compared to approximately 96.5% that was used in FY 2003. For both years, the largest percentage of funds used was for personnel compensation and benefits. See Table 5 for additional comparisons of obligations by budget category.

Performance and Financial Results

The following is a description of FCA's financial condition and results of operations for the fiscal years ended September 30, 2004, and September 30, 2003, as it relates to the Agency's performance goals and objectives. This information should be read in conjunction with the financial statements, notes to the financial statements, and other sections of the Performance and Accountability Report.

FCA continues to perform its mission to ensure the safety and soundness of the FCS institutions, including Farmer Mac, and to provide reimbursable services to other government agencies and nongovernmental entities. FCA has carried out initiatives to improve operational efficiency through increased automation and maintenance of a trained and diverse staff.

The business growth and improvement of FCS institutions and the Agency's accomplishment of most of its performance goals and objectives confirm the quality of FCA's products, services, and operations. Costs have been maintained through sound business planning and efficient use of resources. The annual assessment of FCS institutions, which is the primary source of funding for FCA, increased $1,700,000 or 4.6% in 2004, after remaining virtually the same for the previous three years. In addition, FCA refunded $2,050,999 and $2,500,007 of unused carryover from prior year assessments to FCS institutions in 2004 and 2003, respectively.

Table 5 Funds Used by Major Budget Category

Budget Category	FY 2004	Percent of Total	FY 2003*	Percent of Total
Personnel Compensation and Benefits	$33,759,491	84.9%	$31,558,523	81.6%
Travel and Transportation of Persons	1,900,807	4.8%	1,818,693	4.7%
Contractual Services	2,500,930	6.3%	2,661,433	6.9%
Property and Equipment	415,475	1.0%	1,525,663	3.9%
Other	1,204,108	3.0%	1,129,564	2.9%
Total	$39,780,811	100%	$38,693,876	100.0%

*Restated to Reflect all Funds

The total cost of FCA's programs was $42,817,049 for 2004. This amount represents a $1,422,602 or 3.4% increase from FY 2003. Employee salaries and benefits represent the Agency's most significant cost. These costs rose in 2004 due to increases in the number of staff and pay adjustments for employees receiving a Fully Successful or higher performance rating. The increase in employee compensation is partially offset by decreases in the Agency's imputed cost for building facilities provided by the FCS Building Association.

A challenge for continuing the Agency's performance will be the ability to maintain a high-qualified and seasoned staff to meet the future demand for examination, policy and regulation, and operations. The FCA expects staff attrition to increase over the next five years with almost 32% of its staff eligible to retire. In 2004, FCA began recruiting employees after several years of downsizing. The FCA budget and operating plans show that the Agency addressed staff resource needs mainly through its college intern programs, with the exception of some essential professional positions in which the Agency recruited skilled and seasoned staff. In addition, the Agency performs employee compensation studies to conform to the Financial Institution Reform, Recovery, and Enforcement Act of 1989 to stay comparable with salaries of other Federal financial institution regulators. Management believes its plans for employee recruitment and compensation should ensure that the Agency keeps an adequate staff to maintain the performance of its mission to provide FCS effective regulation and oversight.

Earned revenues increased in 2004. For 2004, earned revenues, adjusted for refunds, totaled $38,881,444, up $2,581,389 from the previous year. FCA earned $40,932,444 in revenues from assessment of the FCS institutions, including Farmer Mac, reimbursable services to non-FCS entities, and interest from investment of Agency cash. FCA refunded the carryover from prior year assessments to FCS institutions after analyzing the adequacy of its cash position to Agency operational needs. The growth in earned revenue resulted from the increase in the assessment of FCS institutions and better pricing of the Agency's reimbursable services to other government entities to cover cost. The increased revenue mitigated the rise in total cost and improved the net cost of FCA programs. For the 12 months ended September 30, 2004, the net cost of FCA programs was $3,935,605, compared to $5,094,393 for the same period ended September 30, 2003.

The Agency draws almost all its cash from FCS assessments, reimbursable activity, and interest earned on invested funds. FCA refunds to FCS institutions on a proportionate basis the cash not needed to fund operations. The decrease in cash and investments from 2003 to 2004 results from FCA's use of the carryover from prior year assessments and revenues to fund its 2004 and 2003 budget and to pay the refunds to FCS institutions. Cash received from assessments and reimbursable activity in any given year is based on FCA Board-approved budgets that are expected to adequately fund operations for that year. The spending has been subject to a limitation on administrative expenses imposed by Congress.

Safety and Soundness Program

FCA continues to meet its program goals and objectives and add value to its examination and oversight of FCS institutions to ensure safety and soundness and performance of the FCS and Farmer Mac public mission. Program cost for safety and soundness increased by $943,741 to $33,034,383 in 2004. The costs of the safety and soundness program represent 77% of FCA's total cost for both 2004 and 2003. The Office of Examination (OE) met or exceeded most of its performance targets to examine and monitor FCS institutions. In 2004, OE continued its examination focus on institutions' fulfillment of the FCS public mission to provide services to young, beginning, and small farmers and ranchers. The percent of examination reports requiring corrective action increased significantly in 2003 and required follow-up in 2004. The examination report requirements were mainly for correction of internal control weaknesses and regulatory compliance deficiencies and for improvement of institutions' YBS programs. The Agency substantially met its performance targets with FCS institutions making progress in correcting the reported deficiencies.

Increased examination focus on Farmer Mac's risks and board governance and the training of new examination staff primarily contributed to the increase in program cost. For 2004, safety and soundness program cost for Farmer Mac increased $628,658 or 35.8% from 2003. The cost of employee training increased $165,965 or 13.0% for the same period.

Policy and Regulation Program

Program cost for policy and regulation was $7,475,741 for 2004. FCA works to ensure that FCS institutions provide sound and constructive credit and services to rural America through its rule-making and corporate activities. The Agency met or exceeded its performance measures for completing rule-making and corporate active projects in 2004. Program cost increased $695,589 from 2003 because of development of rules and regulations for governing Farmer Mac's risk, and for the FCS, including Farmer Mac, to fulfill the public mission to provide competitive and reliable credit to all rural America. FCA's corporate activity should continue to decline with the relative small number of FCS institutions that remain after a significant number have merged to form Agricultural Credit Associations. FCA continues to solicit the public to identify changes needed to reduce the Regulatory Burden on the FCS and to develop new products and services for identifying and monitoring FCS risk. This rule-making action could result in new regulations and policies necessary for carrying out the Farm Credit Act and ensuring the safety and soundness of the FCS.

Other Activity

Other activity represents the examination and oversight of the National Cooperative Bank (NCB) and the performance of reimbursable services for the Small Business Administration (SBA), U.S. Department of Agriculture (USDA), and Farm Credit System Insurance Corporation (FCSIC). Cost for other activity is $2,306,926 in 2004, a decrease of $216,727. The net cost of other activity decreased with the Agency's more accurately billing applicable parties for services provided.

Earned revenue for other activity totaled $1,565,865 for 2004, compared to $1,292,604 for 2003.

Reimbursable services provided by FCA are primarily for examining the NCB, which is required by regulations and by interagency agreements for the SBA and USDA. The FCA performs an annual examination of the NCB as directed by Congress. FCA has performed examinations under interagency agreements of affiliated institutions for the SBA since 1999 and for the USDA since 2001. The costs for providing reimbursable services represented approximately 5.0% of FCA's total costs in both 2004 and 2003.

Limitations of the Financial Statements

The financial statements have been prepared to report the financial position and results of operations of the FCA, pursuant to the requirements listed in 31 U.S.C 3515(b).

While the statements have been prepared from the books and records of FCA in accordance with generally accepted accounting principles in the United States (GAAP) for Federal entities and with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

President's Management Agenda

The President's Management Agenda, which was launched in August 2001, established five Government-wide initiatives for improving the management and performance of the Federal Government. At the time, these initiatives represented the areas where there were quite a few deficiencies throughout the Government; they were performance-based, and managers could be held accountable for achieving results. Since that time, the Office of Management and Budget (OMB) has been rating the major departments and agencies according to the progress the departments and agencies have made in achieving the President's Management Agenda goals. As tracked and reported by the OMB, these departments and agencies are making significant progress in adopting and meeting the established goals. Although the Farm Credit Administration (FCA or Agency) is not one of the agencies whose progress is tracked by OMB, FCA has achieved positive results in the implementation of the President's Management Agenda and has developed a means of tracking its own performance by including it as one of the goals in the FCA Strategic Plan. Also, to help track the results achieved, an integrated performance measurement system was developed in accordance with the Government Performance and Results Act of 1993.

A summary of FCA's efforts toward implementation of the President's Management Agenda follows. More detailed information regarding FCA's accomplishments under each of the initiatives are provided in the Performance Report section.

Strategic Management of Human Capital

Managing the Agency's human capital is an integral part of how FCA achieves its mission and goals. Therefore, the Agency has included human capital management as a specific goal in its Strategic Plan. The Agency also established a Human Development and Investment Group to make recommendations designed to enhance human capital initiatives. Many of the individual performance measures that would fall under this initiative are to be evaluated and reported only at year-end. Nevertheless, certain staff development performance measurements were evaluated and reported:

In an effort to develop and fully benefit from employee potential, all vacancy announcements issued during the second quarter of fiscal year 2004 for the Agency's six most populous occupations were announced at multiple grade levels.

Specific career tracks were established for FCA's six most populous occupations and placed on the Agency's "Training and Evals" database. In addition, the career tracks were used by supervisors and staff during the most recent review and development of Individual Development Plans.

Recruitment efforts were specifically directed to enhance the pool of qualified applicants for entry-level hiring to include more individuals in underrepresented groups. Those efforts concentrated on universities with particularly diverse student bodies and job fairs that sought out minority job applicants. Another source for hiring was individuals who had served as summer interns in FCA's programs with InRoads, Inc., and Hispanic Association of Colleges and Universities (HACU). Both programs attracted a large number of minority candidates.

In addition, the Agency has already incorporated a number of human capital initiatives into its operations. Developing and enhancing existing human capital strategies continue to be high priorities for the FCA. For more details on FCA's current endeavors and accomplishments, see the Strategic Management of Human Capital initiative in the FCA Performance Report section.

Competitive Sourcing

FCA's Strategic Plan requires that an annual inventory be conducted of FCA's commercial activities for evaluating outsourcing activities. The results of that inventory are to be reported at the end of fiscal year 2004. Nevertheless, the Agency has already taken actions intended to more effectively use resources to solve its workload challenges and operate efficiently. The Agency conducts an annual inventory of commercial activities that are not inherently government, but are currently performed by Federal employees. The inventory is conducted in accordance with the Federal Activities Inventory Reform Act of 1998 (FAIR) and the Office of Management and Budget Circular A-76, Performance Activities. Through self-examination, the FCA evaluates areas for potential improvements and assesses how FCA products and services can be enhanced. Open competition has resulted in improved operations and has helped the Agency accomplish its mission and meet its goals and objectives. Please see the FCA Performance Report section for details on FCA's outsourcing initiatives.

FCA is committed to providing the best products and services to its customers. The effective use of Agency human resources is continually re-evaluated so that FCA can best accomplish its mission within its established budget.

Improved Financial Performance

For the past 10 years, FCA has received unqualified opinions on its annual financial statements, and we are taking steps to ensure that we sustain these results in the years to come. Also, the inclusion of improved financial performance as an initiative in the Agency's Strategic Plan attests to the increased emphasis FCA has placed on maintaining a financial management system that can produce accurate, reliable, and timely information to support policy, budget, and operating decisions. The current accounting system, Federal Financial System (FFS), under which FCA operates and the new financial management system to which FCA is working to migrate, should continue to provide Agency managers with the type of financial data needed to make well informed decisions.

FCA also has worked to integrate financial and performance management systems that support daily operations. As discussed in more detail in the FCA Performance Report, the Agency's Travel Manager streamlining initiative represents such an effort. FCA will complete in October 2004 the deployment of Travel Manager throughout the Agency. It represents an end-to-end travel management solution. It is electronic-based and delivers immediate processing efficiencies and savings by streamlining the travel authorization, reservation, vouchering, and payment process.

For more details on the new system being implemented by FCA and the Travel Manager streamlining initiative, see the related initiatives in the FCA Performance Report.

Expanded Electronic Government

The President's Management Agenda calls for an expanded electronic government that improves service through the use of information technologies. FCA is committed to working toward a more efficient use of information technology by providing easier and more efficient ways for employees to perform their duties and for citizens to transact business with the Agency. During FY 2004, FCA made major improvements in its Web site capabilities, and we entered into partnerships with other Government agencies and one of our Farm Credit System institutions to further expand our e-government initiatives. See the FCA Performance Report for additional information on our FY 2004 e-government initiatives.

Budget and Performance Integration

Work continues on the integration of performance and budget data and with the alignment of funding with the Agency's strategic goals. In December 2003, a new FCA Strategic Plan was approved along with revised measures of performance. Based on the new strategic plan, efforts are underway to develop the program budget based on the performance targets. For additional details on FCA's budget and program integration process, see the FCA Performance Report.

Management Systems, Controls, and Legal Compliance

This section provides information on the Farm Credit Administration's (FCA or Agency) financial managment system and FCA's compliance with the:

- Inspector General Act,
- Federal Financial Management Improvement Act (FFMIA),
- Prompt Payment Act,
- Civil Monetary Penalty Act, and
- Debt Collection Improvement Act.

FCA's Financial Management System

The American Management System, Inc. (AMS), is the developer of the Federal Financial System (FFS), the current financial management system at FCA. FCA is cross-serviced by the National Business Center (NBC), Department of Interior, and shares a mainframe with NBC, which is more efficient than maintaining an in-house mainframe for one user the size of FCA.

Through the use of cross servicing, FCA is able to obtain expertise from an organization that has more than 10 years of experience with the mainframe (nightly) operations and functional support of FFS. There are also vehicles in place to easily acquire specialized expertise for a one-time project or for an ongoing basis. Since other government agencies are also cross-serviced by NBC, FCA benefits from NBC's ability to spread costs over many agencies to maximize efficiency and keep costs lower.

Inspector General Act

The Inspector General Act of 1978, as amended, requires semiannual reporting on Inspector General audits and related activities as well as agency follow-up. The Inspector General's two semiannual reports covering FY 2004 are available at *www.fca.gov/oig.* Information about recommendations made in audits and inspections by the Office of Inspector General (OIG) and management's progress in taking corrective action is summarized below.

OIG continues to report actions required to correct audit or inspection findings as agreed-upon actions whenever OIG and management have agreed on a mutually acceptable way to resolve a problem identified during reviews. OIG's objective is to recognize management's preferred method of correcting problems whenever the approach is reasonable. A recommendation often includes these agreed-upon actions.

Summary of Audit and Inspection Recommendations October 1, 2003, to September 30, 2004

Recommendations uncorrected as of October 1, 2003	16
Recommendations made during FY 2004	15
Recommendations corrected during FY 2004	5
Open recommendations at September 30, 2004	26
Recommendations open more than one year	11

Summary of Audit Activities for FY 2004

At the beginning of FY 2004, there were 16 unimplemented recommendations. Two were from the audit report of Performance Budgeting, issued on March 23, 2001; two were from the audit report of the Office of the Chief Financial Officer, issued on January 24, 2002; nine were from the audit report of the Loan Account Reporting System, issued August 28, 2003; and three were from the inspection report of FCA Board Policies, issued on September 15, 2003.

OIG issued two more audit reports and one more inspection report, as well as one review under the Federal Information Security Management Act. These reports contained a total of 15 recommendations.

During this reporting period, management worked with OIG to close five recommendations.

At the end of the FY 2004 reporting period, there were 18 agreed-upon actions remaining open. Eight recommendations await a management decision.

Two agreed-upon actions are from the audit of Performance Budgeting, issued on March 23, 2001. Two agreed-upon actions are from the audit report on the Office of the Chief Financial Officer, issued on January 24, 2002. Four agreed-upon actions are from the audit report on the Loan Account Reporting System, issued on August 28, 2003. Five agreed-upon actions are from the audit of the FCS Building Association Business Practices, issued on March 9, 2004. Five agreed-upon actions are from the audit of Human Capital: Job Classification, issued on June 29, 2004.

Eight recommendations await management decision from two inspections. The inspection of FCA Board Policies, issued September 15, 2003, contains three recommendations that have not yet been acted upon by management. The inspection of Project Management, issued on September 9, 2004, contains five recommendations that have not yet been acted upon by management.

Federal Financial Management Improvement Act

The FFMIA requires certain executive branch departments and agencies to report on their substantial compliance with Federal financial management system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger. Although FCA is not one of the agencies required to report under the FFMIA, FCA is in substantial compliance with Federal accounting standards, the U.S. Government Standard General Ledger, and the Federal financial management system requirements for FY 2004.

Prompt Payment Act

The Prompt Payment Act generally requires agencies to pay vendors 30 days after receipt of a valid invoice for goods and services ordered and delivered. During FY 2004, FCA paid most of its bills within the time requirement. In some instances invoices were received without complete or accurate information, which delayed payment. FCA paid $166.01 in interest penalties for the payments that were not processed on time. Payments are made by electronic funds transfer.

Civil Monetary Penalty Act

The Civil Monetary Penalty Act allows FCA to assess civil penalties against FCS institutions, including their officers, directors, employees, and agents, for violation of a valid order, law, or regulation. FCA did not assess any civil money penalties in FY 2004.

Debt Collection Improvement Act

The Debt Collection Improvement Act prescribes standards for the administrative collection, compromise, suspension, and termination of Federal agency collection actions. It also prescribes policy for referral of agency uncollectible debts to the proper Federal agency for follow-up collection and litigation. Although the Act has no material effect on the FCA since it operates with virtually no delinquent debt, when appropriate, the Agency does transfer debts more than 180 days old to Treasury for cross-servicing.

Part II
Program Performance

Farm Credit Administration Performance Report

The Farm Credit Administration (FCA or Agency) is an independent Federal agency responsible for regulating and examining the agricultural government-sponsored enterprises (GSEs) serving rural America, which are the Farm Credit System (FCS or System) and the Federal Agricultural Mortgage Corporation (Farmer Mac). FCA's vision is to dedicate ourselves to maintain a flexible regulatory environment that meets current and future rural credit needs while ensuring safety and soundness. FCA's vision and dedication are captured in the Agency's mission statement:

The Farm Credit Administration ensures a safe, sound, and dependable source of credit and related services for agriculture and rural America.

Two program activities help us to fulfill that mission:

- Issuing regulations and implementing public policy and
- Identifying risk and taking corrective action.

Consistent with FCA's mission and program activities, in December 2003, the FCA Board adopted three strategic goals for fiscal years 2004–2009. The following goals 1 and 2 are primarily external in nature, while Goal 3 is more internally focused:

1. Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.
2. Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.
3. Implement the President's Management Agenda (PMA).

FCA's Strategic Plan contains "desired outcomes" for each goal, as well as 24 in-depth descriptions of the "Means and Strategies" that FCA will use to accomplish the goals and achieve the desired outcome and result. Additionally, the goals contain a total of 28 performance measures and associated "targets" that will be used to determine the "results" of the Agency's success in accomplishing the desired performance measure.

With the adoption of FCA's Fiscal Years 2004–2009 Strategic Plan in December 2003, the Agency's goals and many target results changed and did not become measurable until January 2004. In addition, new reporting requirements by the Office of Management and Budget (OMB) further shortened the period for measuring our performance and accountability, accelerating the completion of this Performance and Accountability Report (PAR) for submission by November 15, 2004. This accelerated reporting date necessitated that measurement end on June 30, 2004. As a result of the changes in FCA's Strategic Plan and the OMB requirements, many FCA measures cover only six months, and in several instances achievement was not measurable at the cutoff date. For FY 2005, the PAR reporting period will be from July 1, 2004, through June 30, 2005, and we anticipate being able to more fully evaluate our performance. Nonetheless, we remain focused on improving efficiency, minimizing the cost burden on FCS borrowers and helping to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. We believe the Agency's two program activities and our initiatives effectively achieved the three strategic goals described below.

Strategic Goals and Outcomes

Goal 1—Ensure that the Farm Credit System and Farmer Mac fulfill their public missions for agriculture and rural areas.

The primary purpose of Goal 1 is to maximize the System's and Farmer Mac's abilities to meet their public missions. To evaluate FCA's performance in these areas, we developed six Agency-level performance measures that assist in measuring fulfillment of the System's and Farmer Mac's missions and a flexible regulatory environment.

Table 6a, on page 45 shows the performance measures and results associated with Goal 1, as well as the performance measures that were discontinued or replaced. With the adoption of the FY 2004–2009 Strategic Plan, many FY 2004 performance measures are new, amended, or discontinued, with effectiveness measurement starting on January 1, 2004. However, whenever possible, we included measurements starting on October 1, 2003.

Overall, FCA was successful in meeting its targets. FCA's target was exceeded regarding supplemental approaches that gathered a broad range of public input and comments. FCA achieved its targets by ensuring that FCS institutions (1) maintain effective strategic plans, (2) comply with borrower rights requirements, and (3) maintain effective young, beginning, and small farmer programs.

For the period, we were unable to measure the change in Farmer Mac's program assets in relation to the total eligible mortgage market. However, we are developing the necessary processes to report on this in the future. Similarly, because of data availability issues, we were unable to measure the System institutions' and Farmer Mac's participation in Federal and state guarantee programs in relation to the total Federal and state guarantee programs. We anticipate being able to measure that performance in 2005 when the data become available.

While the performance measures in the table show the quantifiable achievements pertaining to Goal 1 for FY 2004, the following 12 Means and Strategies we used to achieve the targets in the measures are equally important and warrant discussion.

Means and Strategy # 1—Ensure that FCS lenders and Farmer Mac fulfill their public missions by reaching out to all potential customers.

Farmer Mac—The evaluation of Farmer Mac's success in reaching out to all potential customers is a component of FCA's annual examination as well as its ongoing oversight activities. In June 2004, FCA Chairman Nancy C. Pellett testified before Congress in support of Government Accountability Office (GAO) recommendations regarding the need for improved clarity of statutory mission requirements for Farmer Mac. In the meantime, FCA continues to develop new approaches under current authorities to measure Farmer Mac's public mission performance.

Young, Beginning, and Small (YBS) Farmers—FCA completed a final rule that requires System banks to ensure that their affiliated direct-lender associations adopt YBS programs, as required by statute, under the policies of the System banks. The final rule also amended the existing

YBS regulation and delineates the minimum components that each System association must include when developing programs for YBS farmers and ranchers.

Other Financing Institutions (OFI) Lending—The FCA completed a final rule on OFIs, which are not members of the System, to ensure that farmers and ranchers have broader access to competitive and reliable sources of credit. The final rule is designed to make it easier for OFIs to obtain funding for short- and intermediate-term loans through System banks to farmers, ranchers, aquatic producers and harvesters, and rural homeowners. It streamlines the existing regulations to increase the flow of credit, removes provisions that do not enhance safety and soundness, and amends existing capital adequacy regulations for OFIs.

Investments in Rural America—The FCA issued an informational memorandum for distribution to all System institutions that provided guidance on their current authorities to make investments that benefit agriculture and rural areas, and discussed the rural business investment corporations (RBICs).

Investments in Farmers' Notes—FCA continued work on a proposed rule that would amend FCA regulations governing investments in farmers' notes and on amendments to certain capital risk-weighting regulations. The rule is designed to increase the flow of credit to farmers, ranchers, and aquatic producers and harvesters by promoting greater cooperation between System and non-System lenders through the removal of unnecessary regulatory restrictions. The proposed regulations would expand the program to allow all FCS associations to invest in farmers' notes purchased from non-System financial institutions and other agricultural lenders, to allow farmers' notes to aquatic producers and harvesters and farm-related service businesses to be eligible investments for FCS associations, and to extend the program to include long-term mortgages.

In addition, the rule would differentiate the capital risk weighting of System institutions' investments in farmers' notes, depending on the structure and risk-mitigating characteristics of the non-System financial institutions, which will increase the lending capacity of the lenders. The FCA Board approved this proposed rule in August 2004.

Examinations—FCA's examinations continue to evaluate whether FCS lenders are fulfilling their public mission by reaching out to all potential customers. We have found that the vast majority of institutions maintain effective marketing and cost-effective credit delivery programs, and the total loans of the System continue to reflect quality growth. Also, each institution's YBS program is periodically evaluated for results as well as management's administration of the program.

FCA's examinations of asset-liability management practices have shown that the Farm Credit banks have processes in place to support a broad array of market-based and competitively priced financial products and services for associations and their customers. Retail loan pricing is evaluated at associations to ensure that product pricing to customers appropriately considers the need to manage earnings and capital with marketplace conditions.

Means and Strategy # 2—Ensure all eligible customers have access and are treated equitably.

Farmer Mac—FCA continues to observe constructive initiatives within Farmer Mac to enhance the accessibility of its programs for all market participants, including those involving Federal and state agricultural loan guarantee programs. These focus, in part, on efforts to ensure equitable treatment of all potential borrowers and the lenders who serve them. During examinations, the Agency reviews the consistent and appropriate application of loan underwriting standards presented to Farmer Mac for purchase or guarantee.

Distressed Loan Restructuring—FCA approved a final rule on distressed loan restructuring that clarifies the rights provided in the Farm Credit Act of 1971, as amended, for loan applicants and borrowers of the System. The final rule provides further explanation of the System's responsibilities in providing these rights and places all borrower rights provisions in one part of the FCA regulations in an enhanced user-friendly format that borrowers can use to better understand requirements for their treatment.

Effective Interest Rate—The FCA completed a final rule governing the disclosure of effective interest rates (EIR) that will ensure that borrowers receive meaningful and timely disclosure of the EIR and other loan information from lenders. The final rule clarifies when and how the cost of FCS borrower stock must be disclosed to borrowers and also how loan origination charges and other loan information must be disclosed to borrowers. The final rule requires lenders to use a discounted cash flow method in determining the EIR to provide meaningful disclosures to borrowers but, in keeping with FCA's regulatory philosophy, does not prescribe detailed calculation procedures. It also clarifies how effective interest rates on loans should be determined. We believe this rule ensures that FCS institution customers are treated equitably, but allows FCS institutions some flexibility as well.

Examinations—We have not found significant patterns of practice or overt discrimination against any eligible customers, although our examinations found some technical violations of applicants' rights. FCA's examinations concluded that eligible and creditworthy customers have access to the System and are treated equitably. We also note continued compliance with Equal Credit Opportunity and Equal Housing laws.

Other Means and Strategies—As noted earlier, FCA completed the YBS final rule, which requires System banks to ensure that their affiliated direct-lender associations adopt YBS programs, as required by statute, under the policies of the System banks. We also completed a final rule on OFIs to ensure that farmers and ranchers have broader access to competitive and reliable sources of credit. In addition, we prepared an informational memorandum for distribution to all System institutions that provided guidance on their current authorities to make investments that benefit agriculture and rural areas and gave information on RBICs. Depending on those investments and the particular RBIC, eligible customers could have improved access to funds.

Means and Strategy # 3—Enable the System and Farmer Mac to serve evolving customer needs by maintaining a flexible regulatory environment.

Farmer Mac—The current regulatory environment provides Farmer Mac flexibility to serve customers within the eligibility requirements set by statute. FCA strives to balance Farmer Mac's business development with appropriate safety and soundness oversight. Therefore, we carefully evaluate both economic and policy costs and benefits on all regulations we promulgate.

Unified Agenda—The FCA publishes its Unified Agenda and Regulatory Performance Plan on the FCA Web site and in the *Federal Register,* in part, to notify the public of our upcoming regulatory actions and to encourage the public to submit comments and to participate in improving FCA's regulatory processes.

Examinations—While examining compliance with borrower eligibility and scope of lending, FCA's examiners work closely with FCA legal staff and regulatory development staff to ensure an appropriate and consistent interpretation of statutes and regulations. This enables institutions to properly understand FCS lending authorities and, therefore, more appropriately market their products and services to prospective customers. We also analyze and approve requests of FCS institutions to take full advantage of existing authorities in new ways. For example, several associations have made requests for use of their incidental authorities to process noneligible rural home loans for non-System lenders. Because FCA's examination program is risk-based, FCA's communication with institutions' management teams and boards of directors is focused on risk or potential risk areas that may have the most impact on the institutions. As a result of this flexible regulatory program, management and boards can concentrate their efforts on material, high-profile issues, such as the quality of their loan portfolios, the adequacy of capital, and the quantity of earnings.

Means and Strategy # 4—Emphasize regulatory activities related to YBS farmers, ranchers, and producers or harvesters of aquatic products.

Farmer Mac—While no specific YBS regulatory requirement applies to Farmer Mac, FCA has developed new reporting requirements to monitor the statutory requirements for nondiscrimination against small borrowers and lenders. (See the Means and Strategy # 5 for specific information on Farmer Mac's service for small and family farms.)

YBS Farmers Regulation—FCA completed a final rule that requires System banks to ensure that their affiliated direct-lender associations adopt YBS programs, as required by statute, under the policies of the System banks. It also amended the existing YBS regulation and delineates the minimum components that each System association must include when developing programs for YBS farmers and ranchers. The rule gives System associations the flexibility to design programs unique to the needs of the YBS borrowers in the territories they serve, and it encourages but does not require the establishment of advisory committees comprised of YBS farmers and ranchers. In addition, the rule requires each System association to develop a mission statement describing its YBS program objectives, to include quantitative targets and qualitative goals in its strategic and operating plans, and to establish internal controls over YBS programs for safety and soundness. Finally, System banks and associations are required to include information on loans and programs for YBS farmers and ranchers in their annual reports to shareholders and investors.

Examinations—FCA continues comprehensive evaluations of associations' activities related to YBS farmers, ranchers, and producers and harvesters of aquatic products. All programs evaluated for the reporting period were considered satisfactory. In recent years, we have focused considerable examination resources to improve the implementation, controls, and reporting of institutions' YBS programs. As a result of FCA's efforts, we have seen an improvement in the administration of YBS programs, the quality of board reporting, and an increase in the number and amount of loans to YBS borrowers.

Means and Strategy # 5—Emphasize Farmer Mac's obligation to promote and encourage the inclusion of qualified loans for small farms and family farmers in the agricultural mortgage secondary market.

The statute requires Farmer Mac to promote and encourage the inclusion of small and family farms in its programs. As a secondary market lender, Farmer Mac is not always well positioned to capture detailed demographic data. Nevertheless, FCA supports Farmer Mac's work with lenders to meet the credit needs of small and family farms. We also are working to enhance the tracking of mission accomplishments in these areas in conjunction with Farmer Mac management.

Means and Strategy # 6—Encourage the System and Farmer Mac to use guarantee programs and work with Federal and state agencies that offer such programs to streamline processes.

Farmer Mac—Farmer Mac provides secondary market liquidity to Federal and state guarantee programs through its Farmer Mac II program. Current FCA initiatives will result in new procedures to track Farmer Mac's participation in these programs. Moreover, FCA proposed regulations to provide additional incentives through more flexible treatment of government guaranteed loans in Farmer Mac's liquidity portfolio in recognition of the additional liquidity of such loans.

YBS Farmers Reporting—In FCA's 2003 YBS Call Report request to FCS institutions, we sought information pertaining to their use of guarantees, as well as state programs for YBS borrowers. We use that information to track improvement in this important area.

Linked Deposit Program—We worked to approve a request of a Farm Credit Bank and some of its associations to participate in a state-sponsored Linked Deposit Program. That program extends credit to an identified target group of borrowers who otherwise might be unable to qualify for credit.

Examinations—As a part of FCA's examinations of YBS programs, we continue to encourage the System to use guarantee programs and work with Federal and state agencies that offer such programs. We encourage System institutions to use guarantee programs to make and service loans that they otherwise might not be able to make without undue risk to the institution. Loan guarantees are generally encouraged on YBS borrowers with limited financial capacity and on existing borrowers that are temporarily experiencing financial difficulties.

Means and Strategy # 7—Encourage all System institutions and Farmer Mac to continue to include a discussion in annual reports of how they are meeting their public mission.

Farmer Mac—The annual examination of Farmer Mac's business plan reviews all discussion of how Farmer Mac intends to meet its public mission in the coming year. Constructive comments received through these monitoring efforts have had a positive impact on Farmer Mac's stated plans for public disclosures related to mission. FCA will continue to encourage regular disclosure of Farmer Mac's mission accomplishments.

YBS Farmers Regulation—FCA completed a final rule that requires System banks to ensure that their affiliated direct-lender associations adopt YBS programs, as required by statute, under the policies of the System banks. It also amended the existing YBS regulation and delineates the minimum components that each System association must include when developing programs for YBS farmers and ranchers. System banks and associations are also required to include information on loans and programs for YBS farmers and ranchers in their annual reports to shareholders and investors. The final rule, which requires additional transparency in annual reports, was approved by the FCA Board in March 2004.

Examinations—In FCA's examination of business plans and annual reports, we look for and encourage all System institutions to include a discussion in their annual reports of how they are meeting their public mission.

Means and Strategy # 8—Enable the agricultural GSEs to restructure themselves to best serve their customers and rural America.

Farmer Mac—FCA has actively engaged Farmer Mac to improve its organizational structure and operational procedures. We believe that such activity has generally increased confidence in the strength of Farmer Mac among borrowers and lenders. This increased confidence is the result of both operational improvements, as well as the reduced uncertainty that accompanies the perception of strong regulatory oversight in the eyes of potential customers and investors.

The Land Bank of Sulphur Springs, Federal Land Credit Association (FLCA) in Texas—FCA approved the application from The Land Bank of Sulphur Springs, FLCA, to convert its charter to that of an Agricultural Credit Association (ACA). This structure allows the ACA to benefit from the tax-exempt status of the long-term FLCA portfolio, while maintaining the "one-stop shopping" advantage of the ACA. This conversion should improve services offered to borrowers, as well as improve efficiencies.

Charter Amendment Request from Louisiana AgCredit, ACA—The FCA worked on a charter amendment request of Louisiana AgCredit, ACA, which had a bifurcated charter that limited it to Title II lending in most of its territory. The request asked for charter amendments to include Title I lending in all of the association's territory. The FCA Board approved the request in August 2004.

Proposal to Amend the Farm Credit Leasing Services Corporation's (Leasing Corporation) Articles of Incorporation—The FCA worked on a request to amend the Leasing Corporation articles of incorporation to address some governance issues and to better position the Leasing Corporation for liquidation to transform it into a CoBank, ACB, division. The FCA Board approved the proposal in July 2004.

Merger of FLBA of Texas, FLCA, and Brady, FLCA—FCA approved the merger of the Brady Land Bank, FLCA, with and into the Federal Land Bank Association of Texas, FLCA. The purpose of the merger is to create a larger, more efficient institution.

Means and Strategy # 9—Ensure that regulatory definitions reflect the changes in agriculture, rural areas, and the financial marketplace.

Regulations—FCA carefully reviews agency regulations to ensure appropriate definitions of terms that are not commonly used in finance, or otherwise not well understood. When rules are republished as final rules, these definitions are again reviewed for completeness and accuracy with respect to industry and market parlance.

March 2004 Call Report Changes—FCA made program changes to update and improve the Call Reports submitted by FCS institutions to better reflect changes in the financial marketplace. The agency now receives more detailed information on participations, derivatives, contingencies, and other off-balance sheet items, and certain types of stock.

Loan Account and Reporting System (LARS) Redesign Project—FCA requested public comment regarding the Agency's need for loan data and its project to reengineer the systematic and centralized collection of information. The Agency sought input on what loan data to collect, how best to collect the data, how to minimize the reporting burden on System institutions, and what types of reports should be made available to the public and System institutions. We will use information from the comments to modify the LARS to better reflect changes in the agricultural and financial marketplace landscapes.

Bookletters and Informational Memoranda—FCA issued numerous bookletters and informational memoranda to FCS institutions. Bookletters generally communicate regulatory interpretations, policy or positions of the FCA Board, or FCA expectations. Informational memoranda generally provide technical clarification or examination guidance to FCS institutions. We issued bookletters pertaining to FCS institutions' annual reporting of their chief executive officers' compensation, changes to the calculations of maximum director compensation, and adequacy of FCS institutions' allowance for loan losses and risk funds. We issued an informational memorandum that pertained to investments in rural America which could further the availability of funds to agriculture and rural areas through partnerships and investment opportunities. Another informational memorandum described revision to FCA's allowed related services list that pertained to authorization of System banks to offer certain interest rate swaps, caps, collars, and other financial instruments, to better serve the changing financial risk management needs of their customers. Other informational memoranda pertained to loan syndication authorities for banks and associations, a Federal banking regulatory statement on appraisal independence, counterparty risks, and changes in certain consumer protection regulations.

Capital Adequacy-Risk Weighting—The FCA completed a proposed rule that would amend certain capital adequacy regulations for FCS institutions, to help ensure the long-term safety and soundness of the System by more closely aligning capital requirements with risk. The proposed rule would amend the Agency's risk-based capital treatment of FCS recourse obligations, direct credit substitutes, residual interests, asset- and mortgage-backed securities, guarantee arrangements, claims on securities firms, and certain qualified residential loans. The proposed rule would also make FCA's regulatory capital treatment for FCS institutions more consistent with the guidance of other financial regulatory agencies, thus reflecting changes in the financial marketplace.

Governance—The FCA worked on a proposed rule that would amend the governance of FCS institutions. The proposed rule remains under development, but is intended to address enhanced board oversight, improved disclosure of compensation arrangements, and strengthened requirements for audit, nominating, and compensation committees. FCA's FY 2005 Regulatory Performance Plan projects that the FCA Board will take action on the proposal in the first quarter of FY 2005.

Means and Strategy # 10—Identify and eliminate, consistent with law and safety and soundness, all regulations that are unnecessary, unduly burdensome, or not based on law.

Farmer Mac—Consistent with its regulatory authorities, FCA completed major revisions to its Farmer Mac Call Report schedules and instructions in 2004. These enhancements eliminated certain derivatives reporting requirements (e.g., credit equivalency) that were no longer necessary and enhanced other requirements in an effort to increase the clarity and efficiency of reporting by Farmer Mac.

Distressed Loan Restructuring—The FCA completed a final rule on distressed loan restructuring that clarifies the rights provided in the Farm Credit Act of 1971, as amended, for System loan applicants and borrowers. The final rule provides further explanation of the System's responsibilities in providing these rights and places all borrower rights provisions in one part of the FCA regulations. In addition, the final rule has been rewritten in plain language and in a question-and-answer format to make it more easily understood by borrowers and lenders, and it updates and clarifies FCA regulations to ensure that System borrowers receive the rights and protections granted by Congress, while not placing unnecessary burdens on FCS institutions.

Effective Interest Rate (EIR)—The FCA completed a final rule on amendments to the regulations governing the disclosure of effective interest rates that will ensure that borrowers receive meaningful and timely disclosure of the EIR and other loan information from qualified lenders. The final rule clarifies when and how the cost of FCS borrower stock must be disclosed to borrowers, and how loan origination charges and other loan information must be disclosed to borrowers. The final rule requires lenders to use a discounted cash flow method in determining the EIR to provide meaningful disclosures to borrowers but, in keeping with FCA's regulatory philosophy, does not prescribe detailed calculation procedures. It also clarifies how effective interest rates on loans should be determined. Like FCA's distressed loan restructuring rule, the EIR final rule was rewritten in plain language and in a question-and-answer format to make it more easily understood by borrowers and lenders, and it updates and clarifies FCA regulations to ensure that System borrowers receive the rights and protections granted by Congress, while not placing unnecessary burdens on FCS institutions.

Credit and Related Services—The FCA completed a final rule conforming regulations to changes in the Farm Credit Act caused by the 2002 Farm Bill. It also addresses some regulatory burden comments and helps ensure compliance with FCA's eligibility regulations by requiring that ineligible loans made by FCS institutions not be funded by Farm Credit banks.

Means and Strategy # 11—Encourage partnerships between System and non-System lenders and Farmer Mac that facilitate the flow of funds to agriculture and rural areas.

Farmer Mac—FCA continues to encourage such partnerships, particularly for the risk-reducing effects of geographical diversification. FCA continues to encourage geographical diversification at Farmer Mac, a view that is consistent with the findings of the GAO report released October 16, 2003.

OFI Lending—FCA completed a final rule on other financing institutions, which are not members of the System, to ensure that farmers and ranchers have broader access to competitive and reliable sources of credit. The final rule is designed to make it easier for OFIs to obtain funding for short- and intermediate-term loans to farmers, ranchers, aquatic producers and harvesters, and rural homeowners through System banks. It streamlines the existing regulations to increase the flow of credit, removes provisions that do not enhance safety and soundness, and amends existing capital adequacy regulations for OFIs.

Investments in Rural America—FCA issued an informational memorandum for distribution to all System institutions that provided guidance on their current authorities to invest in non-System entities that benefit agriculture and rural areas and that discussed the rural business investment corporations.

Investments in Farmers' Notes—The FCA worked on a proposed rule that would amend FCA regulations governing investments in farmers' notes and amendments to certain capital risk-weighting regulations. The rule is designed to enhance the flow of credit to farmers, ranchers, and aquatic producers and harvesters by promoting greater cooperation between System and non-System lenders through the removal of unnecessary regulatory restrictions. The proposed regulations would expand the program to allow all FCS associations to invest in farmers' notes purchased from non-System financial institutions and other agricultural lenders, to allow farmers' notes to aquatic producers and harvesters and farm-related service businesses to be eligible investments for FCS associations, and to extend the program to include long-term mortgages. The FCA Board approved the proposed rule in August 2004.

Examinations—As a part of FCA's examinations of FCS institutions, we encourage prudent use of loan participations designed to diversify concentrated portfolios and to increase the flow of funds to rural America. As such, this spreads risk and allows for additional funding of agriculture and agriculture-related entities. Participations purchased from outside sources by FCS institutions have increased sharply in recent years. Also, we have observed an increased number of alliances with commercial banks and investment managers to supply financial services, such as deposit and investment products, to FCS institution borrowers.

Means and Strategy # 12—Publish best practices findings or establish guidelines when appropriate on FCA-regulated institutions' efficient and effective use of partnerships and other relationships with non-FCA-regulated entities to facilitate the flow of funds to agriculture and rural areas.

Farmer Mac—Farmer Mac has revised its relationships with its loan sellers and servicers in response to FCA oversight activities. These entities perform a critical function in Farmer Mac's business pipeline. We believe that when sellers and servicers clearly understand and consistently apply the underwriting criteria, the relationships between Farmer Mac and those originating sellers and servicers is strengthened.

Examinations—We have communicated numerous examination-related matters to FCS institutions that are intended to protect each institution's safety and soundness. In addition, our information technology (IT) examiners developed and issued an essential practices guide, which is designed to provide FCS institutions with industry best practices and IT controls. This guidance facilitates the flow of funds to agriculture and rural areas by providing FCS institutions with sound practices to follow in developing and implementing lending programs and information technology. Ultimately, this guidance can assist management to more efficiently originate, close, and manage loans and funding programs.

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

The primary purpose of Goal 2 is to maintain the safety and soundness of the Farm Credit System and Farmer Mac. To evaluate FCA's performance in these areas, we developed seven Agency-level performance measures that assist in measuring the safety and soundness of the System and Farmer Mac. Table 6b, on page 48 shows the performance measures and results associated with Goal 2, as well as performance measures that were discontinued or replaced.

As mentioned previously, with the adoption of the FY 2004–2009 Strategic Plan, many FY 2004 performance measures are new, amended, or discontinued, with effectiveness measurement starting January 1, 2004. However, whenever possible, we included measurements starting on

October 1, 2003. FCA's target pertaining to all FCS institutions having a composite Financial Institution Rating System (FIRS) rating of "1" or "2" was exceeded. Targets were achieved in performance measures pertaining to (1) neither Farmer Mac nor any FCS institution's being placed in receivership, (2) FCS institutions' maintaining adversely classified assets at levels within their risk-bearing capacity, and (3) Farmer Mac and FCS institutions' complying with capital adequacy regulations.

Another target achieved was a performance measure pertaining to the percentage of instances in which FCS institutions complied with laws and regulations. Of the 15 instances, one exception was noted but later resolved to FCA's satisfaction. Subsequent to the end of FCA's reporting period, the institution expeditiously addressed the violations and has submitted corrective action plans that satisfied our requirement.

Another target that received considerable focus was the performance measure pertaining to the percentage of FCS institutions with effective audit and review programs. Of the 34 audit and review programs examined, one was not found to fully comply with FCA's requirements. However, this matter was subsequently resolved by the institution's management.

The result of another target was somewhat complicated to measure because it pertained to the percentage of FCS institutions with FIRS ratings of "3," "4," or "5" having satisfactory corrective action plans. As a result of the effectiveness of the FCA examination and supervisory programs, all FCS institutions had FIRS ratings of "1" or "2." Therefore, in substance, we believe the objective of this target was met even though it was not relevant to measure.

As mentioned previously, the performance measures in Table 6b show the quantifiable achievements pertaining to Goal 2 for FY 2004, but the following seven Means and Strategies we used to achieve the targets in the measures are equally important and warrant discussion.

Means and Strategy # 1—Maintain an effective examination and oversight program through maintenance of the Precommission Training Program and ongoing training of commissioned examiners.

We maintain an effective examination and oversight program through the maintenance of the Precommission Training Program and ongoing training of commissioned examiners. We have hired several career intern examiners over the past three years, and they continue to progress through the Precommission Training Program. Significant resources are being expended to provide quality training to these employees. We are updating and improving several of the precommissioned examiner training programs, including many that will include e-learning aspects. FCA's strategy is designed to maintain a core level of commissioned examiners, although it will take time for the precommissioned examiners to fully contribute to FCA's productivity.

We have developed a cadre of commissioned examiners with specialized skills, including Quality Assurance Examiners, Information Technology Examiners, and Capital Markets Specialist Examiners. These experts participate in FCS institution examinations involving greater complexity and assist other examiners. Also, all commissioned examiners have Individual Development Plans in place that are designed to further develop their knowledge, skills, and abilities.

Means and Strategy # 2—Develop regulatory guidance and examination procedures that keep pace with evolving strategies used by the institutions comprising the two agricultural GSEs in addressing the changing needs of their customers in rural areas.

Farmer Mac—FCA encourages Farmer Mac's innovations in product development within the bounds of safety and soundness considerations. FCA examination reports and offsite monitoring provide timely guidance to Farmer Mac management on the risk implications of new products. FCA has worked on the development of new mission-oriented reporting requirements that focus on specific target markets. We anticipate these data also will provide valuable market perspective to Farmer Mac with regard to opportunities in these markets and the evolving needs of borrowers within specific market segments.

Other Means and Strategies Noted Previously—FCA issued an informational memorandum to all System institutions that provided guidance on their current authorities to invest in entities that benefit agriculture and rural areas and that discussed the rural business investment corporations. Also, FCA completed a final rule on OFIs to ensure that farmers and ranchers have broader access to competitive and reliable sources of credit.

In addition, we completed a proposed rule that would amend the regulatory capital treatment of preferred stock issued by FCS institutions and would place certain restrictions on the retirement of preferred stock. While issuing preferred stock could serve evolving customer needs, the proposed rule would require greater board oversight in the retirement of preferred stock, would enhance the current standards of conduct regulations to address certain preferred stock transactions, and would require disclosure of senior officer and director preferred stock transactions. This proposed rule addresses practices and strategies used by institutions, but also protects the stability and quality of capital of FCS institution customers.

Examinations—We continue to develop examination procedures and guidance to keep pace with evolving strategies used by the institutions. Recent examples, discussed previously, include a bookletter and informational memorandum on the allowance for loan losses, the Essential Practices Guide for Information Technology, an informational memorandum on syndications, and guidance on various compliance issues. We have also continued to provide clarification to institutions regarding FCA regulations covering e-commerce activities.

Means and Strategy # 3—Evaluate whether each FCS institution and Farmer Mac have established and are maintaining proactive risk-management practices commensurate with their respective risk-bearing capacity.

Farmer Mac—FCA annually conducts a comprehensive examination of Farmer Mac. Risk management practices are a central focus throughout our examinations. Specific examination findings for Farmer Mac in the area of risk-management are not public information under FCA policy.

Examinations—We continue to evaluate whether FCS institutions have established and are maintaining proactive risk-management practices commensurate with their respective risk-bearing capacity. FCA's recent annual review of loan underwriting standards showed that FCS institutions are increasingly dynamic in their establishment and adjustment of standards to meet the needs of their operating environment. Risk management (i.e., risk parameters, stress testing, loan underwriting standards, etc.) is evaluated on an ongoing basis as a normal and routine aspect of FCA's examinations and is reported in all Reports of Examination.

Means and Strategy # 4—Evaluate whether each direct-lender institution maintains systems that allow it to analyze the characteristics of risk and borrower profiles in its loan portfolio.

Examinations—We continue to evaluate whether each direct-lender institution maintains systems that allow it to analyze the characteristics of risk and borrower profiles in its loan portfolio. While we have found that the timeliness and accuracy of data maintained by many FCS institutions could be improved, the vast majority continue to make progress in their portfolio management systems. An effort is under way by the System to adopt an expanded risk-rating system with 14 rating categories. As a major part of establishing this system, the effort would include the development and maintenance of a dynamic loan portfolio information database. Improved technology and databases provide more capabilities to run queries and conduct stress testing of loan portfolios.

LARS Redesign Project—FCA solicited public comment pertaining to the Agency's need for loan data and its project to re-engineer the systematic and centralized collection of the information. The Agency sought input on what loan data to collect, how best to collect the data, how to minimize the reporting burden on FCS institutions, and what types of reports should be made available to the public and FCS institutions. This loan data can help our evaluation of the systems used by direct lenders.

Means and Strategy # 5—Evaluate whether management and board governance of FCA-regulated institutions is keeping pace with the increasing size and complexity of institutions' operations.

Farmer Mac—Board governance practices at Farmer Mac are a pivotal area in the annual FCA examination due to the extent to which these practices impact its functional areas. FCA is actively engaged in the oversight of Farmer Mac's implementation of the Sarbanes-Oxley Act's provisions on board governance as well as the industry self-regulatory standards established by the New York Stock Exchange. Specific examination findings in the board governance area are not public information under FCA policy.

Preferred Stock Rule—As noted previously, FCA completed a proposed rule that would amend the regulatory capital treatment of preferred stock issued by FCS institutions and place certain restrictions on the retirement of preferred stock. The proposed rule would require greater board oversight in the retirement of preferred stock, enhance the current standards of conduct regulations to address certain preferred stock transactions, and require disclosure of senior officer and director preferred stock transactions.

Governance—The FCA Staff worked on a proposed rule that would amend the governance of FCS institutions. The intent of the proposed rule is to address enhanced board oversight; improve disclosure of compensation arrangements; and strengthen requirements for audit, nominating, and compensation committees. We anticipate the FCA Board to act upon the proposal in the first quarter of FY 2005.

Examinations—FCA's examinations continue to evaluate whether management and board governance of FCA-regulated institutions is keeping pace with the increasing size and complexity of institutions' operations. We continue to make recommendations where appropriate for further strengthening the System's governance. In particular, we have continued to focus on the effectiveness of audit and review programs and the scope and depth of activities performed by the audit committee.

Means and Strategy # 6—Maintain early warning systems that allow timely identification of emerging risks and related issues in FCS institutions.

Farmer Mac—As part of our examination and oversight program, FCA implemented several new periodic reporting requirements to enhance our ability to monitor various metrics that typically serve as early warning signals. These reporting requirements provide much more granular information on debt spreads, terms of interest rate swap agreements, liquidity, and the nonprogram investments portfolio.

Examinations—We continue to maintain a multitiered early warning system that should allow timely identification of emerging risks and related issues in FCS institutions. A major part of this system is FCA's dynamic FIRS rating system and benchmark ratio program that evaluates changes in the financial condition of System institutions every 90 days. Each quarter, we complete a detailed risk analysis designed to identify emerging risks on a System-wide basis. Copies of these reports are available to all of the staff for reference in developing examination and oversight plans.

Commodity Price Updates—FCA maintains commodity price databases and provides frequent updates to the entire Agency that discuss commodity price developments and expectations and the potential effect on FCS institutions and their borrowers.

Other Means to Identify Risks—The FCA analyzed the impact of bovine spongiform encephalopathy (BSE) on agriculture and the System. The analyses used information from the U.S. Department of Agriculture and actual market responses and outlooks. Similarly, the FCA analyzed the impact of the avian flu on agriculture and the System.

Means and Strategy # 7—Undertake research and analysis of emerging risks and related issues and incorporate the findings into examination and oversight programs.

Farmer Mac—The FCA conducted extensive research to revise the Farmer Mac risk-based capital rule. Areas of focus include historical debt spreads and corporate bond default rates. We expect this research to contribute to proposed revisions to the risk-based capital model during FY 2005. In addition, studies are under way to evaluate regulatory requirements for GSE credit ratings and on a methodology for assessing Farmer Mac's impact on agricultural real estate lending markets.

Examinations—We continue to undertake research and analysis of emerging risks and related issues and incorporate the findings into examination and oversight programs. We analyzed the potential impact of BSE on cattle producers and avian flu outbreaks on poultry producers and determined which FCS institutions were, or could be, adversely impacted by these diseases. We also analyzed the impact of planned reversals to the allowance for loan losses and continually evaluate the potential impact of concentration risks.

Goal 3—Implement the President's Management Agenda.

The primary purpose of Goal 3 is to effectively and efficiently implement the PMA. While this goal is more internally focused, it supports the five Government-wide initiatives to make the Government more results-oriented and focused on achievement and accountability. Those initiatives followed by a short description are:

1. Strategic Management of Human Capital—to maximize the value of FCA's most important resource, its workforce.
2. Improved Financial Performance—to produce accurate, reliable, and timely information to support policy, budget, and operating decisions.
3. Expanded Electronic Government—to strengthen FCA's management of information technology resources and use the Internet to simplify and enhance service delivery.
4. Budget and Performance Integration—to enhance FCA's control over resources used and better establish accountability for results.
5. Competitive Sourcing—to encourage continuous improvement and remove roadblocks to greater efficiency.

To evaluate FCA's performance in these areas, we developed 15 Agency-level performance measures that assist in measuring the initiatives. Table 6c, on page 51, shows the performance measures and results associated with Goal 3. As mentioned previously, with the adoption of the FY 2004–2009 Strategic Plan, many FY 2004 performance measures are new and became effective on January 1, 2004. However, whenever possible, we included measurements starting on October 1, 2003.

For Goal 3, targets were exceeded in performance measures pertaining to (1) percentage of nonentry level positions filled from within, (2) newly developed training courses available electronically, (3) percentage of the Agency staff with remote broadband connectivity, (4) percentage of FCA Web pages and electronic devices that were section 508 compliant, and (5) percentage of time that FCA's network and Web components were available. Targets were achieved in performance measures pertaining to (1) determining human capital needs to support FCA's mission and the PMA, (2) enhancing the pool of qualified applicants for entry-level positions, (3) establishing career paths for high-potential candidates, and (4) conducting an annual inventory of FCA's commercial activities for evaluation of outsourcing alternatives.

Our target also was substantially achieved in the performance measure pertaining to the percentage of vacancy announcements issued with multiple grade levels in the six most populous occupations. Those occupations include: series 1101 Examiner/Analyst; series 301 Administrative; series 334 Computer Specialist; series 318 Secretary; series 905 Attorney; and series 510 Accountant. We issued four vacancy announcements for 12 positions in FCA's most populous occupations. Three were announced at multiple grade levels. It should be noted that FCA issued one series 1101 Examiner/Analyst vacancy announcement for four Outstanding Scholar positions at a single grade level as required by OPM regulations and FCA's entry level hiring practices.

A second target in the performance measure that requires further explanation pertained to providing financial reports to Agency managers within seven business days after month-end. This is a new measure implemented in January 2004. The necessary control schedules to meet this target became operational for the February report. The January report became available within nine business days, whereas the reports from February to June were available to Agency managers within seven business days after the respective month-end. Finally, in Goal 3, targets were not measurable in performance measures pertaining to (1) assessment of the structure of our Agency, (2) staff adherence to individual development plans, (3) external auditor's opinion of FCA's annual financial statements, and (4) the number of material internal control weaknesses reported by FCA's external auditors. Regarding the first performance measure, we anticipate that FCA's structure will be assessed in early 2005. Regarding the final three performance measures, we anticipate that the results will be available in fall 2004 and will be reported in the FY 2005 PAR. It is worth noting that, as of FY 2003, FCA has achieved an "unqualified" audit opinion with no material internal control weaknesses for 10 consecutive years.

As mentioned previously, the performance measures in Table 6c show the "bottom line" of FCA's achievements pertaining to Goal 3 for FY 2004, but the following five Means and Strategies we used to achieve the targets in the measures are equally important and warrant discussion.

Means and Strategy # 1—Strategically manage human capital.

Sound human resource management is crucial to FCA's mission and goals. The Agency has a performance-based compensation system that rewards employees for individual job accomplishments that support the Agency's performance objectives. The FCA is dedicated to effective human resource strategic planning, recruiting and hiring a diverse and competent workforce, establishing competitive compensation and benefits programs, training and developing highly qualified employees, developing policies to award and recognize employees, and administering a performance management system that effectively measures an employee's contributions to the Agency's mission and goals.

Recruiting efforts were expanded to include individuals in underrepresented groups in order to create a more diverse workforce. The FCA also establishes a supportive yet challenging workplace environment that encourages employees to excel in their job responsibilities and prepare them for future duties. To carry out this objective, the FCA has various programs and policies to help recruit qualified employees and retain them by establishing policies that reward accomplishments and help employees balance work and family needs. The following examples are efforts that have recently been initiated, and work is still underway to fully develop this program.

- Paying for student loans as a recruiting tool to attract highly qualified employees;
- Creating a new employee training track to ensure all new employees obtain a basic foundation of competencies needed to successfully work at FCA;
- Developing career tracks within the Agency which are placed on a database to assist employees and managers in identifying opportunities to expand employee competencies;
- Identifying e-learning training opportunities as a cost-effective means to enhance employees' knowledge, skills, and abilities;

- Creating a two-year career internship program established to assist with succession planning needs;
- Linking strategic Agency goals to individual development plans and to the budget process to help prepare the Agency staff for future endeavors;
- Establishing a Supervisory Development Program to help prepare employees to assume future leadership positions;
- Expanding telework opportunities for employees to assist with continuity of operations in cases of natural disasters or emergencies; and
- Maintaining a variety of policies to help retain employees and assist them in balancing work and family needs, including flexible hours of duty, business casual dress, transit subsidies, voluntary 401(k) savings opportunities, reimbursements up to $150 for annual physical exams and preventive health screenings, donations of $750 to flexible spending accounts, and contributions not to exceed $400 toward health and fitness programs and equipment.

FCA's programs and policies have enabled us to maintain a cohesive group of employees with the necessary skill sets to accomplish current responsibilities and to expand their levels of expertise to incorporate future issues that may arise.

Means and Strategy # 2—Upgrade the Agency's financial management system.

FCA continues to place emphasis on maintaining a financial management system that can produce accurate, reliable, and timely information to support policy, budget, and operating decisions. Since FY 2001, FCA has been able to maintain this capability through the use of the American Management System's (AMS) mainframe financial management system, the Federal Financial System (FFS). FFS was developed in the early 1980s. Although the system is very reliable, it is being phased out by the developer and was not recertified as JFMIP compliant in 2003. Therefore, FCA has taken steps to migrate to the new financial management system. Momentum is a Web-based, integrated enterprisewide solution that leverages and builds upon the significant Federal financial management functional capabilities built in FFS.

Although FCA had initially planned to implement Momentum in 2004, implementation is now planned to be completed in 2005. During FY 2004, connectivity to Momentum was accomplished, and setup of the new system has begun.

Although FCA has not yet converted to the new system, the Agency has worked to achieve the initiatives included in the PMA for improved financial management. On a daily basis, management has access to timely, accurate, and reliable financial information that can be used to enhance management decisions. FCA has implemented a seamless, electronic, and complete travel process that delivers immediate processing efficiencies and savings by streamlining the travel authorization, reservation, vouchering, and payment process. Key to the solution is the integration between the travel system, the online booking tool, and FCA's travel management center. The seamless transaction process enables FCA employees to quickly navigate the authorization, booking, and fulfillment process all within a single environment. Once completed, data is exported into the financial management system for payment and does not require any additional data entry. With this solution, the Agency has been able to reduce the overall reservation cost by 50 percent and speed the approval and reimbursement process. The reimbursement payment is deposited in the traveler's bank account within two days after supervisory approval. During FY 2004, FCA upgraded its version of Travel Manager from 8.0 to 8.2 and is in the process of deploying it to the various offices within FCA. The new version of Travel Manager provides a more tightly integrated system, which completely eliminates any duplicative data entry. FCA continues to plan for migration to one of the GSA e-travel systems in 2006.

Means and Strategy # 3—Continue the expansion of electronic government.

FCA is constantly striving to improve its e-government operations. We have added more content to FCA's Web site, enhanced its usability, and made it easier for FCS institutions to submit more kinds of reports and data to the Agency. Our e-government initiatives during FY 2004 included the following:

- We provided a means for users to inform us of inaccurate information on FCA's Web site through the development of information quality guidelines and the posting of these guidelines on FCA's Web site.
- We began a program in partnership with a System institution to securely exchange information over the Internet using Virtual Private Network technology.
- We entered into partnership with other agencies to participate in the Governmentwide e-rulemaking program. The program develops a central location for the public to access proposed regulations and comments on the proposed regulations.
- We enhanced FCA's Web site to include more information about FCA, including information about job and procurement opportunities at FCA. These advances support e-government and, in the case of procurement opportunities, e-commerce.
- We improved Internet access for Agency employees by providing them direct access from their field offices. Prior to this improvement, field office employees accessed the Internet through the Internet connection in McLean, Virginia.
- We converted the Farmer Mac Call Report submission to an electronic format.

Means and Strategy # 4—Continue the evolution of budget and performance integration.

The Agency continues the evolution of its performance budgeting program using the hierarchy of relationships between basic tasks, products and services, program activities, and strategic goals. The hierarchy enables precise cost identification and accumulation of basic tasks performed by the offices and relates them to the various cost objectives within the hierarchy and ultimately to the accomplishment of the Agency's strategic goals.

Means and Strategy # 5—Give due consideration to competitive sourcing.

FCA commits to improving internal operations by more effectively using resources to solve workload challenges. To carry out this commitment, the Agency conducts an annual inventory of commercial activities that are not inherently Government, but are performed by Federal employees. FCA conducts the inventory according to the Federal Activities Inventory Reform Act of 1998 (FAIR) and the Office of Management and Budget Circular A-76, Performance Activities. Through self-examination, the FCA evaluates areas for potential improvements and identifies ways to improve products and services. Open competition results in improvements and helps the Agency to perform its mission and meet its goals and objectives.

The FCA has identified several areas for outsourcing, including the following:

- Payroll services are provided by the National Finance Center in the Department of Agriculture.
- Operations and support for the FCA Financial Management System are outsourced to the National Business Center in the Department of Interior.
- The Employee Assistance Program is operated by Compsych, a private firm that is well equipped to provide services to employees throughout the country.
- Preventative health services are provided throughout the year and at all field locations by various private firms.
- Certain benefits, such as the FCA 401(k), flexible spending account, FCA life insurance, long-term disability, and relocation services, are administered by private sector firms.
- Fleet vehicle maintenance is provided by a private sector company.

It is the Agency's goal to provide the best products and services to customers. FCA continually reevaluates the effective use of Agency human capital to best carry out its mission within the budget.

The three-part table that follows contains the symbols below in the far right column to provide a quick, at-a-glance indicator of performance.

▲	FCA's performance exceeded the fiscal year 2004 target.
✓	FCA achieved the target.
★	FCA substantially accomplished the target in all material respects.
▼	FCA did not achieve its target.
NA	FCA's performance could not be measured.

Notes A and B used in the three-part table that follows are defined below.

A—During FY 2003, the FCA Board worked on updating the Agency's Strategic Plan. As a part of this effort, the Agency's performance measures were reviewed and updated to ensure they aligned with the long-term strategic goals and reflected the effect of FCA's regulatory activities on the Farm Credit System. As a result, many of the fiscal year 2003 performance measures were discontinued and new performance measures were implemented for fiscal year 2004.

B—Due to the accelerated due date for the Performance and Accountability Report, the reportable performance period for FY 2004 runs from October 1, 2003, to June 30, 2004. Thereafter, the period will run from July 1 to June 30. With the updating of the Agency's strategic plan and the revisions to the performance measures that were approved in December 2003, obtainable results for the new measures are based on performance for the period of January 1, 2004, to June 30, 2004.

Table 6a
Goal 1
Performance Measures and Results

Measure	Results	FY 2001 Target[2]	FY 2001 Results	FY 2002 Target	FY 2002 Results	FY 2003 Target	FY 2003 Results	FY 2004[1] Target	FY 2004[1] Results	FY 2004 Results vs. Target
1. Customer acceptance of recently adopted FCA regulations and policies through the average of ratings received on the following three survey questions (on a scale of 1 to 5, with 1 being the highest rating): • Did our rulemaking and policy activities recognize market forces and encourage innovation for System institutions? • Did we adequately involve the public to seek its perspective regarding our rulemaking activities? • Did our rulemaking and policy activities implement the Farm Credit Act without imposing unnecessary burden?	This performance measure is based on an Office of the Inspector General annual survey of commenters on proposed regulations and policies. This measure was discontinued during FY 2003 because it was found not to be objective as Farm Credit System institutions comprised most of those surveyed.	$\leq$ 2.50	2.31	$\leq$ 2.50	3.05	$\leq$ 2.50	NA	NA (Note A)	NA (Note A)	NA
2. Percentage of institutions[3] with effective strategic business plans[4] for providing constructive credit and related services to all potential customers.	We reviewed the strategic business plans of 58 institutions from January to June 2004 and all except one were found to be satisfactory. The one institution with a less than satisfactory business plan was required to take corrective actions and has implemented plans to do so that adequately addressed our concerns.	NA	NA	NA	NA	NA	NA	100% (Notes A & B)	98% (Notes A & B)	★

1. As noted previously, to meet Office of Management and Budget (OMB) mandated reporting requirements, our reporting period for these performance measures ended June 30, 2004. Additionally, because of our new 2004–2009 Strategic Plan, some measures are new and began January 1, 2004.
2. The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results table: < is less than; > is greater than; $\leq$ is less than or equal to; $\geq$ is greater than or equal to; and NA is not applicable.
3. For purposes of performance measurement, the term "institutions" does not include the National Cooperative Bank, the Federal Agricultural Mortgage Corporation (Farmer Mac) (unless specifically noted), or institutions that FCA examines on behalf of the Small Business Administration (SBA) and the U.S. Department of Agriculture (USDA) on a contract basis.
4. Effective strategic business plans are those that received a satisfactory rating from FCA examiners and comply with 12 CFR 618.8440.

Table 6a
Goal 1
Performance Measures and Results

	Measure	Results	FY 2001 Target[2]	FY 2001 Results	FY 2002 Target	FY 2002 Results	FY 2003 Target	FY 2003 Results	FY 2004[1] Target	FY 2004[1] Results	FY 2004 Results vs. Target
3.	The aggregate annual change in Farmer Mac's program assets in relation to the change in the total eligible agricultural mortgage market.[5]	This result will be based on calendar year 2004 data and reported in the 2005 Performance and Accountability Report.	NA	NA	NA	NA	NA	NA	≥1.00 (Notes A & B)	Not Available (Notes A & B)	NA
4.	Percentage of direct-lender institutions with satisfactory consumer compliance and borrower rights examination ratings.[6]	We performed compliance reviews at 33 direct-lender institutions from January to June 2004 and all except one received satisfactory consumer compliance and borrower rights examination ratings. The one institution with less than satisfactory consumer compliance was required to take corrective actions including correcting the specific violations, improving procedures, providing additional training, and increased internal review coverage of this area. The association response adequately addresses our concerns in this area.	NA	NA	NA	NA	NA	NA	100% (Notes A & B)	97% (Notes A & B)	★
5.	Percentage of regulations completed that use "special" customer service focus or features.[7]	This measure was replaced with measure #6 below.	≥40%	100%	≥40%	100%	100%	100%	NA (Note A)	NA (Note A)	NA
6.	Percentage of instances in which the Agency solicits public comment and input on applicable regulatory initiatives using supplemental approaches[8] to the notice and comment rulemaking process.	From January to June 2004, we used such approaches on 8 of 11 regulatory initiatives. From October 2003 to June 2004, we used such approaches on 11 of 14 regulatory initiatives.	NA	NA	NA	NA	NA	NA	≥40% (Notes A & B)	72.3% (Notes A & B)	▲

5. Farmer Mac acts on the assumption that 40 percent of the total agricultural real estate lending market is eligible for Farmer Mac programs.
6. FCA examiner reviews of consumer compliance and borrower rights are absent any material deficiencies or weaknesses.
7. "Special" customer service focus or features are designed to enhance the public's ability to participate in regulatory projects or to expedite completion of projects when appropriate. These include Advanced Notice of Proposed Rulemaking (ANPRM), Fast-track or Streamlined Regulation Development Procedures, Direct Final Rulemaking, Reproposal or Resolicitation of Public Comments, Comment Period Extension, Question-and-Answer Format, Response to Petitions, and Information Meetings with Constituents and/or Congressional Committees.
8. Supplemental approaches include ANPRM, comment period reopenings and extensions, constituent/congressional committee meetings, public meetings, focus groups, town meetings, and other unique approaches to gather a broad range of public input.

Table 6a
Goal 1
Performance Measures and Results

	Measure	Results	FY 2001 Target[2]	FY 2001 Results	FY 2002 Target	FY 2002 Results	FY 2003 Target	FY 2003 Results	FY 2004[1] Target	FY 2004[1] Results	FY 2004 Results vs. Target
7.	Percentage of direct-lender institutions that have effective programs[9] to furnish sound and constructive credit and related services to young, beginning, and small farmers, ranchers, and producers and harvesters of aquatic products (YBS) or that have acceptable corrective action plans in place.	We reviewed the YBS programs of 50 institutions from October 2003 to June 2004 and all were found to be satisfactory or had acceptable corrective action plans in place to address deficiencies. We recommended that one association include administration of the association's YBS program in the scope of future internal audits/reviews. In addition, we requested one association to include YBS goals in its 2004 business plan. Both associations submitted acceptable corrective action plans to address these issues.	NA	NA	NA	NA	100%	92%	100% (Note B)	100% (Note B)	✓
8.	The aggregate annual change in the level of System and Farmer Mac participation in Federal and state guarantee programs in relation to the aggregate annual change in total Federal and state guarantee programs.	The results will be measured for the calendar year 2004 and reported in the 2005 Performance and Accountability Report.	NA	NA	NA	NA	NA	NA	≥1.00 (Notes A & B)	Not Available (Notes A & B)	NA
9.	The total number of regulation projects completed compared with the number of regulation projects in the Board-approved annual Regulatory Performance Plan.	This performance measure was discontinued during FY 2004.	≥90%	78%	≥90%	78%	≥78%	80%	NA (Note A)	NA (Note A)	NA

9. An effective program is one that received a satisfactory rating from FCA examiners for the most recent review of an institution's YBS program.

Table 6b
Goal 2
Performance Measures and Results

Measure	Results	FY 2001		FY 2002		FY 2003		FY 2004[1]		FY 2004
		Target[2]	Results	Target	Results	Target	Results	Target	Results	Results vs. Target
10. Number of institutions placed in receivership due to financial failure during the previous 12 months.	During fiscal year 2004, neither Farmer Mac nor any FCS institution was placed in receivership.	NA	NA	NA	NA	NA	NA	0	0	✓
11. The total assets of FCS institutions with composite Financial Institution Rating System (FIRS) ratings of "1" or "2" divided by the total assets of FCS institutions.	As of June 30, 2004, all FCS institutions had composite FIRS ratings of "1" or "2."	NA	NA	NA	NA	NA	NA	≥90% (Notes A & B)	100% (Notes A & B)	▲
12. Percentage of FCS institutions with composite FIRS ratings of "3," "4," or "5" with corrective action plans in place to address the underlying problems.	As of June 30, 2004, no FCS institution had composite FIRS ratings of "3" or worse.	NA	NA	NA	NA	NA	NA	100% (Notes A & B)	100% (Notes A & B)	✓
13. Percentage of direct-lender institutions with adverse assets to risk funds less than 100 percent.	All direct-lender institutions maintained adversely classified assets at levels that were well within their risk-bearing capacity. The amount of risk funds substantially exceeded the amount of adversely classified assets in all direct-lender institutions.	>90%	100%	100%	100%	100%	100%	100% (Note B)	100% (Note B)	✓
14. The total assets of direct-lender institutions with adversely classified assets to risk funds less than 100 percent divided by the total assets of direct-lender institutions.	This performance measure was discontinued during FY 2004.	>85%	100%	100%	100%	100%	100%	NA (Note A)	NA (Note A)	NA
15. The number of direct-lender institutions with adversely classified assets to risk funds greater than 100 percent with corrective action plans that mitigate the excessive risk.	This performance measure was discontinued during FY 2004.	100%	NA	100%	NA	100%	NA	NA (Note A)	NA (Note A)	NA

Table 6b
Goal 2
Performance Measures and Results

Measure	Results	FY 2001 Target[2]	FY 2001 Results	FY 2002 Target	FY 2002 Results	FY 2003 Target	FY 2003 Results	FY 2004[1] Target	FY 2004[1] Results	FY 2004 Results vs. Target
16. Percentage of institutions complying with all regulatory capital ratio requirements (permanent capital ratio, total capital ratio, core surplus ratio, net collateral, risk-based capital).	As of June 30, 2004, all FCS institutions and Farmer Mac complied with all provisions of the FCA capital adequacy regulations that apply to them.	100%	100%	100%	100%	100%	100%	100% (Note B)	100% (Note B)	✓
17. The 3-year average return on average assets (ROAA) of FCS institutions.	This performance measure was discontinued during FY 2004.	≥1.25%	1.55%	≥1.25%	1.68%	≥1.25%	1.71%	NA (Note A)	NA (Note A)	NA
18. The 3-year average return on equity (ROE) of FCS institutions.	This performance measure was discontinued during FY 2004.	7.55%	10.18%	>7.34%	10.84%	>6.65%	10.93%	NA (Note A)	NA (Note A)	NA
19. The percentage of examinations of FCS institutions meeting the statutory examination frequency requirement.	This performance measure was discontinued during FY 2004.	100%	100%	100%	100%	100%	100%	NA (Note A)	NA (Note A)	NA
20. Customer acceptance of FCA's examination and supervisory programs through the average of the ratings (1 to 5, with 1 being the highest rating) received on the following survey statements.	FCA's Inspector General conducts a semi-annual survey of FCS institutions that were examined during the previous 6-month period. The survey provides us feedback on whether the board and management believe our examination provided them useful information.									
a. The board and management believe the findings of the examination will assist (or have assisted) the institution in correcting identified weaknesses.	This performance measure was discontinued during FY 2004.	≤2.25%	1.66	≤2.25%	1.70	≤2.25%	1.90	NA (Note A)	NA (Note A)	NA
b. The board and management believe the actions required by the enforcement document will assist (or have assisted) the institution in correcting identified weakness.	This performance measure was discontinued during FY 2004.	≤2.5%	NA	≤2.5%	NA	≤2.5%	NA	NA (Note A)	NA (Note A)	NA

Table 6b
Goal 2
Performance Measures and Results

Measure	Results	FY 2001 Target[2]	FY 2001 Results	FY 2002 Target	FY 2002 Results	FY 2003 Target	FY 2003 Results	FY 2004[1] Target	FY 2004[1] Results	FY 2004 Results vs. Target
21. Percentage of instances of noncompliance with laws or regulations resolved to FCA's satisfaction.	During January to June 2004, 15 instances of noncompliance with laws or regulations were identified. Of these, all but one was resolved to FCA's satisfaction. One association did not initially correct several violations on individual loans and rejected applications. Subsequently, the institution has communicated its commitment to address the violations expeditiously. Therefore, we consider our performance as meeting the performance target in all cases.	NA	NA	NA	NA	NA	NA	100% (Notes A & B)	93% (Notes A & B)	★
22. Percentage of institutions that have effective audit and review programs.[10]	We reviewed the audit and review programs of 34 institutions from January to June 2004 and all except one was found to be satisfactory. However, that institution has submitted corrective action plans that adequately addressed our concerns. Therefore, we consider our performance as meeting the performance target in all cases.	NA	NA	NA	NA	NA	NA	100% (Notes A & B)	97% (Notes A & B)	★

10. An effective audit and review program is one that received a satisfactory rating from FCA examiners for the most recent review of an institution's internal controls.

Table 6c
Goal 3
President's Management Agenda—Performance Measures and Results

Measure	Results	FY 2001 Target[2]	FY 2001 Results	FY 2002 Target	FY 2002 Results	FY 2003 Target	FY 2003 Results	FY 2004[1] Target	FY 2004[1] Results	FY 2004 Results vs. Target
23. The Agency's human capital goals and strategies support mission needs and the President's Management Agenda (PMA).	During FY 2004, most of the Agency's personnel activity was directed toward replacing attrition within the Office of Examination (OE) that was driven by retirements. Thirteen associate examiners were hired to position each of the OE field offices to adequately handle their respective full-time equivalent needs.	NA	NA	NA	NA	NA	NA	Yes (Notes A & B)	Yes (Notes A & B)	✓
24. Structure of the Agency is assessed at least once every 3 years to determine whether changes are needed to better meet mission goals.	Assessing the structure of the Agency was not conducted in 2004. The FCA Board will make this endeavor a priority in 2005.	NA	NA	NA	NA	NA	NA	Yes (Notes A & B)	Not Available (Notes A & B)	NA
25. Percentage of available authorities and programs that were used to expand recruitment methods in an effort to enhance the pool of qualified applicants for entry-level hiring to include more individuals in underrepresented groups.	During FY 2004, all of the available authorities and programs for recruitment were used in an effort to enhance the pool of qualified applicants for entry-level hiring to include more individuals in underrepresented groups.	NA	NA	NA	NA	NA	NA	100% (Notes A & B)	100% (Notes A & B)	✓
26. Percentage of vacancy announcements issued at multiple grade levels for positions in FCA's six most populous occupations in an effort to develop and fully use employees' potential.	Four vacancy announcements for 12 positions in FCA's six most populous occupations were released January to June 2004. All except one were issued at multiple grade levels as planned. One vacancy announcement for entry level examiner career interns (series 1101) was announced at a single grade level as required by OPM regulations and FCA entry level hiring practices.	NA	NA	NA	NA	NA	NA	100% (Notes A & B)	75% (Notes A & B)	★
27. Percentage of vacant non-entry-level positions filled from within.	During January to June 2004, one nonentry level position was advertised and filled from within.	NA	NA	NA	NA	NA	NA	$\geq$ 60% (Notes A & B)	100% (Notes A & B)	▲

Table 6c
Goal 3
President's Management Agenda—Performance Measures and Results

Measure	Results	FY 2001 Target[2]	FY 2001 Results	FY 2002 Target	FY 2002 Results	FY 2003 Target	FY 2003 Results	FY 2004[1] Target	FY 2004[1] Results	FY 2004 Results vs. Target
28. Percentage of established career paths for FCA's six most populous occupations to allow for the internal advancement of high-potential candidates.	As of June 30, 2004, established career paths existed for all of FCA's six most populous occupations.	NA	NA	NA	NA	NA	NA	100% (Notes A & B)	100% (Notes A & B)	✓
29. Percentage of staff adhering to Individual Development Plans (IDPs) annually.	This result will be reported for FY 2004 in the FY 2005 Performance and Accountability Report as IDPs cover the period from October 2003 to September 2004.	NA	NA	NA	NA	NA	NA	≥85% (Notes A & B)	Not Available (Notes A & B)	NA
30. Audit opinion on the Agency's annual financial statements as reported by the Agency's external auditors.	This result will be reported for FY 2004 in the FY 2005 Performance and Accountability Report as the financial statements cover the period October 2003 to September 2004. The results of the audit will be available in November 2004.	NA	NA	NA	NA	NA	NA	Un-qualified (Notes A & B)	Not Available (Notes A & B)	NA
31. Number of material internal control weaknesses reported by the Agency's external auditors.	This result will be reported for FY 2004 in the FY 2005 Performance and Accountability Report as the audit covers the period from October 2003 through September 2004. The results of the audit will be available in November 2004.	NA	NA	NA	NA	NA	NA	0 (Notes A & B)	Not Available (Notes A & B)	NA
32. The number of business days after each month-end that financial reports are available to Agency managers.	The necessary control schedules became operational two months into the reporting period. Measurement from February to June 2004 resulted in financial reports available to Agency managers within seven business days as planned.	NA	NA	NA	NA	NA	NA	7 (Notes A & B)	7.3 (Notes A & B)	★

Table 6c
Goal 3
President's Management Agenda—Performance Measures and Results

	Measure	Results	FY 2001 Target[2]	FY 2001 Results	FY 2002 Target	FY 2002 Results	FY 2003 Target	FY 2003 Results	**FY 2004**[1] Target	**FY 2004**[1] Results	FY 2004 Results vs. Target
33.	Percentage of newly developed FCA training courses that are available electronically.	As of June 30, 2004, 100 percent of FCA's newly developed training courses were available electronically.	NA	NA	NA	NA	NA	NA	≥ 50% (Notes A & B)	100% (Notes A & B)	▲
34.	Percentage of Agency staff with broadband connectivity remotely.	As of June 30, 2004, 28.1 percent of the Agency's staff had broadband connectivity remotely.	NA	NA	NA	NA	NA	NA	≥ 25% (Notes A & B)	28.1% (Notes A & B)	▲
35.	Percentage of the Agency's Web pages and electronic devices that are section 508 accessibility compliant.	As of June 30, 2004, 95.5 percent of the Agency's Web pages and electronic devices were section 508 accessibility compliant.	NA	NA	NA	NA	NA	NA	≥ 95% (Notes A & B)	95.5% (Notes A & B)	▲
36.	Availability of information technology resources and information to appropriate users to provide communication and information collection and delivery in a timely manner, as measured quarterly by reports on FCA's network and Web components.	FCA's network and Web components were available 98.2 percent of the time.	NA	NA	NA	NA	NA	NA	≥ 97% (Notes A & B)	98.2% (Notes A & B)	▲
37.	Performance of an annual inventory of FCA's commercial activities for evaluation of outsourcing alternatives.	Performance of an annual inventory of FCA's commercial activities was completed in June 2004.	NA	NA	NA	NA	NA	NA	Yes (Notes A & B)	Yes (Notes A & B)	✓

Part III
Auditor's Reports and Financial Statements

Letter from the Chief Financial Officer

Fiscal Year 2004 was a successful year for the Farm Credit Administration (FCA or Agency) in financial management. The Agency again achieved a "clean" audit opinion on its financial statements by meeting the high standards established for sound financial management and reporting. As required by the Office of Management and Budget, FCA was able to meet all the accelerated reporting dates for the quarterly financial statements and the Annual Performance and Accountability Report. Meeting the accelerated due date for the Performance and Accountability Report required the cooperation of all involved parties. Working with the public accounting firm of Harper, Rains, Knight & Company, P.A., and the Office of Inspector General, FCA developed a time schedule that outlined the due dates for the various report requirements and the offices responsible for the requirements. I am pleased to report that all the key dates were met which would have otherwise adversely affected the timeliness of the report.

FCA is committed to professional excellence, accountability, and responsibility in the administration of our programs and financial operations. Our financial management initiatives stress the need for improvements as we work to meet increasing requirements during a period of declining resources. During FY 2004, FCA continued to take advantage of the cost-savings, the instant communications, and the interactivity associated with the Internet. During the year, we implemented two of the innovative systems offered by the Financial Management Service, Department of the Treasury: the Secure Payment System (SPS) and *Pay.gov*.

SPS provided a mechanism for the agency to migrate to a window-based browser application using the Internet. Office personnel are now able to prepare and submit payment schedules directly from their workstations or from a remote location. By using *Pay.gov*, FCA has been able to move from paper to an automated receipt of payment notification issues. Reconciliations and the reissuance of payments are now accomplished within a few days rather than weeks. As we identify other benefits offered by these and other Treasury provided systems, we will take advantage of their utility.

In addition to the above, FCA will complete in October 2004 the deployment of its integrated travel management system (Travel Manager) throughout the Agency. FCA has begun the process of upgrading its financial management system and should complete this process in 2005.

As we begin another year, we will continue to implement financial management improvements that require us to become more efficient, effective, and accountable. We will work with greater diligence to ensure the Agency's program goals are financially supported, while we also ensure that our financial responsibilities to our stakeholders and the American people are met.

W. B. Erwin
Chief Financial Officer

FINANCIAL STATEMENTS AND RELATED NOTES

FARM CREDIT ADMINISTRATION
BALANCE SHEET
As of September 30, 2004 and 2003

	2004	2003
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 1,065,048	$ 477,787
Investments (Note 3)	18,073,634	20,744,440
Accounts Receivable (Note 4)	175,527	133,377
Prepaid Expenses	6,818	25,494
Total Intragovernmental	19,321,027	21,381,098
Accounts Receivable, Net (Note 4)	636,580	588,915
General Property, Plant and Equipment, Net (Note 5)	1,227,115	514,705
Prepaid Expenses	83,826	73,594
Total Assets	$21,268,548	$22,558,312
Liabilities:		
Intragovernmental:		
Accounts Payable	$ 25,935	$ 175,227
Accrued Post-Employment Compensation (Note 6)	22,824	22,864
Advances from Others	3,363	295,404
Accrued Taxes Payable	4,708	8,561
Employer Contributions and Payroll Taxes Payable	177,260	130,243
Total Intragovernmental	234,090	632,299
Accounts Payable	281,437	576,426
Actuarial Workers Compensation Liability (Note 7)	1,380,291	1,845,363
Accrued Payroll and Benefits	3,812,861	3,520,323
Employer Contributions and Payroll Taxes Payable	26,547	19,410
Liability for Miscellaneous Funds Recieved	44,469	–
Deferred Revenue	1,695,438	1,838,686
Total Liabilities	7,475,133	8,432,507
Net Position:		
Cumulative Results of Operations	13,793,415	14,125,805
Total Net Position	13,793,415	14,125,805
Total Liabilities and Net Position	$21,268,548	$22,558,312

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF NET COST
For the Years Ended September 30, 2004 and 2003

	2004	2003 (Reclassified)
Program Costs:		
Safety and Soundness:		
Intragovernmental Gross Costs	$ 7,897,166	$ 7,985,678
Less: Intragovernmental Earned Revenues	(346,768)	(351,874)
Intragovernmental Net Costs	7,550,398	7,633,804
Gross Costs with the Public	25,137,217	24,104,964
Less: Earned Revenues from the Public	(30,159,392)	(28,560,701)
Net Costs with the Public	(5,022,175)	(4,455,737)
Total Net Costs—Safety and Soundness	2,528,223	3,178,067
Policy and Regulation:		
Intragovernmental Gross Costs	1,504,041	1,644,903
Less: Intragovernmental Earned Revenues	(78,474)	(74,344)
Intragovernmental Net Costs	1,425,567	1,570,559
Gross Costs with the Public	5,971,699	5,135,249
Less: Earned Revenues from the Public	(6,730,945)	(6,020,531)
Net Costs with the Public	(759,246)	(885,282)
Total Net Costs—Policy and Regulation	666,321	685,277
Other Activity:		
Intragovernmental Gross Costs	535,161	570,002
Less: Intragovernmental Earned Revenue	(1,423,336)	(1,134,721)
Intragovernmental Net Costs	(888,175)	(564,719)
Gross Costs with the Public	1,771,765	1,953,651
Less: Earned Revenues from the Public	(142,529)	(157,883)
Net Costs with the Public	1,629,236	1,795,768
Total Net Costs—Other Activities	741,061	1,231,049
Net Cost of Operations (Notes 8 and 9)	$ 3,935,605	$ 5,094,393

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2004 and 2003

	2004 Cumulative Results of Operations	2003 Cumulative Results of Operations
Beginning Balances	$14,125,805	$14,539,850
Prior Period Adjustments (Note 10)	(55,502)	2,412
Beginning Balances, As Adjusted	14,070,303	14,542,262
Other Financing Sources:		
Imputed Financing from Costs Absorbed by Others		
Federal Employee Benefits (Note 11)	2,286,083	2,110,247
Rent (Note 12)	1,372,634	2,567,689
Total Financing Sources	3,658,717	4,677,936
Net Cost of Operations	(3,935,605)	(5,094,393)
Net Position—Ending Balance	$13,793,415	$14,125,805

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2004 and 2003

	2004	2003
Budgetary Resources:		
Unobligated Balances—Beginning of Period	$ 13,867,805	$15,552,828
Spending Authority from Offsetting Collections:		
Earned		
Collected	38,915,092	36,423,719
Receivable from Federal Sources	(37,061)	98,665
Change in Unfilled Customer Orders		
Advance Received	(292,041)	274,963
Without Advance from Federal Sources	387,282	(40,870)
Subtotal—Spending Authority from Offsetting Collections	38,973,272	36,756,477
Total Budgetary Resources (Note 13)	$ 52,841,077	$52,309,305
Status of Budgetary Resources:		
Obligations Incurred—Exempt from Apportionment	$ 39,702,551	$38,441,500
Unobligated Balance-Available—Exempt from Apportionment	11,398,619	12,029,119
Unobligated Balance-Not Available	1,739,907	1,838,686
Total Status of Budgetary Resources	$ 52,841,077	$52,309,305
Relationship of Obligations to Outlays:		
Obligated Balance, Net, Beginning of Period	$ 6,984,737	$ 5,077,555
Obligated Balance, Net, End of Period:		
Accounts Receivable	$ (221,322)	$ (258,383)
Unfilled Customer Orders from Federal Sources	$ (447,186)	$ (59,904)
Undelivered Orders	$ 2,235,276	$ 2,849,970
Accounts Payable	$ 4,351,572	$ 4,453,054
Outlays:		
Disbursements	$ 40,418,728	$36,476,524
Collections	(38,623,051)	(36,698,682)
Net Outlays	$ 1,795,677	$ (222,158)

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF FINANCING
For the Years Ended September 30, 2004 and 2003

	2004	2003
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$39,702,551	$ 38,441,500
Less: Spending Authority from Offsetting Collections	(38,973,272)	(36,756,477)
Net Obligations	729,279	1,685,023
Other Resources		
Imputed Financing from Costs Absorbed by Others (Notes 11 And 12)	3,658,717	4,677,936
Exchange Revenue Not in the Budget	(143,248)	227,320
Net Other Resources Used to Finance Activities	3,515,469	4,905,256
Total Resources Used to Finance Activities	4,244,748	6,590,279
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	718,378	(1,632,391)
Resources that Fund Expenses Recognized in Prior Periods	5,581	–
Resources that Finance the Acquisition of Assets	(1,349,176)	(210,739)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(625,217)	(1,843,130)
Total Resources Used to Finance the Net Cost of Operations	3,619,531	4,747,149
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Exchange Revenue Receivable from the Public	(45,586)	(273,704)
Actuarial FECA Liability Decrease (Note 14)	(465,072)	(185,394)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	(510,658)	(459,098)
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	828,811	796,326
Bad Debt Expense, Refunds Receivable from the Public, and Gain on Asset Disposition	(2,079)	10,016
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	826,732	806,342
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	316,074	347,244
Net Cost of Operations	$ 3,935,605	$ 5,094,393

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

A. Reporting Entity—The Farm Credit Administration (FCA or Agency) is an independent agency in the executive branch of the U.S. Government. FCA is responsible for the regulation and examination of the banks, associations, and related entities that compose the Farm Credit System (FCS or System). Specifically, FCA is empowered to ensure safe and sound operations of all System institutions. Initially created by an Executive order of the President in 1933, FCA now derives its power and authority from the Farm Credit Act of 1971, as amended (Act). The Act requires System institutions to be examined periodically by FCA. Policy making for FCA is vested in a full-time, three-person board whose members are appointed by the President with the advice and consent of the Senate.

B. Basis of Accounting and Presentation—As required by Public Law 107-289, the Accountability of Tax Dollars Act of 2002, the accompanying financial statements have been prepared in accordance with the Office of Management and Budget's (OMB) Bulletin No. 01-09, Form and Content of Agency Financial Statements. Also, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and the Statements of Federal Financial Accounting Standards (SFFAS) prescribed by the Federal Accounting Standards Advisory Board, which has been designated the official body for setting standards for the Federal government. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. FCA's transactions are recorded on the accrual basis of accounting. Under this 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. Budgetary accounting has also been applied to facilitate compliance with legal constraints and control over the use of funds.

Please note that beginning with FY 2004, FCA revised its presentation of the Statement of Net Cost for the cost and revenue associated with the Federal Agricultural Mortgage Corporation (Farmer Mac). In previous years, the cost and revenue for Farmer Mac was presented under the program goal for "Other Activity." However, since FCA is responsible for regulating and supervising Farmer Mac, it was determined that the cost and revenue should be appropriately classified under the "Safety and Soundness" and "Policy and Regulation" goals. To facilitate the comparison of the Statement of Net Cost data for fiscal years 2004 and 2003, the Statement of Net Cost for FY 2003 was reclassified using the new format. Also note that the Statement of Custodial Activity contained in OMB Bulletin Number 01-09 is not applicable to FCA and is not included as a part of the financial statements. All amounts reported in the accompanying statements and related notes are presented in dollars.

C. Fund Balance with Treasury—FCA maintains a revolving, no year account with the U.S. Treasury through which cash receipts and disbursements are processed. The funds that are available are obtained from assessments, reimbursable activities, and amounts owed by employees and vendors. FCA does not receive appropriated funds.

D. Investments—The Act gives FCA the authority to invest in public debt securities with maturities suitable to FCA's needs. FCA invests solely in U.S. Treasury securities, which are normally held to maturity and carried at cost. However, in FY 2004, there were two instances in which FCA redeemed investments before maturity to meet cash needs. 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.

E. Accounts Receivable—Accounts receivable are comprised of (1) reimbursements for administrative expenses incurred by FCA according to agreements with other Federal entities, (2) assessments from institutions in accordance with the Act and FCA regulations, and (3) amounts owed FCA that are generated through the normal course of business with employees and vendors. The Office of Chief Financial Officer (OCFO) reviews the Agency's accounts receivable on an ongoing basis. The OCFO has determined that all accounts receivable are fully collectible as of September 30, 2004.

F. 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. FCA operates under a policy that property, equipment, and software with itemized costs of $5,000 or more and a useful life of two years or more are capitalized. Items that are less than $5,000 but meet certain bulk purchase criteria are also capitalized. The straight-line method of depreciation with half-year convention is used to allocate the cost of capitalized property, equipment, and software over their estimated useful lives.

G. Rent—The Act provides for FCA to occupy buildings and use land owned and leased by the FCS Building Association (FCSBA), an entity owned by the System banks. FCA is not charged for the use of the buildings or land, nor does it pay for maintenance and repair of buildings and land improvements. Rent is reflected on FCA's books as an imputed cost and an imputed financing source.

H. 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 (OPM) provides to each agency the cost factors used in the calculation of these Federal employee benefit expenses.

I. 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.

J. Assessments—A substantial portion of FCA's revenues is based upon direct assessments billed to System institutions that are regulated or examined by FCA. FCA also recognizes revenues based on examination services provided by the Office of Examination. Direct assessments are derived using a formula established in FCA regulations and are based, in part, upon the average risk adjusted assets and the overall financial health of the institution being assessed.

K. Deferred Credits—Prior to the beginning of each fiscal year, in accordance with the Act, the FCA determines the amount of funding required from assessments for the subsequent fiscal year and the amount of the assessment to be apportioned to each System institution, including Farmer Mac. Each year, these estimates are provided to the System institutions during the month of September. The unearned revenue received prior to the beginning of the new fiscal year is established as a deferred credit and is reported as such on the Balance Sheet. These amounts are also reported as Unobligated Funds-Not Available for Commitment/Obligation on the Statement of Budgetary Resources.

Note 2. Fund Balance with Treasury

	2004	2003
Fund Balance with Treasury		
Revolving Fund	$ 1,065,048	$ 477,787
Total Fund Balance with Treasury	$ 1,065,048	$ 477,787
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$11,398,619	$12,029,119
Unavailable	1,739,907	1,838,686
Obligated Balance	5,918,340	6,984,737
Subtotal—Status of Fund Balance	$19,056,866	$20,852,542
Funds Invested with Treasury		
Net of Unamortized Discount	(17,991,818)	(20,374,755)
Total Fund Balance with Treasury	$ 1,065,048	$ 477,787

Note 3. Investments

Intragovernmental Securities
Amounts for 2004 Balance Sheet Reporting

	(1) Amortized Cost	(2) Unamortized (Premium) Discount	(3) Investments Net	(4) Required Market Value Disclosure
Non-Marketable:				
Market-Based	$18,027,839	($20,839)	$18,007,000	$18,015,136
Accrued Interest	45,795	–	–	45,795
Total	$18,073,634	($20,839)	$18,007,000	$18,060,931

Amounts for 2003 Balance Sheet Reporting

	(1) Amortized Cost	(2) Unamortized (Premium) Discount	(3) Investments Net	(4) Required Market Value Disclosure
Non-Marketable:				
Market-Based	$20,628,206	($244,206)	$20,384,000	$20,820,978
Accrued Interest	116,234	–	–	116,234
Total	$20,744,440	($244,206)	$20,384,000	$20,937,212

Premiums and discounts are amortized and interest is accrued using the effective interest method over the term of the respective issues. Interest earned on investments was $446,656 and $453,890 for fiscal years 2004 and 2003, respectively.

Note 4. Accounts Receivable

	2004	2003
Intragovernmental:		
Reimbursements	$175,168	$127,863
Expenditure Refunds	359	5,514
Subtotal	175,527	133,377
With the Public:		
Assessments	634,501	586,128
Vendor Overpayments	714	1,580
Other	1,365	1,207
Subtotal	636,580	588,915
Total	$812,107	$722,292

Note 5. General Property, Plant, and Equipment

As of September 30, 2004

	Estimated Useful Life	Depreciation Method	Acquisition Value	Accumulated Amortization/ Depreciation	Book Value
Equipment	3 years	Straight Line	$1,801,545	($1,697,741)	$ 103,804
IT Equipment	3 years	Straight Line	1,182,239	(197,438)	984,801
Software	3 years	Straight Line	208,078	(101,494)	106,584
Vehicles	5 years	Straight Line	50,389	(18,463)	31,926
Total			$3,242,251	($2,015,136)	$1,227,115

As of September 30, 2003

	Estimated Useful Life	Depreciation Method	Acquisition Value	Accumulated Amortization/ Depreciation	Book Value
IT Equipment	3 years	Straight Line	$2,115,645	($1,672,018)	$443,627
Software	3 years	Straight Line	91,994	(65,151)	26,843
Vehicles	5 years	Straight Line	50,389	(6,154)	44,235
Total			$2,258,028	($1,743,323)	$514,705

Note 6. Accrued Post-Employment Compensation

Intragovernmental—Covered by Budgetary Resources

	Current Liabilities	Non-Current Liabilities	Total
FECA Accrual—2004	$22,824	$ –	$22,824
FECA Accrual—2003	$22,864	$ –	$22,864

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to cover Federal civilian employees injured on the job, employees who have contracted a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to job-related injury or occupational disease. Claims for benefits under the FECA for eligible FCA employees are administered by the Department of Labor (DOL) and ultimately paid by the FCA. In FY 1999, FCA elected to annually reimburse the DOL for the actual benefit payments paid to its employees upon receiving notification of claims incurred. As of September 30, 2004, FCA had an outstanding claim of $22,824, all of which will be paid with the July 2004 through June 2005 billing.

Note 7. Actuarial Workers Compensation Liability

The DOL estimates future workers compensation liability for specified entities preparing statements under the Chief Financial Officers' Act and the Government Management Reform Act. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but unreported claims. Because FCA is not one of the specified entities for which the DOL provides individual agency estimates on a routine basis, FCA calculated its actuarial liability amount using the DOL model for the estimation of FECA actuarial liability.

The FECA Actuarial Liability amounts for FY 2004 and FY 2003 are $1,380,291 and $1,845,363, respectively. The decrease in the actuarial liability amount may be attributed to the decrease in the number of employees considered in the formula over the reporting periods, and the slight change in the model provided by the DOL for the estimation of the liability. The FCA records the FECA Actuarial Liability as a liability that is "Not Covered by Budgetary Resources."

Note 8. Gross Cost and Earned Revenue by Budget Functional Classification

Functional Classification	Gross Cost (*)	Earned Revenue	Net Cost
Agriculture			
2004	$42,817,049	$38,881,444	$3,935,605
2003	$41,394,447	$36,300,054	$5,094,393

(*) Intragovernmental costs were in the amounts of $9,936,368 and $10,200,583 (as reclassified) for fiscal years 2004 and 2003, respectively, and the intragovernmental revenue amounts were $1,848,578 and $1,560,939 (as reclassified), respectively.

Note 9. Sub-Organization Program Costs/Program Costs by Segment

Farm Credit Administration
Supporting Schedule by Sub-Organization
For the Year Ending September 30, 2004

	Office				
	Examination	Policy & Analysis	Secondary Market Oversight	Support Organizations	Total
Safety & Soundness					
Intragovernmental	$ 2,527,939	$ 369,548	$ 52,092	$ 4,947,587	$ 7,897,166
With the Public	17,250,962	1,393,964	338,183	6,154,108	25,137,217
Total	19,778,901	1,763,512	390,275	11,101,695	33,034,383
Less: Earned Revenue	(18,265,161)	(1,628,545)	(360,406)	(10,252,048)	(30,506,160)
Net Program Cost	1,513,740	134,967	29,869	849,647	2,528,223
Policy & Regulation					
Intragovernmental	12,559	206,952	40,403	1,244,127	1,504,041
With the Public	80,228	2,777,775	330,241	2,783,455	5,971,699
Total	92,787	2,984,727	370,644	4,027,582	7,475,740
Less: Earned Revenue	(84,517)	(2,718,695)	(337,608)	(3,668,599)	(6,809,419)
Net Program Cost	8,270	266,032	33,036	358,983	666,321
Other Activity					
Intragovernmental	219,679	26,748	–	288,734	535,161
With the Public	1,753,433	1,123	–	17,209	1,771,765
Total	1,973,112	27,871	–	305,943	2,306,926
Less: Earned Revenue	(1,339,284)	(18,917)	–	(207,664)	(1,565,865)
Net Program Cost	633,828	8,954	–	98,279	741,061
Net Cost of Operations	$ 2,155,838	$ 409,953	$ 62,905	$ 1,306,909	$ 3,935,605

Note 9. Sub-Organization Program Costs/Program Costs by Segment (cont'd.)

Farm Credit Administration
Supporting Schedule by Sub-Organization
For the Year Ending September 30, 2003
(Reclassified)

	Office				
	Examination	Policy & Analysis	Secondary Market Oversight	Support Organizations	Total
Safety & Soundness					
Intragovernmental	$ 2,320,837	$ 177,651	$ 65,804	$ 5,421,386	$ 7,985,678
With the Public	15,047,844	1,088,110	251,846	7,717,164	24,104,964
Total	17,368,681	1,265,761	317,650	13,138,550	32,090,642
Less: Earned Revenue	(15,648,590)	(1,140,408)	(286,192)	(11,837,385)	(28,912,575)
Net Program Cost	1,720,091	125,353	31,458	1,301,165	3,178,067
Policy & Regulation					
Intragovernmental	14,113	420,512	14,382	1,195,896	1,644,903
With the Public	81,836	2,545,998	255,929	2,251,486	5,135,249
Total	95,949	2,966,510	270,311	3,447,382	6,780,152
Less: Earned Revenue	(86,251)	(2,666,681)	(242,991)	(3,098,952)	(6,094,875)
Net Program Cost	9,698	299,829	27,320	348,430	685,277
Other Activity					
Intragovernmental	220,590	1,502	–	347,910	570,002
With the Public	1,846,431	11,690	–	95,530	1,953,651
Total	2,067,021	13,192	–	443,440	2,523,653
Less: Earned Revenue	(1,058,719)	(6,757)	–	(227,128)	(1,292,604)
Net Program Cost	1,008,302	6,435	–	216,312	1,231,049
Net Cost of Operations	$ 2,738,091	$ 431,617	$ 58,778	$ 1,865,907	$ 5,094,393

Note 10. Prior Period Adjustments

FY 2004
In FY 2004, a prior period adjustment of $39,517 was made to revenue to adjust the FY 2003 billing assessment to the National Cooperative Bank. Also, in FY 2004, net expenditure adjustments of $15,985 were made to properly reflect cost recorded in prior budget fiscal years. The total prior period adjustments for FY 2004 equal $55,502. Due to the dollar values, it was determined that neither adjustment required restatement of the financial reports.

FY 2003
Effective in FY 2003, the Bureau of Public Debt changed its amortization method for market-based notes and bonds from the straight-line method to the scientific method of effective interest amortization. To provide standardization in processing and in the recording of intragovernmental transactions, agencies were requested to apply this same business rule in their recording of investment related-transactions. Agencies were advised that differences that resulted due to the change in methodology should be recorded as a prior period adjustment. FCA incurred an increase in the interest revenue of $2,412.

Note 11. Federal Employee Benefits

	2004	2003
Imputed Pension Cost	$1,124,517	$1,142,789
Other Imputed Retirement Benefits	1,161,566	967,458
Total	$2,286,083	$2,110,247

Retirement—FCA employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which FCA makes contributions according to plan requirements. CSRS and FERS are multiemployer plans. FCA does not maintain or report information about the assets of the plan, nor does it report actuarial data for accumulated plan benefits. The reporting of such amounts is the responsibility of OPM. FCA reports the amount of its pension expense for employees in accordance with SFFAS No. 5 (see Note 1). When the amount of the payment expense remitted to OPM is less than the full cost to the government, an imputed cost is recognized. The above imputed costs represent the amounts recognized by FCA for fiscal years 2004 and 2003. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

Other Retirement Benefits Expenses—SFFAS No. 5 (see Note 1) requires employing Federal agencies to recognize an expense for the cost of providing health benefits and life insurance to its employees after they retire. Factors used to calculate these costs were provided by OPM to meet this requirement. As with pension payments, imputed costs are recognized when amounts remitted for health benefits and life insurance are less than the full cost to the government. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

Note 12. Rent

	2004	2003
Leased Field Offices	$ 752,095	$ 786,844
FCA Headquarters	620,539	1,780,845
Total	$1,372,634	$2,567,689

In accordance with the Act, FCA occupies buildings owned and leased by the FCSBA. The FCA administrative headquarters building and land are located in McLean, Virginia. In addition, the FCSBA leases office space for field offices on behalf of FCA at various locations throughout the United States. Rent is provided at no cost to FCA. The above imputed rent expense is an estimate based on the FCSBA actual results of operations for the 12 months ended December 31, 2003. The large decrease in rental cost for the FCA headquarters is due to the large decrease in the FCSBA's operating expenses.

In accordance with SFFAS No. 4 (see Note 1), the rent expense and the associated imputed revenue are recorded as a nonmonetary transaction. The full cost of the rent expense is calculated by subtracting the amount of rental income received from commercial tenants renting office space from the gross operating expenses of the FCSBA. The lease expenses for the field offices are included in FCSBA's gross operating expenses.

Note 13. Budgetary Resources

FY 2004
The Total Budgetary Resources reported in the financial statements for FY 2004 is $52,841,077. The budgetary authority for the FCA, in the Budget of the United States Government (Budget), is $57,000,000. The difference is $4,158,923. The Budget includes an estimated unobligated beginning balance of $15,000,000; however, only $13,867,805 was available at the beginning of FY 2004, which resulted in a difference of $1,132,195. Additionally, the Budget includes an estimate of $40,000,000 in non-Federal collections, of which only $36,825,949 (includes a reduction related to a refund to the System institutions in the amount of $2,050,999) was realized. This resulted in a difference of $3,174,051. Because the line items contained in the Budget are in “millions,” any remaining differences are due to rounding.

FY 2003
The Total Budgetary Resources reported in the financial statements for FY 2003 is $52,309,305. The budget authority for the FCA, in the Budget of the United States Government, is $53,000,000. The difference is $690,695. This difference includes an estimate for investment interest collections of $1 million, which did not fully materialize. Because the line items contained in the Budget are in “millions,” the primary difference is due to rounding.

Note 14. Relationship Between Liabilities Not Covered by Budgetary Resources and the Change in Components Requiring or Generating Resources in Future Periods

Operating as a revolving fund, the FCA funds its liabilities, except for the FECA actuarial liability. The FECA actuarial liability is unfunded, not covered by budgetary resources. In FY 2004 and FY 2003, there were decreases in the actuarial liability amounts of $465,072 and $185,394, respectively. These amounts are reported on the Statement of Financing as components of the net cost of operations that will require or generate budgetary resources in future periods.

Required Supplemental Information

Intragovernmental Assets

As of September 30, 2004

Agency	Fund Balance with Treasury	Investments	Accounts Receivable	Prepaid Expenses
U.S. Department of the Treasury	$ 1,065,048	$18,073,634	$ –	$ –
Small Business Administration	–	–	137,981	–
U.S. Department of Agriculture	–	–	37,187	–
Library of Congress	–	–	–	6,818
FCS Insurance Corporation	–	–	359	–
Total	$ 1,065,048	$18,073,634	$175,527	$6,818

As of September 30, 2003

Agency	Fund Balance with Treasury	Investments	Accounts Receivable	Prepaid Expenses
U.S. Department of the Treasury	$477,787	$20,744,440	$ –	$ –
Small Business Administration	–	–	122,558	–
U.S. Department of Labor	–	–	–	15,476
Library of Congress	–	–	–	10,018
FCS Insurance Corporation	–	–	8,453	–
U.S. Department of the Interior	–	–	664	–
Others–Represents 20 Agencies	–	–	1,702	–
Total	$477,787	$20,744,440	$133,377	$25,494

Required Supplemental Information (cont'd.)

Intragovernmental Liabilities

As of September 30, 2004

	Accounts Payable	Accrued Post-Employment Compensation	Advances from Others	Accrued Taxes Payable	Employer Contributions and Payroll Taxes Payable
U.S. Department of Agriculture	$ 1,500	$ –	$3,363	$ –	$ –
Office of Personnel Management	–	–	–	–	134,241
Social Security Administration (Treasury General Fund)	–	–	–	–	43,019
U.S. Department of Labor	–	22,824	–	–	–
FCS Insurance Corporation	8,770	–	–	–	–
Board of Governors of the Federal Reserve	12,425	–	–	–	–
Treasury—Internal Revenue Service	–	–	–	4,708	–
General Services Administration	1,782	–	–	–	–
U.S. Department of Justice	1,037	–	–	–	–
U. S. Department of the Treasury	421	–	–	–	–
Total	$25,935	$22,824	$3,363	$4,708	$177,260

As of September 30, 2003

	Accounts Payable	Accrued Post-Employment Compensation	Advances from Others	Accrued Taxes Payable	Employer Contributions and Payroll Taxes Payable
U.S. Department of Agriculture	$ 1,500	$ –	$295,404	$ –	$ –
U.S. Department of the Interior	149,527	–	–	–	–
Office of Personnel Management	–	–	–	–	97,344
Social Security Administration (Treasury General Fund)	–	–	–	–	32,899
U.S. Department of Labor	–	22,864	–	–	–
FCS Insurance Corporation	15,250	–	–	–	–
Board of Governors of the Federal Reserve	8,950	–	–	–	–
Treasury—Internal Revenue Service	–	–	–	8,561	–
Total	$175,227	$22,864	$295,404	$8,561	$130,243

Farm Credit Administration

Office of Inspector General
1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

November 3, 2004

The Honorable Nancy C. Pellett
Chairman of the Board
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Ms. Pellett:

This letter transmits the report on the audit of the Farm Credit Administration's (FCA) financial statements for the fiscal year ended September 30, 2004. The Office of Inspector General (OIG) tasked Harper, Rains, Knight, and Company, P.A. (HRK), an independent accounting firm, to perform the audit. This letter also incorporates a summary of what I believe are the most significant management and performance challenges facing the agency as described in the OIG Semiannual Report to the Congress dated September 30, 2004.

HRK issued an unqualified opinion. HRK opined FCA's principal financial statements present fairly, in all material respects, the financial position of FCA as of September 30, 2004 and 2003, in conformity with generally accepted accounting principles. HRK issued two other reports. The report on the internal control noted no matters involving the internal control and its operation that HRK considered to be material weaknesses. The HRK report on compliance with laws and regulations does not note any instances of noncompliance. In our opinion, HRK's work provides a reasonable basis on which to render its opinion and we concur with the reports.

The task order required HRK to perform the audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and the Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.* To ensure the quality of the work performed, the OIG:

- reviewed HRK's approach and planning of the audit;
- evaluated the qualifications and independence of the auditors;
- monitored progress of the audit;
- examined working papers; and
- reviewed the audit report.

As part of the Performance and Accountability Report, the Inspector General is required to provide an opinion on the most serious management and performance challenges facing the Agency. In the most recent Semiannual Report to Congress, I outlined major challenges confronting the Farm Credit Administration. These challenges fall into two general categories. First are the challenges related to the FCA's core mission of ensuring a dependable supply of credit to agriculture through the institutions it has chartered. These challenges are often shaped and influenced by events that are outside the control of the Agency. Second, but no less important, are those challenges related to the Agency's operations.

The Farm Credit System (FCS or System) is a single industry lender and is vulnerable to economic swings. While the System is presently sound, there are many challenges facing agriculture and rural America today that raise the question of whether there should be modifications to the Farm Credit Act (Act) in order to enhance agricultural and rural economies of the future.

As a financial regulator, FCA must maintain a flexible and responsive regulatory environment. FCA is pressed to test the limits of its flexibility within the bounds of the Act. The constraints of the Act may be part of the reason that one of the largest institutions recently announced it would be applying to terminate its charter. The FCA Board has faced pressures to consider loan syndications to be "participations" instead of "loans" to avoid certain provisions in the Act. The Board has faced similar issues related to preferred stock.

The FCA is challenged to balance the often competing demands of ensuring the FCS fulfills it public purpose, proactively examining risk in the regulated institutions both individually and systemically, and controlling the cost of the regulator. FCA's challenge is more complex because it has become increasingly difficult to reconcile significant provisions of the Act with the realities of the agricultural industry, the business environment, and financial markets in the 21st Century. FCA management fully understands this challenge and the Chairman recently provided testimony to Congress that clearly identifies the challenge.

> *"What we learned is that we must maintain a flexible and responsive regulatory environment. And where appropriate, we should eliminate or revise regulations that unnecessarily impair the System's activities.*
>
> *However, the limits of that flexibility are currently being tested as the changes in agriculture and rural America have eclipsed the legislative parameters initially granted to the System. The mission-driven desire and sometime financially-driven need of the System to expand its operations, not only within agriculture but also to rural America presents some challenges within existing authorities."*

Human Capital—The OIG recommended FCA develop a human capital plan in March 2001. FCA management agreed to this recommendation, yet FCA still does not have a plan. The problem had been the lack of a consistent strategic approach to marshalling, managing, and maintaining human capital to maximize FCA performance and assure its accountability.

FCA has the opportunity to consider organizational approaches that recognize the reality of evolving technology, a changing workforce, and other environmental forces. For example, as competitive sourcing, electronic government (E-Government), financial management, and other initiatives lead to changes—how FCA meets its mission may need to change, including the skill sets it needs and how it organizes those skills to meet its mission.

FCA can also improve its performance by building commitment and accountability through involving and empowering employees. FCA staff and its leaders must understand the rationale for making organizational and cultural changes. Everyone has a stake in helping to shape and implement initiatives as part of the Agency's efforts to meet current and future challenges. The cooperation of leaders and employees throughout the organization can lead to effective and sustained changes.

Agency management has made a renewed commitment to develop a human capital plan. Part of that commitment is evidenced by a study that the Chairman announced to FCA staff to evaluate the Agency's needs over a five to seven year planning horizon. The Chairman plans to evaluate the examination function, the regulatory development function and then the functions that support these operations. This approach is promising because it is a methodical and cohesive strategy designed to produce measurable results addressing the human capital needs of the Agency. It is also promising because the Chairman has communicated her plans to all staff—building understanding of and commitment to the organization's needs.

Agency Governance—The Act provides for a full time three-member Board. The Board members are appointed by the President and confirmed by the Senate. A small full-time Board presents a challenge in terms of defining the roles and responsibilities of the Board members relative to the governance of the Agency. The Board's rules of operation are a foundation for trust and shared expectations among Board members. A collegial Board founded on mutual trust and respect is essential to FCA's ultimate effectiveness.

The Chairman has taken action to address this challenge by sharing authority and tasking a Board member with the responsibility to lead the Board in its efforts on governance issues. This represents a positive and concrete commitment with accompanying resources to address this longstanding management challenge.

Strategic Planning—The FCA Board adopted a Strategic Plan a year ago. A change in chairmanship is an opportunity for management to refine strategies and alignment to ensure the Board's vision is accomplished.

The Board and Agency staff will face the significant challenge of refining performance measures to enhance a results-oriented culture at FCA. The Agency will need to achieve a balance among results, public expectations, and employee issues. FCA should evaluate its performance measures to ensure that they challenge and stretch the organization. Performance measures can be a powerful tool to continue the push into a results-oriented organization. An effective performance management system fosters performance and accountability at the individual, organizational, and ultimately overall Agency levels.

Financial Management—Timely, accurate, and useful financial information is essential for making day-to-day decisions; managing the Agency's operations more efficiently, effectively, and economically; supporting results-oriented management approaches; and ensuring accountability on an ongoing basis. During September 2003, the Agency decided to reprogram funds and purchase a new financial system. Management originally scheduled implementation of the new system during FY 2004. However, implementation has been delayed until June 2005. OIG has noted significant improvements are needed in project management to successfully complete implementation.

Management's challenge is to bring yet another system on line at a reasonable cost to the FCA and concurrently leverage the system to deliver timely financial information critical for making well-informed management decisions. The challenge forces the Agency to develop new measures of financial management success. Financial management success goes far beyond an unqualified financial statement audit opinion. Measures such as delivering financial information that managers can use for day-to-day operations, and developing reports that capture the full cost of programs and projects can help bring about improvements.

Financial management represents a challenge that goes to the fiber of FCA's business operations and management culture. FCA needs to ensure that underlying financial management processes, procedures, and information are in place for effective program management. FCA already has information that is readily available. However, the Chief Financial Officer (CFO) seems to be stuck in controlling the distribution of the information. This type of information control serves as a roadblock to improved management. FCA needs to take steps to get information into the hands of managers. FCA will also need to improve managers' ability to use the information to measure, control, and manage costs, to manage for results, and to make timely and fully informed decisions about allocating limited resources.

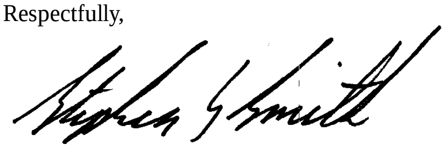
Security and Disaster Preparedness—Recently, management has made significant strides towards improving its preparedness by acting on OIG suggestions for an expedited effort to prepare for an emergency. Management completed a Continuity of Operations Plan, conducted drills and revised procedures based upon those drills. The Agency's level of preparedness is improving but it remains a management challenge to continue to refine procedures to ensure that the Agency reduces its vulnerability to significant disruption in operations in the event of an emergency. The speed of change in the security environment will be a challenge for all government organizations. This is especially true and a challenge for smaller organizations like FCA where an increased emphasis on physical and information security competes with program areas for limited budget funding.

Leveraging Technology—Information technology (IT) is a key element of management reform efforts that can help dramatically reshape government to improve performance and reduce costs. The Agency has recognized that in order to meet the constraints of its budget, it must be able to maximize its return on investment in technology. FCA's challenge is to establish effective mechanisms to ensure that current and future staff has the skills to use technology to operate in an efficient and effective manner.

Internally, there is an opportunity for IT to complement human capital initiatives to reformulate the work processes of FCA. In order for this to come about, FCA will need to invest in training and reward employees who are able to develop innovative approaches to accomplish Agency goals using technology.

Externally, E-Government offers many opportunities to better serve the public, make FCA more efficient and effective, and reduce costs. FCA has begun to implement some E-Government applications, including the use of the Internet to collect and disseminate information and forms. Here, FCA's challenge is to identify opportunities to develop partnerships with other agencies to develop joint E-Government strategies.

Respectfully,



Stephen G. Smith
Inspector General

Attachments
Copy to: The Honorable Douglas L. Flory, FCA Board Member
The Honorable Michael M. Reyna, FCA Board Member
W.B. Erwin, Chief Financial Officer
Eric Howard, Audit Follow-up Official

1. GAO-01-263

HRK

HARPER, RAINS, KNIGHT
& COMPANY
Certified Public Accountants
A Professional Association

INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS

FARM CREDIT ADMINISTRATION
The Board and Office of Inspector General

We have audited the balance sheets of the Farm Credit Administration (FCA) as of September 30, 2004 and 2003, and the statements of net cost, changes in net position, budgetary resources, and financing for the years then ended. These financial statements are the responsibility of the FCA's management. 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 statements contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, "Audit Requirements for Federal Financial Statements". These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net position of the Farm Credit Administration as of September 30, 2004 and 2003, and the net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the FY 2004 and 2003 principal financial statements of the FCA. The accompanying financial information, discussed below, is not a required part of the principal financial statements.

The Management Discussion and Analysis on pages 2-23; and the Required Supplemental Information on pages 70-71 is supplementary information required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the information. However, we did not audit the information and express no opinion on it.

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

November 1, 2004

Harper, Rains, Knight & Company, P.A. Certified Public Accountants Consultants
One Hundred Concourse 1052 Highland Colony Parkway, Suite 100 Ridgeland, Mississippi 39157
Telephone 601.605.0722 Facsimile 601.605.0733 www.hrkcpa.com

HARPER, RAINS, KNIGHT
& COMPANY
Certified Public Accountants
A Professional Association

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL

FARM CREDIT ADMINISTRATION
The Board and Office of Inspector General

We have audited the Principal Statements (hereinafter referred to as "financial statements") of Farm Credit Administration (FCA) as of and for the year ended September 30, 2004 and 2003, and have issued our report thereon dated November 1, 2004. 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 No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audits, we considered FCA's internal control over financial reporting by obtaining an understanding of the agency's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audits was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

With respect to internal control related to performance measures reported in the Performance report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of FCA, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

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

November 1, 2004

Harper, Rains, Knight & Company, P.A. Certified Public Accountants Consultants
One Hundred Concourse 1052 Highland Colony Parkway, Suite 100 Ridgeland, Mississippi 39157
Telephone 601.605.0722 Facsimile 601.605.0733 www.hrkcpa.com

HARPER, RAINS, KNIGHT
& COMPANY
Certified Public Accountants
A Professional Association

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH LAWS AND REGULATIONS

FARM CREDIT ADMINISTRATION
The Board and Office of Inspector General

We have audited the Principal Statements (hereinafter referred to as "financial statements") of the Farm Credit Administration (FCA) as of and for the year ended September 30, 2004 and 2003, and have issued our report thereon dated November 1, 2004. 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 No. 01-02, "Audit Requirements for Federal Financial Statements."

The management of FCA is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to FCA.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance with laws and regulations that are required to be reported under Government Auditing Standards and OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the agency's financial management systems did not substantially comply with the Federal financial management systems requirements, United States Government Standard General Ledger at the transaction level and applicable Federal accounting standards.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audits and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of FCA, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

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

November 1, 2004

Harper, Rains, Knight & Company, P.A. Certified Public Accountants Consultants
One Hundred Concourse 1052 Highland Colony Parkway, Suite 100 Ridgeland, Mississippi 39157
Telephone 601.605.0722 Facsimile 601.605.0733 www.hrkcpa.com

Additional Information

The *Farm Credit Administration Performance and Accountability Report Fiscal Year 2004* is now available on FCA's Web site at *www.fca.gov.* While supplies last, printed copies of this publication and earlier editions may be obtained without charge from:

Office of Communications 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 prepares the financial press releases, the System's Annual and Quarterly Information Statements, and the System's combined financial statements contained therein, with the support of the System banks. Copies are available on the Funding Corporation's Web site 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 Web site 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 Communications and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
703-883-4056
www.fca.gov

1004/100