Farm Credit Administration

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

Performance and Accountability Report
Fiscal Year 2016

Contents

List of Tables Appearing in Report

List of Figures Appearing in Report

List of Acronyms Appearing in Report

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

Statement of the Board Chairman and CEO

November 14, 2016

As Board Chairman and Chief Executive Officer of the Farm Credit Administration, I invite you to review this Performance and Accountability Report. It details our accomplishments and program and financial performance for fiscal year (FY) 2016. I am pleased to report that we achieved the goals outlined in our Strategic Plan and achieved or exceeded all targets for which there are data to measure performance.

I am also pleased to report that our FY 2016 financial statements have received an unmodified opinion from an independent auditor. These financial statements provide a fair representation of our accounting practices and demonstrate our commitment to sound fiscal management.

FCA is the arm's length regulator of the Farm Credit System (System), including the Federal Agricultural Mortgage Corporation (Farmer Mac). Our mission is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America.

In FY 2017, our examiners will focus on the following major risk topics:

- Intensifying credit risk
- Implementing the new capital regulations

In addition, we will continue to focus on an effective internal controls environment for all institutions. Some of the most significant controls include board oversight, up-to-date policies and procedures, risk parameters, and internal audit coverage.

One of our greatest concerns this year is the downturn in the agricultural economy. Because of lower prices for most crop and livestock products, net cash farm income is expected to fall in 2016 for a fourth consecutive year. In 2015, it fell an estimated 18 percent; USDA expects it to fall another 13 percent in 2016. The decline in commodity prices is driven in part by high production levels, and USDA expects corn and soybean producers to have record harvests in 2016.

As a result of the drop in farm income, U.S. farmers carrying large amounts of debt are likely to experience some cash flow problems. Since those earnings problems may cause more loan delinquencies and other credit quality issues for System borrowers, our examiners will pay close attention to credit quality when assessing the loan portfolios of System institutions.

Also, when farm incomes decline, farmland values are usually not far behind. Because of consecutive years of lower farm income, U.S. cropland values softened in 2015, particularly in the Midwest. And according to a survey by the Federal Reserve Banks, most agricultural bankers expect farmland values to decline in 2016 between 5 percent and 10 percent.

Fortunately, the FCS remains financially sound and is well-positioned to withstand these challenges. For the first six months of 2016, the System reported moderate growth, favorable earnings, and higher capital levels. And although we are seeing some increase in credit risk, the System's portfolio loan quality continues to remain stable.

To be able to continue to fulfill their mission during economic downturns like this, System institutions must have enough capital to withstand intensifying credit risk. In March 2016, we completed an ambitious rulemaking project to modernize our capital regulations and to make sure System institutions maintain adequate capital. We will provide guidance to help System institutions comply with these regulations in FY 2017, and our examiners will assess their compliance.

As we face the challenges ahead, we at the Farm Credit Administration remain committed to our mission, and we are proud to do our part to keep agriculture and rural America strong.

Kenneth A. Spearman
Board Chairman and CEO

Management's Discussion and Analysis

FCA at a Glance

The Farm Credit Administration is an independent agency in the executive branch of the U.S. government. We are responsible for regulating and supervising the 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, residents of rural communities, agricultural and rural utility cooperatives, and other eligible borrowers.

The agency was created by a 1933 executive order of President Franklin D. Roosevelt. FCA now derives its powers and authorities from the Farm Credit Act of 1971, as amended (12 U.S.C. 2001-2279cc). The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee FCA and the FCS.

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

- We ensure that FCS institutions, including Farmer Mac, operate safely and soundly and comply with applicable laws and regulations. Our examinations and oversight strategies focus on an institution's financial condition and any material existing or potential risk, as well as on the ability of its board of directors and management to direct its operations. We also evaluate each institution's compliance with laws and regulations to serve eligible borrowers, including young, beginning, and small farmers and ranchers. If a System institution violates a law or regulation or operates in an unsafe or unsound manner, we use our supervisory and enforcement authorities to ensure appropriate corrective action.
- We develop policies and regulations that govern how System institutions conduct their business and interact with customers. Our policy and regulation development focuses on protecting System safety and soundness; implementing the Farm Credit Act; providing minimum requirements for lending, related services, investments, capital, and mission; and ensuring adequate financial disclosure and governance. We also approve corporate charter changes, System debt issuance, and other financial and operational matters.

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

We do not receive a federal appropriation. We are funded through assessments paid by System institutions and by reimbursable activities.

Our policy, regulatory agenda, and supervisory and examination activities are established by a full-time, three-person board whose members are appointed by the president of the United States with the advice and consent of the Senate. Board members serve a six-year term and may not be reappointed after serving a full term or more than three years of a previous member's term but may remain on the board until a successor is nominated by the president and confirmed by the Senate. The president designates one member as chairman of the board, who serves in that capacity until the end of his or her own term. The chairman also serves as our chief executive officer.

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

Mission

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

FCA OFFICES

As of Sept. 30, 2016, FCA had 315 full- and part-time employees. These employees are divided among the following offices, with the majority serving in the Office of Examination.

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

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

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

The Office of Agency Services, which was created in April 2016, manages human capital and administrative services for the agency. This includes providing the following services to the agency: staffing and placement, job evaluation, compensation and benefits, payroll administration, performance management and awards, employee relations, employee training and development, contracting, acquisitions, records and property management, supply services, agency purchase cards, photography, video, graphic design and publication services, and mail service.

The Office of the Chief Financial Officer, which was created in April 2016, manages and delivers timely, accurate, and reliable financial services to the agency. The office establishes financial policies and procedures and oversees the formulation and execution of the agency's budget. The office reports periodically on the status of the agency's financial position, results of operations, and budgetary resources. It also oversees the agency's travel management, internal controls, and personnel security programs.

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

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

The Office of General Counsel (OGC) provides the FCA board and staff with legal counsel as well as guidance on the Farm Credit Act and general corporate, personnel, ethics, and administrative matters. OGC supports the agency's development and promulgation of regulations, enforcement of applicable laws and regulations, and implementation of conservatorships and receiverships. The office represents and advises the agency on civil litigation. It also serves as the liaison to the Federal Register, administers the agency's ethics program, and handles Freedom of Information Act requests.

The Office of Information Technology (OIT), which was created in June 2015, manages and delivers the agency's information technology, data analysis infrastructure, and the security supporting agency technology resources. The office is responsible for the planning and control of information technology investments and leading change to improve the efficiency and effectiveness of agency operations. OIT is responsible for continuing to leverage FCA's investment in technology by collaborating across agency offices to identify and re-engineer business processes. OIT provides strategies to collaborate across offices on business intelligence tools to develop analysis models to meet the strategic needs of the agency.

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

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

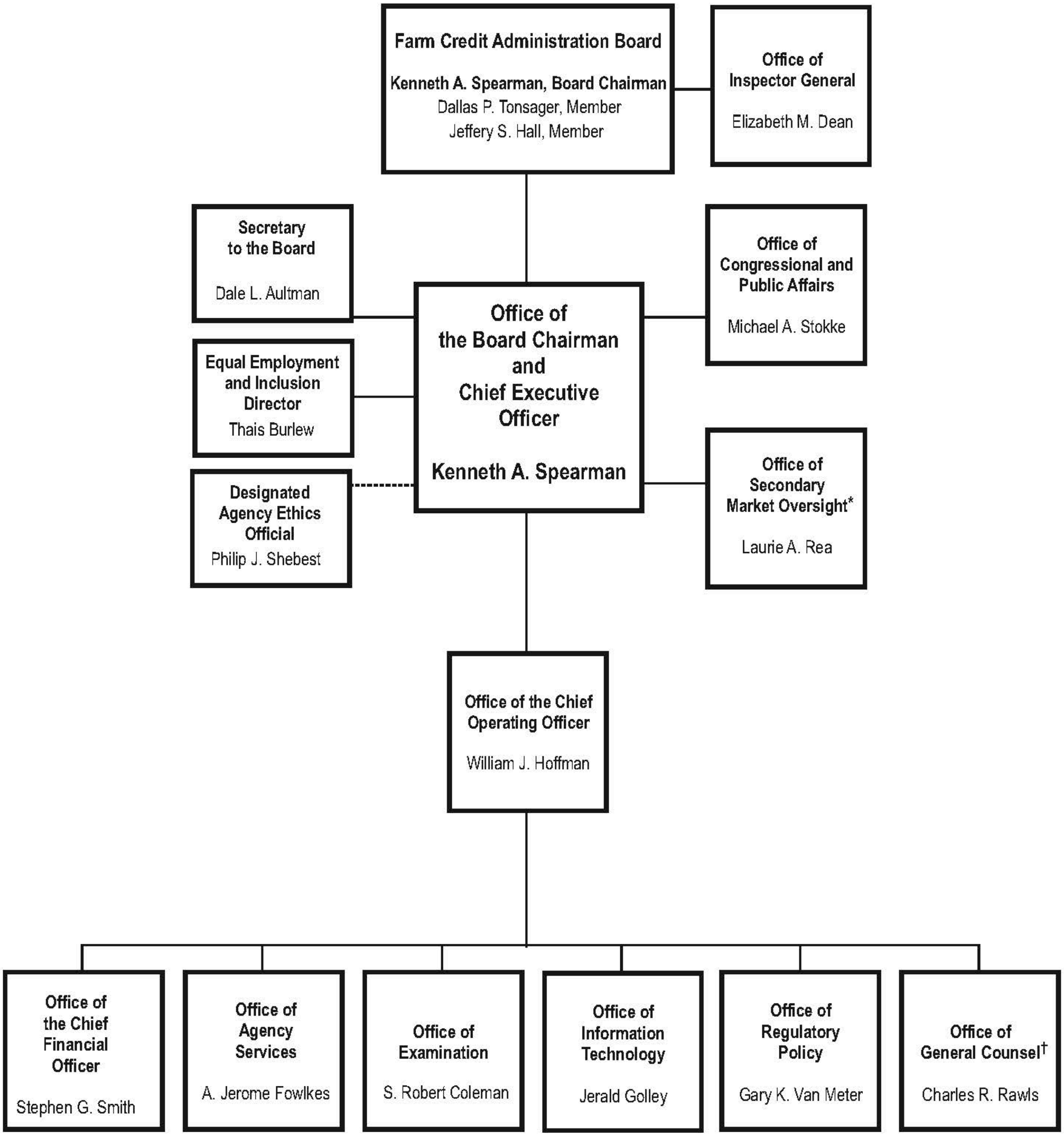
The Office of Secondary Market Oversight (OSMO) provides for the examination, regulation, and supervision of Farmer Mac to ensure its safety and soundness and the accomplishment of its public policy purpose as authorized by Congress. OSMO also ensures that Farmer Mac complies with applicable laws and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

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

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

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

Figure 1
Organization
Farm Credit Administration
As of September 30, 2016



***Reports to the Board for policy and to the CEO for administration.**
†Maintains a confidential advisory relationship with each of the Board members.

Highlights of FCA's Performance Goals and Results

FCA's mission as stated in the FCA Strategic Plan for Fiscal Years 2013–2018[1] is to ensure a safe, sound, and dependable source of credit and related services for all creditworthy and eligible persons in agriculture and rural America. In the Strategic Plan, we identify two goals we must meet to fulfill our mission. For each goal, we have identified strategies and actions to achieve the goal, as well as a set of performance measures to measure our success in meeting the goal. Our Performance Report shows that we achieved the goals identified in our Strategic Plan and achieved or exceeded all performance measures for which there are data to measure performance. The following is a summary analysis of our performance in reaching our goals.

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

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

1. Percentage of FCS institutions with satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons. (Target: ≥90 percent)
2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans. (Target: Yes)
3. Percentage of direct-lender institutions with satisfactory consumer and borrower-rights compliance. (Target: ≥90 percent)
4. Percentage of direct-lender institutions with YBS programs that are in compliance with the YBS regulations. (Target: ≥90 percent)
5. Whether institutions meet the objectives of our mission-related regulations and whether institutions have made observable progress in meeting the objectives of any new mission-related regulations that have been in effect for at least one year. (Target: Yes)
6. Whether FCA reached out to nontraditional commenters to request input on GSE mission-related rulemaking actions. (Target: Yes)

The agency achieved or exceeded its targets for five of the six measures associated with goal 1. We have no results to report for performance measure 6 because we did not approve any proposed rules during the reporting period that were related to the GSE mission.

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

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

1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2. (Target: ≥90 percent)

[1] In April 2016, FCA adopted a new strategic plan covering the years 2016 to 2021. However, since the previous strategic plan was in effect for most of the reporting period, we used the measures from the earlier plan to assess the agency's performance in FY 2016. Beginning next year, we will use the measures published in the Strategic Plan for FYs 2016–2021.

2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements. (Target: ≥80 percent)
3. Percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio). (Target: ≥90 percent)
4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed. (Target: Yes)
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans (Target: 100 percent)
6. Percentage of FCS institutions providing FCA with consolidated loan data. (Target: 100 percent)

We achieved or exceeded the targets for five of the six measures associated with goal 2. We have no results to report for performance measure 2 because no supervisory agreements were in place at the end of the reporting period.

For more information about our performance results, see the Performance Results tables on pages 33 and 34.

Analyses and Highlights of FCA's Financial Statements

FINANCIAL HIGHLIGHTS

Financial operation of FCA

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

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

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

- **Reimbursable services**: We are reimbursed for examining the National Consumer Cooperative Bank and for performing services for the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture (USDA).

- **Interest earned**: We earn interest on investments with the U.S. Department of the Treasury. We use interest earned on investments to build and maintain an agency reserve. The reserve ensures that we can effectively and efficiently respond to unanticipated, one-time, mission-related issues without needing to increase assessments.

Using information from the financial statements beginning on page 42, this section highlights key points about FCA's financial condition for fiscal years 2016 and 2015.

FCA's assets, liabilities, and net position

The balance sheets on page 43 presents our financial condition as of fiscal year-end 2016 and 2015. It shows the value of our assets (the resources we own) and the amount of our liabilities (what we owe to the public and other government agencies). The difference between the total assets and total liabilities represents our net position.

As shown in table 1, our total assets for FY 2016 are composed of the following:

- Our fund balance with Treasury (1.7 percent)
- Investments (92.9 percent)
- Accounts receivable and prepayments (1.4 percent)
- Property and equipment (4.0 percent).

During FY 2016, total assets increased by $108,080, or 0.3 percent, from amounts reported in FY 2015.

Property and equipment balances reflected the largest increase in FY 2016 because we purchased new laptops for all employees. We made this purchase in accordance with our scheduled laptop replacement program. The old laptops were fully depreciated prior to the purchase of the new laptops.

Table 1. Composition of Assets

Fiscal Year	Fund Balance with Treasure	Investments	Accounts Receivable and Prepayments	Property and Equipment	Total
2016	$ 546,292	$ 29,756,481	$ 461,249	$ 1,277,101	**$ 32,041,123**
2015	$ 798,165	$ 30,409,961	$ 334,754	$ 390,163	**$ 31,933,043**

Table 2. Composition of Liabilities

Fiscal Year	Accounts Payable	Accrued Liabilities (Payroll and Benefits)	Employer Contributions and Taxes Payable	Workers' Compensation (Funded and Unfunded)	Deferred Revenue	Total
2016	$ 349,342	$ 6,232,550	$ 512,345	$ 1,293,434	$ 4,676,787	**$ 13,064,458**
2015	$ 678,967	$ 5,534,975	$ 441,269	$ 1,293,166	$ 2,141,460	**$ 10,089,837**

Our investment portfolio, which accounts for the largest portion of our total assets, decreased by $653,480 in FY 2016. As in prior years, we have worked to reduce our assessment carryover balances by offsetting assessment increases to System institutions and funding portions of our budget each year with the assessment carryover. A reduced assessment carryover balance translates into reduced investment holdings because there is less cash available to invest in Treasuries.

We purchased $11,002,989 in U.S. Treasuries during fiscal year 2016, using an investment strategy that enables us to both maintain a steady cash flow for agency operations and to earn interest to build the agency reserve. We hold the reserve funds in contingency to address specific, one-time, unforeseen events.

As of Sept. 30, 2016, the agency held $546,292 in cash. We prefer to keep our cash balances lower than this by investing all excess cash in U.S. Treasury securities; however, we received funds from a number of FCS institutions on Sept. 30—after the cutoff time for investing.

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

- Accounts payable (2.7 percent)
- Payroll and benefits (47.7 percent)
- Employer contributions and taxes payable (3.9 percent)
- Workers' compensation (9.9 percent)
- Deferred revenue (35.8 percent)

Like total assets, our total liabilities increased from 2015 to 2016. Driven primarily by the increase in deferred revenue, overall liabilities increased by 29.5 percent.

Deferred revenue represents assessments received from FCS institutions that are not yet due. In FY 2016, it increased by 118.4 percent from 2015 to $4,676,787. Deferred revenue increased for two reasons: assessments were higher in FY 2017, and some of the System's larger institutions prepaid their assessments for 2017 this year. At the beginning of each fiscal year, we reclassify any prepaid assessments as revenue earned in October of the new year.

The net position, which represents the cumulative results of operations since the agency began, decreased by $2,866,542, or 13.1 percent, during FY 2016. The net position declined in part because of the increase in the net cost of operations (see the Program Costs and Revenues section) but also because of an increase in imputed financing sources (that is, rent and federal employee benefits). For a breakdown of the net position, see the Statements of Changes in Net Position on page 45.

FCA's status of funds

Our budget represents our plan for achieving our mission and strategic goals while operating as effectively and efficiently as possible. Table 3 shows our board-approved budget amounts for FYs 2016 and 2015. The overall FY 2016 budget increased by 0.9 percent over the 2015 budget.

Table 3. Agency Budget

	2016	2015
Assessments (current year)	$58,300,000	$54,500,000
Assessments (carryover from prior years)	4,400,000	10,600,000
Reserve	2,900,000	0
Reimbursable activity	600,000	500,000
Total	**$66,200,000**	**$65,600,000**

* FY 2015 assessments were reduced by $3 million during FY 2015.

In FY 2016, we continued to carry out our mission, program goals, and objectives within the available budget. While our board-approved budget for FY 2016 was $66.2 million, the congressional limitation on our spending was $65.6 million. The FY 2015 limitation was $60.5 million.

As table 4 shows, we used $64,051,582 of the funds available in 2016, (or 97.6 percent of our congressional limitation), compared with $59,521,518 of the funds available in 2015 (or 98.4 percent of our limitation in 2015). The increase in personnel compensation, driven by salary and benefit increases, accounts for the largest increase in funds used from 2015 to 2016.

Personnel compensation and benefits continue to account for the most significant use of funds at FCA, representing 83.8 percent of total funds used in 2016. Funds used for property and equipment decreased by 22.9 percent. During FY 2016, we expended funds for updated technology to enhance communication, increase efficiency, and better identify and respond to emerging risks.

PROGRAM COSTS AND REVENUES

This section describes our program costs and revenues for the fiscal years ended Sept. 30, 2016, and Sept. 30, 2015. Please read this section in conjunction with the Statement of Net Cost. Because this section focuses on the cost of operations, some of the data provided here may differ from data provided in sections of this report that cover budgetary obligations.

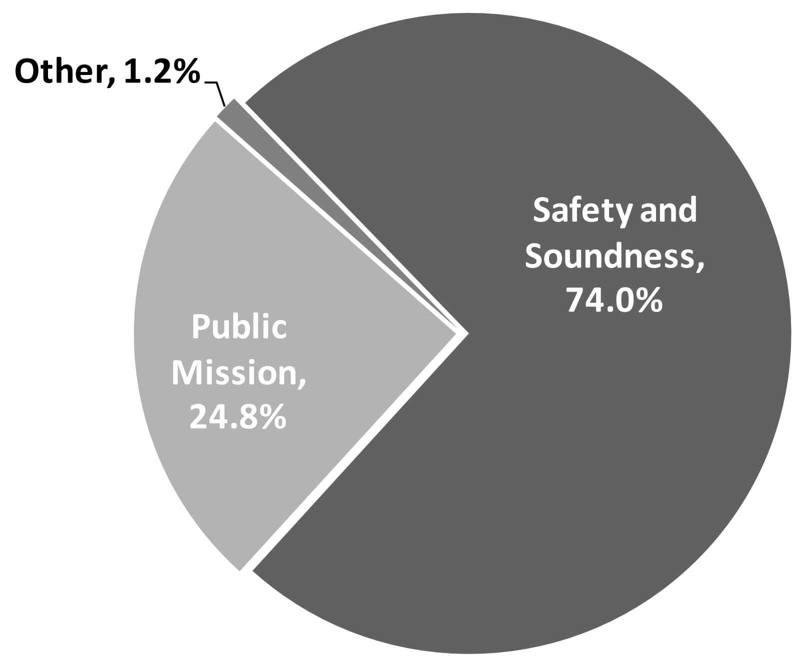
Our board and management regularly review and update the agency's five-year strategic plan to ensure that we can address challenges as they arise. As part of our strategic planning, we have developed human capital, information resource, and program plans to promote efficiency and effectiveness. We have also managed costs through sound business planning and effective resource management.

The net cost of our programs totaled $8,878,366 for the 12 months ended Sept. 30, 2016, compared with $10,225,756 for the same period the previous year. Because gross revenue increased more than gross cost, net costs decreased in FY 2016.

Table 4. Funds Used by Major Budget Category

Budget Category	FY 2016	Percentage of Total	FY 2015	Percentage of Total
Personnel compensation and benefits	$53,610,277	83.8%	$49,371,359	82.9%
Travel and transportation	3,103,579	4.8%	3,069,502	5.2%
Contractual services	4,574,559	7.1%	3,759,942	6.3%
Property and equipment	1,387,830	2.2%	1,800,058	3.0%
Other	1,375,337	2.1%	1,520,657	2.6%
Total	**$64,051,582**	**100.0%**	**$59,521,518**	**100.0%**

Figure 2. FY 2016 Gross Costs by Agency Goal



The total cost of FCA's programs for FY 2016 is $68,124,668, compared with $62,554,232 for FY 2015. This represents an increase of $5,570,436, or 8.9 percent, from 2015. Figure 2 shows the breakdown of FY 2016 gross costs for each of the agency's goals. Virtually all costs support our mission and program goals. The increase in total costs is primarily due to increases in staff and employee compensation. Increases in costs for information technology also contributed to the total cost increase.

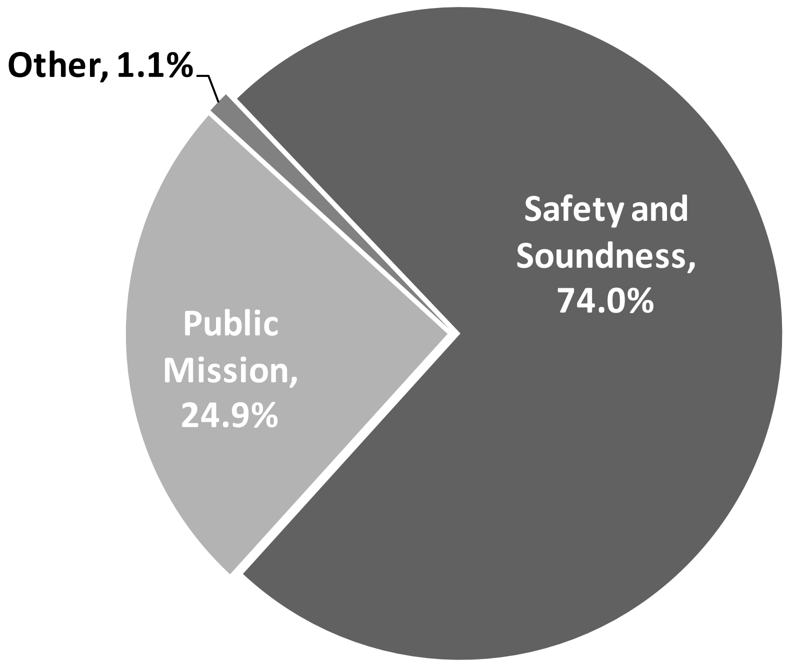
Employee salaries and benefits represent our greatest overall cost. For 2016, employee compensation totaled $53,425,930, or 78.4 percent of total cost. This cost increased by $3,960,639, or 8.0 percent, from 2015 because of staff growth, pay-for-performance and employee benefit increases, career ladder promotions, and funded leave. We plan to maintain competitive employee compensation by periodically performing compensation studies. To comply with the Financial Institution Reform, Recovery, and Enforcement Act of 1989, we must keep FCA salaries and benefits comparable with the salaries and benefits of other federal financial institution regulators. Keeping compensation competitive will help us continue to fulfill our mission to provide the FCS, including Farmer Mac, with effective regulation and oversight.

Figure 3 shows the breakdown of FY 2016 gross revenue for each of our goals. Earned revenue for 2016 totaled $59,246,302, up $6,917,826, or 13.2 percent, from 2015. Overall earned revenue increased because of the increases in assessments of the FCS, reimbursable work, and interest earned on investments.

Public Mission Program

We invest significant resources in our policymaking, regulatory, and corporate activity functions to ensure that the FCS, including Farmer Mac, fulfills its public mission as mandated by Con-

Figure 3. FY 2016 Gross Revenue by Agency Goal



gress. During FY 2016, we continued to ensure the safe and sound flow of funds to U.S. agriculture and rural areas by providing regulation, policy, and guidance for the FCS and Farmer Mac. We assessed the programs of FCS institutions and Farmer Mac to ensure that credit and services are extended to all eligible and creditworthy persons, including young, beginning, and small farmers and ranchers.

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

For the fiscal year ended Sept. 30, 2016, program cost for public mission was $16,908,302, representing an increase of $3,400,838, or 25.2 percent, from the same period the previous year. The cost for the public mission program represents 24.8 percent of our total costs for 2016.

Safety and Soundness Program

The examination and supervision of the FCS account for the largest portion of our costs at the program level. In 2016, cost of the safety and soundness program increased because of increases in staff and higher costs for employee compensation. The examination staff increased to meet human capital demands for institution examination and oversight to address growth in the FCS and rising risk in the U.S. agricultural and rural economies.

We met oversight and supervisory challenges in 2016 by leveraging technologies and providing guidance to institutions on rising risks.

To maintain the quality of our service, we invest heavily in the recruitment and training of staff through our Examiner Commissioning Program. These recruiting and training efforts are necessary to meet human resource needs and to offset the impact of the large number of retirements that are expected within the next few years.

During FY 2016, we met our goals and performance targets to ensure the safety and soundness of FCS institutions and Farmer Mac. Program cost for the examination and supervision of the FCS increased $1,955,106 to $50,375,754, which represents 74.0 percent of our total costs in 2016.

Other Activity

Other activity includes examining and overseeing the National Consumer Cooperative Bank and performing reimbursable services for USDA and the Farm Credit System Insurance Corporation. Actual costs incurred for these activities increased by $214,492 to $840,612 in 2016. The demand for reimbursable services for USDA, FCSIC, and the NCB increased from 2015 to 2016. The costs for providing reimbursable services represented approximately 1.2 percent of our total costs in 2016, an increase from 1.0 percent of total costs in 2015. Earned revenue for other activity totaled $652,420 for 2016, compared with $551,276 for 2015. Since the level of revenue is based on the level of reimbursable work completed, revenue increased by about the same rate as expenses.

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

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

Systems, Controls, and Legal Compliance

Federal agencies are required to comply with a wide range of laws and regulations; to develop and maintain effective internal controls; and to maintain systems that generate timely, accurate, and useful information with which to make informed decisions. This section provides information on our financial management system strategy and our compliance with the following acts:

- Inspector General Act
- Federal Managers' Financial Integrity Act
- Federal Financial Management Improvement Act
- Prompt Payment Act
- Debt Collection Improvement Act
- Improper Payments Elimination and Recovery Improvement Act
- Digital Accountability and Transparency Act

Financial management system strategy

We partner with the Bureau of the Fiscal Service's Administrative Resource Center (ARC) to provide the agency with several financial management services. This partnership helps us maximize efficiency while maintaining a high standard of financial management and accountability. The partnership has also improved our data reliability, which helps us comply with OMB M-15-12, Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable.

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

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

By working with ARC, we comply with the OMB Financial Management Line of Business initiative, which encourages agencies to improve the cost, quality, and performance of financial management systems by using shared services as required by two OMB Memorandums:

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

In addition, our financial management system complies with the guidance outlined in OMB Circular A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996.

Inspector General Act

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

The OIG's two semiannual reports covering FY 2016 are available on FCA's OIG website. Below is a summary of the recommendations or agreed-upon actions in these reports, as well as our progress in taking corrective action.

The OIG continues to report recommendations to correct audit, inspection, or evaluation findings as "agreed-upon actions" whenever we and the OIG have agreed on an acceptable way to resolve a recommendation. The OIG's objective is to recognize our preferred method of correcting problems whenever possible.

Summary of OIG audit, inspection, and evaluation activities

The OIG issued 10 audit, inspection, or evaluation reports during FY 2016, resulting in 36 agreed-upon actions. Thirty-two agreed-upon actions have been closed (including 11 of 14 agreed-upon actions from the prior fiscal year); therefore, 18 actions remain open this fiscal year. The reports are available on FCA's OIG website at www.fca.gov/home/inspector.html.

- On Nov. 9, 2015, the OIG issued the audit report on FCA's financial statements, internal controls over financial reporting, and compliance with certain provisions of laws and regulations for FY 2015. The auditors issued an unmodified opinion on our financial statements. In the auditor's opinion, our principal financial statements presented fairly, in all material respects, our financial position as of the fiscal year ended Sept. 30, 2015, in conformity with generally accepted accounting principles. Although the auditor did not express an opinion on the effectiveness of our internal controls, it did not identify any deficiencies considered to be a material weakness. The auditor also did not identify any instances of noncompliance with selected laws or regulations that could have a direct and material effect on the financial statements. Finally, the audit produced no recommendations or agreed-upon actions.

- On Nov. 13, 2015, the OIG issued a final report on an evaluation of FCA's compliance with the Federal Information Security Modernization Act for FY 2015. This evaluation indicated that FCA has an information security program that continues to mature, and the report contained no recommendations.

- On Feb. 29, 2016, the OIG issued the final audit report "Human Capital Planning at the FCA." This audit resulted in 11 agreed-upon actions that addressed succession planning, coordination on Special Emphasis Programs, FCA's exit interview process, potential biases and barriers to employment, and other human capital issues. All 11 agreed-upon actions were closed as of Sept. 30, 2016.

- On March 31, 2016, the OIG issued the final audit report "The FCA's Risk Project." The audit resulted in five agreed-upon actions. The agreed-upon action regarding evaluation of risk project software licenses was closed, and four remain open as of Sept. 30, 2016.

- On March 31, 2016, the OIG issued the final inspection report "FCA's Process in Developing and Updating Policies and Procedures." The report included three agreed-upon actions, one of which addressed evaluation of an automated review and approvals process. All three agreed-upon actions were closed as of Sept. 30, 2016.

- On April 21, 2016, the OIG issued the final audit report "The FCA's Controls Over the Electronic Official Personnel Folder." The audit resulted in four agreed-upon actions, which addressed internal procedures, monitoring, and finalizing results from a contractor's review of Electronic Official Personnel

Folders. All of these actions were closed as of Sept. 30, 2016.

- On June 1, 2016, the OIG issued the final audit report "Examination of Business Continuity at Farm Credit System Institutions." The audit resulted in two agreed-upon actions addressing workpaper templates and documentation requirements. Both actions were closed as of Sept. 30, 2016.

- On Aug. 31, 2016, the OIG issued the final inspection report "Elimination of Unnecessary Use of Social Security Numbers at FCA." The report identified safeguards implemented by FCA and offered no recommendations.

- On Sept. 23, 2016, the OIG issued the final audit report "FCA's Position Management and Job Evaluation Program." The report included six agreed-upon actions that addressed various matters, including transparency of the job evaluation system, documenting the promotion process in the Office of Examination career ladder, and revisions to items in the Policy and Procedures Manual. All of these recommendations were open as of Sept. 30, 2016.

- On Sept. 28, 2016, the OIG issued the final audit report "FCA's Oversight of Young, Beginning, and Small Farmer Programs." The report included five agreed-upon actions regarding policies and procedures for oversight activities and internal control planning. All agreed-upon actions were open as of Sept. 30, 2016.

Summary of OIG audit, inspection, and evaluation recommendations

Recommendations or agreed-upon actions uncorrected as of Oct. 1, 2015:	14
New agreed-upon actions during FY 2016:	36
Agreed-upon actions closed during FY 2016:	32
Open agreed-upon actions as of Sept. 30, 2016:	18
Recommendations or agreed-upon actions open more than one year:	3

OIG survey of FCS institutions regarding the agency's examination function

The OIG conducts a quarterly survey of FCS institutions regarding our examination function and examiners. The OIG issues quarterly reports and a fiscal year summary report to the FCA chief examiner and the FCA board. Average numerical ratings remained high for FY 2016, and anonymous comments provided by institutions generally reflected favorably on the examination process and examiners. However, the comments of survey respondents often provide constructive information that we can use to strengthen our examination processes.

Federal Managers' Financial Integrity Act

In accordance with the Federal Managers' Financial Integrity Act, we have established management controls to protect our programs and financial systems. We use management controls to hold managers accountable for the performance of their programs. Managers evaluate management controls annually to make sure the controls conform to the principles and standards established by the Office of Management and Budget and the Government Accountability Office. We use the results of these evaluations to determine whether we have any material weaknesses.

The FCA Senior Assessment Team assesses our internal controls every two years. To conduct the assessment, the team uses the internal control management and evaluation tool of the Government Accountability Office. At its last assessment in FY 2016, the team concluded that our system of internal control is effective.

As a result of this biennial assessment and management's annual internal control reviews, the FCA board chairman and CEO can provide reasonable assurance that we have no material weakness or financial system nonconformance that would place our overall control system at risk.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act requires certain executive branch departments and agencies to report on their compliance with federal financial management system requirements, federal accounting standards, and the U.S. Standard General Ledger. Although we are not required to report under this act, we were in compliance with these system requirements for FY 2016.

Prompt Payment Act

We follow the Prompt Payment Act guidelines, which call for vendors generally to be paid 30 days after receipt of a valid invoice for goods and services ordered and delivered. During FY 2016, we paid on time 99.0 percent of the 3,694 invoices subject to the Prompt Payment Act. Payments are made by electronic funds transfer through the Secure Payment System.

Debt Collection Improvement Act

The Debt Collection Improvement Act of 1996 prescribes standards for carrying out federal agency collection actions and for referring an agency's uncollectible debts to the proper federal agency for collection and litigation. The act has no material effect on us because we operate with virtually no delinquent debt. This act was amended by the Digital Accountability and Transparency Act of 2014 to require that debts outstanding for more than 120 days be transferred to the Treasury Department for collection under the Treasury Offset Program. If we have any debt that exceeds the 120-day threshold, we will transfer the debt accordingly.

Improper Payments Elimination and Recovery Improvement Act

The Improper Payments Elimination and Recovery Improvement Act of 2012 requires agencies to review their programs and activities to identify those susceptible to significant improper payments. Improper payments do not present a significant risk to FCA and therefore we are not subject to all of the reporting requirements of this act. However, in partnership with our service provider, we do have internal control procedures to ensure that payments are made properly. Please see page 74 for additional information on our efforts to comply with this regulation.

Digital Accountability and Transparency Act

The Digital Accountability and Transparency Act of 2014 (DATA Act) was enacted to increase accountability and transparency in federal spending and expand the requirements of the Federal Funding Accountability and Transparency Act of 2006. The act requires that agencies post expenditure information, including contracts, loans, and grants, on the USASpending.gov website for each appropriations account. Our Office of General Counsel has determined that the requirements of the DATA Act do not apply to FCA because we are not funded by taxpayer dollars.

Statement of Assurance

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

We conducted an assessment of the effectiveness of our internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the results of this evaluation, we can provide reasonable assurance that our internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, as of Sept. 30, 2016, was operating effectively, and no material weaknesses were found in the design or operation of the internal controls.

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

We also conducted our assessment of the effectiveness of internal control over financial reporting, which includes safeguarding assets and complying with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, we can provide reasonable assurance that our internal control over financial reporting as of June 30, 2016, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

In accordance with the requirements of the FMFIA, our financial management systems are substantially in compliance with the requirements for Federal financial management systems as presented in A-127, Financial Management Systems, as of Sept. 30, 2016. Our financial management systems also comply with applicable Federal accounting standards and the U.S. Standard General Ledger at the transaction level.

Kenneth A. Spearman
Chairman and Chief Executive Officer
FARM CREDIT ADMINISTRATION

September 30, 2016

Program Performance

FCA Performance Report

FCA is an independent federal agency responsible for regulating and examining the Farm Credit System and the Federal Agricultural Mortgage Corporation (Farmer Mac). Both of these organizations are government-sponsored enterprises (GSEs) that serve agriculture and rural America.

FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

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

- Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.
- Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the System and Farmer Mac.

Our Strategic Plan for Fiscal Years 2013–2018 contains a desired outcome for each goal, as well as 17 strategies we will use to meet these goals. In addition, we have 12 performance measures with associated targets to measure our success in meeting our goals.[1]

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

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

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

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

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

Strategy #1: Develop regulatory capital rules within FCA's regulatory framework for the System and Farmer Mac that are clearly defined, easily understood, and consistent with industry standards.

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

[1] In April 2016, FCA adopted a new strategic plan covering the years 2016 to 2021. However, since the previous strategic plan was in effect for most of the reporting period, we used the measures from the earlier plan to assess the agency's performance in FY 2016. Beginning next year, we will use the measures published in the Strategic Plan for FYs 2016–2021.

In FY 2016, we issued a final rule related to Farmer Mac's corporate governance. The final rule covers essential safety and soundness matters, including regulation, examination and enforcement authorities, required board committees, risk management, internal controls and reporting, and disclosure requirements. Also in FY 2016 we issued a proposed rule for Farmer Mac governing the eligibility of nonprogram investments. The board is scheduled to act on the proposed rule in FY 2017.

Strategy #2: Within the framework of the Farm Credit Act, continuously update policies and regulations to provide an operating environment for the System and Farmer Mac that meets the changing needs of agriculture and rural America.

The following actions are examples of ways we have used this strategy in FY 2016:

- Issued a final rule on tier 1/tier 2 regulatory capital framework.
- Issued a final rule on mergers, consolidations, and charter amendments of banks and associations.
- Issued a final rule and an interim final rule on margin and capital requirements for covered swap entities.
- Continued to study the loan syndication market.
- Issued a final rule on Farmer Mac's corporate governance and standards of conduct.
- Issued a proposed rule for Farmer Mac governing the eligibility of nonprogram investments.
- Provided guidance to the System on servicing loans to borrowers in distressed industries.
- Issued guidance to the System describing the policy, procedures, and internal controls that System institutions need when lending to similar entities.

As part of every rulemaking project, we consider ways to reduce the burden of existing rules and to minimize the regulatory burden of the rule being proposed. Also, we regularly solicit public comments on regulations that are unnecessary, unduly burdensome, or not based on law; our most recent solicitation was in July 2013.

We routinely provide guidance to System institutions to protect their safety and soundness and to help them manage risk. This guidance facilitates the flow of funds to agriculture and rural areas by providing System institutions with sound practices to follow in developing and implementing lending programs. We also provide guidance related to internal controls and information technology. Ultimately, our guidance helps institutions manage loan and funding programs more efficiently.

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

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

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

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

FCA examiners evaluated the operating and strategic plans and the credit delivery programs of System institutions. Our examiners also evaluated YBS farmer and rancher programs relative to the demographics of chartered territories. These evaluations help examiners identify trends in lending to YBS farmers and ranchers and to assess the System's efforts to provide financial or business management assistance and outreach to YBS farmers and ranchers. All of the YBS programs we evaluated during the reporting period were in compliance with YBS regulations.

Each year, we survey FCS associations regarding their YBS programs. With the information received, we prepare a YBS annual report that we publish in our Annual Report on the Farm Credit System.

FCA regulations require each direct-lender System institution to include in its operating and strategic business plan a marketing plan with strategies for providing the institution's products and services to all creditworthy and eligible persons. In addition, each institution must report annually to its board of directors on the progress it has made. We are reviewing these reports and evaluating the System's progress in meeting this requirement.

We also evaluate Farmer Mac's mission accomplishment. Farmer Mac's customer base includes financial institutions and other lenders that seek a secondary market for their agricultural, rural housing, and rural utility cooperative loans. We evaluate Farmer Mac's performance in reaching out to all potential customers and in creating easy access to its services.

Farmer Mac submits an annual mission report to FCA. This report includes data on Farmer Mac's participation in federal guarantee programs, the geographic distribution of Farmer Mac's program business, the proportion of fixed- versus variable-rate loan volume, and activity related to rural utilities. In addition, the report highlights activity related to small and family farms, which Farmer Mac is required by statute to promote and encourage.

These reporting requirements also encourage Farmer Mac to motivate its business development staff to focus on the credit needs of small and family farms when working with its lender-customers.

Strategy #4: Encourage System institutions to evaluate their YBS programs to ensure that the programs also meet the credit and financial service needs of producers seeking to enter urban agriculture, to produce local foods, or to use direct-to-consumer marketing channels.

FCA Bookletter "Providing Credit to Farmers and Ranchers Operating in Local/Regional Food Systems" (BL066) encourages System associations to meet the credit and related service needs of farmers who market their agricultural products through local and regional food systems. It explains that System associations have authority to finance local-food farmers and certain farm-related businesses under existing statutes and regulations and under prior FCA guidance. The Bookletter also provides guidance on how the regulations on System strategic business planning and senior officer compensation apply to financing local-food farmers (including those operating in urban areas).

Strategy #5: Encourage the System and Farmer Mac to find and develop both public and private partnerships and alliances with other financial service providers to address the changes in agriculture through new and existing programs.

We encourage FCS institutions that have adequate capital resources to prudently use participations and similar-entity lending authorities to help them manage risk. These authorities allow lenders to diversify risk and to more fully meet agricultural credit needs.

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

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

We also encourage partnerships between Farmer Mac and System and non-System lenders. Farmer Mac has partnership initiatives with various System lenders and with community banks through the American Bankers Association and the Independent Community Bankers of America.

Further, Farmer Mac continues to provide financing to non-System lenders by purchasing or guaranteeing obligations through its "cash window," as well as through its AgVantage bond program. It also provides non-System financing through its rural utility financing programs. Both AgVantage and rural utility transactions help Farmer Mac diversify its book of business while increasing the flow of funds to rural areas. Farmer Mac also provides secondary market liquidity through its USDA guarantee program in which it holds the largest secondary market share.

Also, as noted under strategy 2, Farmer Mac continues to enhance its relationships with its loan sellers and servicers, and FCA evaluates Farmer Mac's efforts to increase and strengthen these relationships.

Strategy #6: Promote System business practices, including outreach activities to all creditworthy eligible potential customers, emphasizing minority and socially disadvantaged farmers and ranchers and minority-owned entities.

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

The business plan of each direct-lender institution must include strategies and actions to market the institution's products and services to all eligible and creditworthy persons, with specific outreach toward diversity and inclusion within each market segment. We evaluate the System's progress in meeting this requirement.

In addition, we review borrower inquiries and complaints about the lending process and investigate any allegations of discrimination. During the reporting period from July 1, 2015, through June 30, 2016, we responded to 37 borrower inquiries.

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

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

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

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

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

Strategy #7: Promote public trust in FCA's regulatory framework for the System and Farmer Mac by developing policy guidance that supports mission achievement, financial stability, and transparency.

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

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

We further support public trust and investor confidence by reviewing borrower inquiries and complaints about the loan-granting process and by investigating any allegations of discrimination. See strategy 6 above for more information about borrower inquiries and complaints.

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

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

Strategy #8: Consistent with cooperative principles and the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their customers and rural America.

During the year, FCA approved mergers and other corporate activities. On Nov. 1, 2015, two associations affiliated with CoBank, ACB, merged and became one association. On Jan. 1, 2016, two associations affiliated with CoBank merged to become one association, bringing the total number of System associations to 74 (72 Agricultural Credit Associations and 2 Federal Land Credit Associations), compared with 76 associations a year earlier. The other corporate activities included an association name change.

There is one merger in progress, which is scheduled to take effect on or before Jan. 1, 2017. Several System institutions are having discussions that would lead to three additional merger requests during 2017.

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

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

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

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

We accomplish goal 2 by examining and supervising each System institution and Farmer Mac. We have eight strategies to accomplish this goal and six performance measures to evaluate our success.

Strategy #1: Ensure that staff provides prompt and comprehensive information to the FCA board and remains flexible and responsive to the board's priorities so that the board will be better able to make fully informed, arm's length decisions.

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

Strategy #2: Recruit and retain a diverse and highly skilled workforce to meet FCA's current and future risk analysis, examination, and oversight needs.

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

The Office of Personnel Management has formally recognized our agency for fostering accountability in diversity and inclusion. We have emphasized diversity in our recruiting, training, policies and procedures, and management/employee performance standards. As a result, the diversity of our workforce is growing.

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

To address workforce gaps and challenges, we have established the following initiatives:

- Identify positions in which risk of key-person dependency exists and ensure that plans are sufficient to build bench strength and manage succession for these positions.
- Meet projected staffing needs through aggressive hiring.
- Continue training programs and strategies to increase technical competencies of employees, with greater emphasis on technology skills.
- Continue to create opportunities for employees to become more engaged with their work.
- Continue increasing workplace diversity and promoting inclusion.

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

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

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

Through examinations, we routinely evaluate the operations and risk management practices of System institutions, and we share our conclusions and recommendations with System boards of directors. We determine whether FCS institutions have internal control systems and processes to manage their operations and loan portfolios and whether direct-lender institutions maintain systems that allow them to properly assess the loans and resulting risk exposures in their portfolios. We consider the following elements when we examine loan portfolios:

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

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

We also evaluate Farmer Mac's risk management practices through examinations and oversight reviews. During 2016, Farmer Mac continued to focus on strengthening its capital position and broadening its customer base. Farmer Mac issued tier 1-eligible preferred stock to strengthen its capital position and retired $242 million in capital that was not tier 1-eligible. Farmer Mac has adopted the same 14-point loan risk rating scale applied by the FCS. Its use of the scale helps it monitor risk, as well as to market its products and services to System institutions.

Strategy #4: Promote a vibrant program of Systemwide risk supervision that uses stress testing, research, and analyses to identify emerging systemic risks, and provides proactive examination direction and policy guidance for use internally and externally.

We use the following tools and methods to help identify emerging risks in a timely manner.

- Financial Institution Rating System to evaluate changes in the financial condition of FCS institutions each quarter.
- Quarterly presentations on System risk to the FCA board. These presentations also provide supporting information from the Federal Farm Credit Banks Funding Corporation.
- Presentation of emerging risk issues to the agency's risk committee.
- An oversight program for each institution that allows for a more proactive and forward-looking perspective of risk.

In addition to conducting examinations, we maintain commodity price databases, farm income and trade data, lending data, and other economic databases for the use of our examiners and others in the agency. These databases, as well as periodic presentations on economic and collateral risks and industry trends, enable examiners and others in FCA to stay current on the changing agricultural and financial sectors.

We routinely research and analyze emerging risks and related issues and incorporate our findings into examination and oversight programs and guidance to System institutions. The Office of Examination's Risk Supervision Division directs the National Oversight Plan, and the Risk Council provides input into the development of the plan. The council also recommends the strategies and level of monitoring or analysis for each risk and assigns staff members to monitor it.

We have established several periodic reporting requirements for Farmer Mac that help us identify emerging risks across all of Farmer Mac's functional areas. This monitoring provides significant detail on debt spreads and term structure, derivative contracts, liquidity, nonprogram investments, and capital planning with stress testing analysis.

We also review information about the legal and financial structure of Farmer Mac's new products; this review is critical to our oversight of Farmer Mac activities. In addition, we continue to research potential enhancements to the Risk-Based Capital Stress Test.

Strategy #5: Use agency supervisory and enforcement authorities effectively to remediate weakened institutions.

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

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

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

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

- A situation threatens an institution's financial stability.
- An institution has a safety and soundness problem or has violated a law or regulation.
- An institution's board is unable or unwilling to correct problems we have identified.

Our enforcement authorities include the following powers:

- To enter into formal agreements
- To issue cease-and-desist orders
- To levy civil money penalties
- To suspend or remove officers, directors, and other persons

If we take an enforcement action, the FCS institution must operate under, and report back to, our agency. Our examiners oversee the institution's performance to ensure compliance with the enforcement action. As of June 30, 2016, there were no formal enforcement actions in place.

Strategy #6: Promote the continued importance of, and improvement in, the quality of System loan data for use by both the agency and the System in risk management and business planning.

Through the FCS Loans Database Project, we built an enterprise system for the dependable collection and storage of data for examination activities and systemic risk analysis. In addition, we established uniform instructions for the timely and reliable reporting of accounts and exposures. In 2014, the System improved its ability to identify shared assets by implementing the System shared asset and customer numbers. Then, in December 2015, the System began reporting exposures caused by "systemically significant customers." And we continue to work with the System to improve data completeness and reliability.

In FY 2016, we continued to support the existing tools and work papers that our examiners use to analyze loan data and evaluate loan assets. In addition, we worked with the FCA Risk Project to explore business intelligence tools that our examiners can use in analyzing risk and reviewing loans.

Strategy #7: Develop regulatory guidance and examination procedures that keep pace with evolving strategies and new programs in meeting the changing needs of agriculture and rural America.

Our staff continues to develop regulations and examination guidance to provide timely and proactive oversight of the System. The goal is to maintain the safety and soundness of the FCS and Farmer Mac while keeping pace with their changing needs. See strategy 2 under goal 1 for examples of guidance we issued during the current reporting period to strengthen safety and soundness.

We form our examination teams according to the types of System institutions that exist, and we define these types by certain common characteristics and potential risks. The examination teams coordinate closely with the Risk Supervision Division on enforcement and special supervision activities. The Risk Supervision Division also provides risk analysis and develops and coordinates the Office of Examination's National Oversight Plan, which describes strategies for addressing critical risk topics and other areas of focus for the System.

We provide proactive guidance to System institutions through Informational Memorandums, and we provide guidance for our examiners through the Examination Manual and ongoing communications. We continue to update the Examination Manual with new and improved content. These forms of guidance are designed to keep pace with evolving business models used by System institutions and to support the agency's risk-based supervisory approach.

With respect to Farmer Mac, we encourage innovations in its product development within the bounds of safety and soundness and the provisions of the Farm Credit Act. Our ongoing communication, examination reports, and off-site monitoring of Farmer Mac provide timely guidance to management on the risk implications of new products.

Our regulations pertaining to Farmer Mac's capital planning and liquidity management refer directly to evolving international regulatory standards and benchmarks for measuring the quality and adequacy of capital and liquidity reserves. We are working closely with Farmer Mac to develop a database to help us analyze and monitor enterprise-wide operations. The database will enhance our ability to ensure timely and multidimensional analysis of Farmer Mac; it will also enable Farmer Mac to fulfill its reporting obligations to FCA more efficiently.

Strategy #8: Continue to integrate standards-of-conduct rules and codes of ethical behavior into the organizational culture that are consistent with government ethics guidelines, universally understood, and consistently applied.

FCA Board Policy 81 reinforces our commitment to our ethics program by stating the following:

- FCA is committed to fulfilling its mission faithfully and ensuring that its employees conduct themselves with integrity.
- The FCA board will continue to hold itself to the highest standards of ethical conduct in recognition that its commitment and adherence to the agency ethics program sets the standard for the commitment and conduct of agency staff.
- As the arm's length regulator of the Farm Credit System, FCA is committed to carrying out its work without any undue influence, favoritism, or special access.

Our ethics program contains the following elements:

- Financial disclosure reporting (public, confidential, and certification forms)
- Ethics counseling to FCA and FCSIC personnel
- Orientation and annual training of FCA and FCSIC personnel
- Intragovernmental liaison
- Regulation and policy development

Table 5a
Goal 1—Public Mission
Performance Measures and Results
July 1, 2015, to June 30, 2016

Measure	Results	2015 Target	2015 Results	2016 Target	2016 Results	Results vs. Target
1. Percentage of FCS institutions with satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons.	All FCS institutions had satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons.	≥90%	100%	≥90%	100%	▲
2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans.	Farmer Mac's business plan contains adequate strategies to promote and encourage the inclusion of all qualified loans, including small and family farm loans, in its secondary market programs. Its business activities further its mission to provide a source of long-term credit and liquidity.	Yes	Yes	Yes	Yes	✓
3. Percentage of direct-lender institutions with satisfactory consumer and borrower-rights compliance.	Ninety-nine percent of direct-lender institutions have satisfactory consumer and borrower-rights compliance.	≥90%	95%	≥90%	99%	▲
4. Percentage of direct-lender institutions with YBS programs that are in compliance with the YBS regulations.	All direct-lender institutions with YBS programs are in compliance with the YBS regulations.	≥90%	100%	≥90%	100%	▲
5. Whether institutions meet the objectives of our mission-related regulations and whether institutions have made observable progress in meeting the objectives of any new mission-related regulations that have been in effect for at least one year.	System institutions are meeting the objectives of mission-related regulations, including the amended "planning" regulation, which requires operational and strategic business plans to include strategies and actions for outreach toward diversity and inclusion.	Yes	Yes	Yes	Yes	✓
6. Whether FCA reached out to nontraditional commenters to request input on GSE mission-related rulemaking actions.	The agency did not approve any proposed rules during the reporting period that were related to the GSE mission.	Yes	N/A	Yes	N/A	

Table 5b
Goal 2—Safety and Soundness
Performance Measures and Results
July 1, 2015, to June 30, 2016

Measure	Results	2015 Target	2015 Results	2016 Target	2016 Results	Results vs. Target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	99 percent of System assets have composite CAMELS ratings of 1 or 2.	≥90%	99.7%	≥90%	99%	▲
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.	The agency does not have any supervisory agreements in place with FCS institutions.	≥80%	91%	≥80%	N/A	
3. Percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio).	All institutions complied with regulatory capital ratio requirements.	≥90%	100%	≥90%	100%	▲
4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed.	OSMO activities effectively identify emerging risks, and appropriate supervisory and corrective actions have been taken.	Yes	Yes	Yes	Yes	✓
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans.	All institutions have satisfactory audit and review programs, including institutions with acceptable corrective action plans.	100%	100%	100%	100%	✓
6. Percentage of FCS institutions providing FCA with consolidated loan data.	All FCS institutions provided FCA with consolidated loan data.	100%	100%	100%	100%	✓

Notes: The measures in tables 5a and 5b were adopted in May 2011 when FCA published its Strategic Plan for FYs 2011–2016. The measures were revised in early 2013 for clarity. The revised measures were published in the Strategic Plan for FYs 2013–2018. One performance measure was removed from Goal 2 because it did not materially evaluate the agency's effectiveness in meeting its strategic goals. Also, in April 2016, FCA adopted a new strategic plan covering the years 2016 to 2021. However, since the previous strategic plan was in effect for most of the reporting period, we used the measures from the earlier plan to assess the agency's performance in FY 2016. Beginning next year, we will use the measures published in the Strategic Plan for FYs 2016–2021.

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: > is greater than; ≥ is greater than or equal to; N/A indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates FCA's performance exceeded the FY 2016 target; ✓ indicates FCA achieved the FY 2016 target.

Financial Section

Statement of the Chief Financial Officer

November 14, 2016

I am pleased to present the Farm Credit Administration's 2016 financial statements. In 2016, FCA once again received an unmodified, or "clean," audit opinion from our independent auditors. This is the 23rd consecutive year that we have received an unmodified audit, and this achievement underscores our commitment to fiscal stewardship.

This accomplishment also reflects the strong internal control environment that the FCA board and senior managers have established within the organization. Strong internal controls allow us to efficiently execute sound financial management, to provide reliable financial data, and to identify and respond to financial risks that may emerge. I am extremely proud to report that once again, we had no findings in our independent auditors' reports on compliance and internal control over financial reporting.

Taken together, the auditors' reports and accompanying financial statements reflect our commitment to promoting efficient spending and accountability. They also reflect our commitment to complying with all applicable laws, such as the Federal Managers' Financial Integrity Act, the Prompt Payment Act, the Debt Collection and Improvement Act, and the Federal Information Security Modernization Act. We have reduced, and will continue to reduce, administrative costs as part of our continued efforts to operate effectively and efficiently.

FCA is the arm's length regulator of the Farm Credit System. We are fully funded by the institutions we regulate. Our employees understand the importance of strong financial management and accountability, and we conduct FCA's operations with transparency and accountability.

Looking ahead, we will focus our attention on developing the enterprise risk management function to assess and mitigate risk. In doing so, the agency will optimize its allocation of resources to achieve its mission and reduce risk. We will continue to provide strong financial management and effective internal controls. And we will seek creative opportunities to reduce costs through process and program improvements.

Because of our talented and committed staff, we are well positioned to face another year of challenges. I offer my sincere thanks to the FCA board and staff.

Sincerely,

Stephen G. Smith
Chief Financial Officer

Farm Credit Administration

Office of Inspector General
1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4030

November 14, 2016

The Honorable Kenneth A. Spearman, Board Chairman
The Honorable Dallas P. Tonsager, Board Member
The Honorable Jeffery S. Hall, Board Member
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Board Chairman Spearman and FCA Board Members Tonsager and Hall:

The attached report is the audit of the Farm Credit Administration's (FCA's or Agency's) financial statements for the fiscal year (FY) ended September 30, 2016. The Office of Inspector General (OIG) contracted with Harper, Rains, Knight & Company, P.A., an independent public accounting firm, to perform the audit.

Harper, Rains, Knight & Company issued an unmodified opinion on the Agency's financial statements. In the auditors' opinion, FCA's principal financial statements present fairly, in all material respects, the financial position of the Agency as of the FY ended September 30, 2016, in conformity with generally accepted accounting principles.

Harper, Rains, Knight & Company considered FCA's internal control over financial reporting to determine the audit procedures for the purpose of expressing an opinion on the financial statements. Although they did not express an opinion on the effectiveness of FCA's internal controls, they did not identify any deficiencies considered to be a material weakness.

Additionally, Harper, Rains, Knight & Company performed tests of FCA's compliance with selected provisions of laws and regulations that could have a direct and material effect on the financial statements. Although they did not express an opinion on compliance with those provisions, they did not identify any instances of noncompliance or other matters required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States or the Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.

Harper, Rains, Knight & Company was required to perform the audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02. To ensure the quality of the work performed, the OIG:

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

- monitored the progress of the audit,
- examined workpapers, and
- reviewed the audit report.

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

Respectfully,

Elizabeth M. Dean
Inspector General

Harper, Rains, Knight & Company

Independent Auditors' Report

The Board and Inspector General
Farm Credit Administration

Report on the Financial Statements

We have audited the accompanying balance sheets of the Farm Credit Administration (FCA), as of September 30, 2016 and 2015, and the related statements of net cost and changes in net position, and statements of budgetary resources, for the fiscal years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with general accepted accounting principles in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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The Board and Inspector General
Farm Credit Administration – Continued

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

Opinion on the Financial Statements

In our opinion, the financial statements including the accompanying notes, present fairly, in all material respects, the financial position of FCA as of September 30, 2016 and 2015, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Generally accepted accounting principles in the United States of America require that the information in the Management's Discussion and Analysis, and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information in the Statement of the Board Chair and Chief Executive Officer (CEO), Letter from the Chief Financial Officer, and Other Information section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2016, we considered FCA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FCA's internal control. Accordingly, we do not express an opinion on the effectiveness of FCA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

The Board and Inspector General
Farm Credit Administration – Continued

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether FCA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

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

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

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

November 14, 2016

Financial Statements

We have prepared the accompanying financial statements in accordance with U.S. generally accepted accounting principles and with the Office of Management and Budget Circular No. A-136, as amended. For comparison purposes, we present our financial statements and notes for FY 2016 and FY 2015. All amounts are in whole dollars. The financial statements include the following:

- **Balance Sheet**, which shows our assets, our liabilities, and our net position (assets minus liabilities).
- **Statement of Net Cost**, which shows our net cost of operations. We calculate our net costs by subtracting from our gross costs any revenue we earn. We break the Statement of Net Cost into three program components: Public Mission, Safety and Soundness, and Other Activity.
- **Statement of Changes in Net Position**, which shows the change in our net position over the two-year period ending September 30, 2015.
- **Statement of Budgetary Resources**, which shows our resources, the status of our resources, and the outlay of resources during the fiscal year.
- **Notes to the Financial Statements**, which clarify and provide additional detail regarding the amounts in the financial statements.

Not all of the statements mentioned in Circular A-136 apply to our agency. For this reason, we do not include a Statement of Custodial Activity, a Statement of Social Insurance, a Statement of Changes in Social Insurance Amounts, and a Schedule of Spending.

BALANCE SHEETS
As of September 30, 2016 and 2015
(In Dollars)

	2016	2015
Assets		
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 546,292	$ 798,165
Investments (Note 3)	29,756,481	30,409,961
Accounts receivable (Note 4)	45,567	3,335
Total intragovernmental	**30,348,340**	**31,211,461**
Accounts receivable (Note 4)	190,264	121,674
General property, equipment, and software, net (Note 5)	1,277,101	390,163
Prepaid expenses	225,418	209,745
Total assets	**$ 32,041,123**	**$ 31,933,043**
Liabilities		
Intragovernmental		
Accounts payable	$ 18,444	$ 22,732
Accrued post-employment compensation	35,282	32,469
Employer contributions and payroll taxes payable	404,578	293,205
Other	33	4
Total intragovernmental	**458,337**	**348,410**
Accounts payable	330,865	656,231
Actuarial workers' compensation liability (Note 6)	1,258,152	1,260,697
Accrued payroll and benefits	6,232,550	5,534,975
Employer contributions and payroll taxes payable	107,768	148,064
Deferred revenue	4,676,787	2,141,460
Total liabilities	**$ 13,064,459**	**$ 10,089,837**
Net Position		
Cumulative results of operations	$ 18,976,664	$ 21,843,206
Total net position	$ 18,976,664	$ 21,843,206
Total liabilities and net position	**$ 32,041,123**	**$ 31,933,043**

The accompanying notes are an integral part of these statements.

STATEMENTS OF NET COST
For the Years Ended September 30, 2016 and 2015
(In Dollars)

	2016	2015
Program Costs		
Public Mission		
Gross costs	$ 16,908,302	$ 13,507,464
Less: Earned revenue	(14,727,123)	(11,315,984)
Net program costs	$ 2,181,179	$ 2,191,480
Safety and Soundness		
Gross costs	$ 50,375,754	$ 48,420,648
Less: Earned revenue	(43,866,759)	(40,461,216)
Net program costs	$ 6,508,995	$ 7,959,432
Other Activity		
Gross costs	$ 840,612	$ 626,120
Less: Earned revenue	(652,420)	(551,276)
Net program costs	$ 188,192	$ 74,844
Net cost of operations (Notes 7 and 8)	**$ 8,878,366**	**$ 10,225,756**

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2016 and 2015
(In Dollars)

	2016	2015
Cumulative Results of Operations		
Beginning balances	$ 21,843,206	$ 26,730,246
Other Financing Sources (Non-Exchange)		
Imputed financing sources		
Federal employee benefits (Note 9)	2,611,824	2,388,716
Rent (Note 10)	3,400,000	2,950,000
Total financing sources	6,011,824	5,338,716
Net cost of operations	(8,878,366)	(10,225,756)
Net change	(2,866,542)	(4,887,040)
Cumulative results of operations	$ 18,976,664	$ 21,843,206
Net position	**$ 18,976,664**	**$ 21,843,206**

The accompanying notes are an integral part of these statements.

STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2016 and 2015
(In Dollars)

	2016	2015
Budgetary Resources		
Unobligated balance brought forward, Oct. 1	$ 20,746,358	$ 28,344,042
Spending authority from offsetting collections	61,678,681	51,422,219
Total budgetary resources (Note 11)	**$ 82,425,039**	**$ 79,766,261**
Status of Budgetary Resources		
New obligations and upward adjustments	$ 63,217,157	$ 59,019,903
Unobligated balance, end of year:		
Exempt from apportionment	14,531,095	18,604,898
Not available	4,676,787	2,141,460
Total unobligated balance, end of year	19,207,882	20,746,358
Total budgetary resources (Note 11)	**$ 82,425,039**	**$ 79,766,261**
Change in Obligated Balance		
Unpaid obligations		
Unpaid obligations, brought forward, Oct. 1	$ 10,890,646	$ 8,949,235
New obligations and upward adjustments	63,217,157	59,019,903
Outlays (gross)	(62,609,147)	(57,078,492)
Unpaid obligations, end of year	11,498,656	10,890,646
Uncollected payments		
Uncollected customer payments from federal sources, brought forward, Oct. 1	(690,666)	(347,882)
Change in uncollected customer payments from federal sources	36,817	(342,784)
Uncollected customer payments from federal sources, end of year	(653,849)	(690,666)
Memorandum Entries		
Obligated balance, start of year	$ 10,199,980	$ 8,601,353
Obligated balance, end of year	$ 10,844,807	$ 10,199,980
Budget Authority and Outlays, Net		
Budget authority, gross	$ 61,678,681	$ 51,422,219
Actual offsetting collections	(61,715,498)	(51,079,435)
Change in uncollected customer payments from federal sources	36,817	(342,784)
Budget authority, net	**$ -**	**$ -**
Outlays, gross	$ 62,609,147	$ 57,078,492
Actual offsetting collections	(61,715,498)	(51,079,435)
Agency outlays, net	**$ 893,649**	**$ 5,999,057**

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 is an independent agency in the executive branch of the U.S. government. We are responsible for the regulation and examination of the banks, associations, and related entities that compose the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac). Specifically, we are 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. The act requires us to periodically examine System institutions. Policymaking 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—The financial statements have been prepared in accordance with OMB Circular No. A-136, as amended. In addition, the financial statements have been prepared on an accrual basis from our books and records in accordance with GAAP and the Statements of Federal Financial Accounting Standards prescribed by the Federal Accounting Standards Advisory Board, the official body for setting accounting standards for the federal government. Under the accrual method, revenues are recognized when earned, and expenses are recognized when goods or services are received, without regard to receipt of funds or payment of cash. FCA is not subject to apportionment. Budgetary accounting has been applied to facilitate compliance with legal constraints and control over the use of funds.

C. Fund Balance with Treasury—We maintain a revolving, no-year account with the U.S. Treasury through which cash receipts and disbursements are processed. The funds that are available are obtained primarily from assessments and reimbursable activities. We do not receive appropriated funds. See Note 2.

D. Investments—The Farm Credit Act gives us the authority to invest in public debt securities with maturities suitable to our needs. We invest solely in U.S. Treasury securities, which are normally held to maturity and carried at cost. Investments are adjusted for unamortized premiums or discounts. Premiums and discounts are amortized and interest is accrued using the level-yield, scientific method of effective interest amortization over the term of the respective issues. We use interest earned on investments to build and maintain an agency reserve for the purpose of being able to respond effectively and efficiently to unanticipated, one-time, mission-related issues without increasing assessments. See Note 3.

E. Accounts Receivable—Accounts receivable are composed of

1. reimbursements for FCA administrative expenses according to agreements with other federal entities,

2. assessments from institutions in accordance with the Farm Credit Act and FCA regulations, and

3. amounts owed FCA that are generated through the normal course of business with employees and vendors.

Amounts due from federal agencies are considered fully collectible. An allowance for uncollectible amounts receivable from the public is established when either

1. on the basis of a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur after considering the debtor's ability to pay, or

2. an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 120 days delinquent.

The Office of the Chief Financial Officer (OCFO), in conjunction with the agency's accounting service provider, the Bureau of the Fiscal Service, reviews the agency's accounts receivable on a regular basis. We have determined that all accounts receivable as of Sept. 30, 2016, are fully collectible. See Note 4.

F. Advances and Prepaid Expenses—Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions, and certain payments to contractors and employees. Payments made before the receipt of goods and services are recorded as advances or prepaid expenses at the time of prepayment and are recognized as expenses when the related goods and services are received. This process helps to minimize large dollar fluctuations in cost and provides for the recognition of cost based on use. When the prepayment amount has minimal impact on cost, it is more cost-effective to expense the advance or prepayment at the time of payment. Therefore, FCA recognizes dollar thresholds in the recording of advances and prepayments.

G. General Property, Equipment, and Software—Property (including vehicles), equipment, and software are recorded at cost, net of an allowance for accumulated depreciation. Repairs and maintenance costs are expensed as incurred. We capitalize all property, equipment, and software with itemized costs of $50,000 or more and a useful life of two years or more. We also capitalize groups of items that individually are under $50,000 but together meet the bulk purchase criteria of $500,000 or more. We use the straight-line method of depreciation with half-year convention to allocate the cost of capitalized property, equipment, and software over their estimated useful lives. See Note 5.

H. Accounts Payable—Accounts payable consist of amounts owed to other federal agencies and the public. We strive to make payments in a timely manner in accordance with the Prompt Payment Act. If payments are late, we pay interest penalties.

I. Liabilities—Liabilities may or may not be covered by budgetary or other resources. All of our liabilities are covered by budgetary resources with the exception of the Actuarial Workers' Compensation Liability (see Note 6). Intragovernmental liabilities are claims against us by other federal agencies.

J. Federal Employee Benefits—Federal employee benefits include benefits earned by employees for pension, post-retirement health insurance, and life insurance. For reporting purposes, each employing federal agency is required to recognize its share of the federal government's cost and imputed financing for these benefits. To meet this requirement, the Office of Personnel Management (OPM) provides to each agency the cost factors used in the calculation of these federal employee benefit expenses. See Note 9.

K. Rent—The Farm Credit Act allows us to occupy buildings and to use land owned and leased by the FCS Building Association, an entity owned by the System banks. The FCA Board oversees the Building Association activities on behalf of its owners. We are not charged for the use of the buildings or land, nor do we pay for maintenance and repair of buildings and land improvements. Rent is reflected on our books as an imputed cost and an imputed financing source. See Note 10.

L. Annual, Sick, and Other Leave—Annual leave, compensatory leave, credit hours, and some other types of leave are accrued as a funded liability when earned, with an offsetting reduction for leave taken. The accrued leave liability for each of these types of leave is calculated using current pay rates. Sick leave and other types of non-vested leave are expensed as the leave is taken.

M. Assessments—A substantial portion of our revenues is based on direct assessments billed to the System institutions we regulate or examine. We also recognize revenues based on examination services provided by the Office of Examination. We use a formula established in our regulations to calculate assessments. We base each institution's assessment, in part, on its average risk-adjusted assets and its overall financial health.

N. Deferred Revenue—Before each new fiscal year begins, we determine 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. According to the Farm Credit Act, these estimates are provided to the System institutions during September. Any funds received before the beginning of the new fiscal year are considered unearned revenue and are reported as deferred revenue on the Balance Sheet. These amounts are also reported as Unobligated Balance Not Available on the Statement of Budgetary Resources.

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

Note 2. Fund Balance with Treasury

	2016	2015
Fund balance with Treasury		
Revolving fund	$ 546,292	$ 798,165
Total fund balance with Treasury	$ 546,292	$ 798,165
Status of fund balance with Treasury		
Unobligated balance		
Available	$ 14,531,095	$ 18,604,898
Unavailable	4,676,787	2,141,460
Obligated balance not yet disbursed	10,844,807	10,199,980
Subtotal—Status of fund balance	30,052,689	30,946,338
Funds invested with Treasury		
Net of unamortized discount	(29,506,397)	(30,148,173)
Total fund balance with Treasury	**$ 546,292**	**$ 798,165**

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

Obligated and unobligated balances listed under "status of fund balance with Treasury" agree with obligated and unobligated balances reported on the Statement of Budgetary Resources.

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

Note 3. Investments

Intragovernmental Securities

Amounts for 2016 Balance Sheet Reporting

	Cost	Amortized (Premium) Discount	Investments Net	Interest Receivable	09/30/16 Investment Balance	Market Value Disclosure
Nonmarketable Market-based	$29,821,788	$ (129,301)	$29,692,487	$63,994	$ 29,756,481	$29,743,397

Amounts for 2015 Balance Sheet Reporting

	Cost	Amortized (Premium) Discount	Investments Net	Interest Receivable	09/30/15 Investment Balance	Market Value Disclosure
Nonmarketable Market-based	$30,677,452	$ (346,639)	$30,330,813	$ 79,148	$30,409,961	$30,411,034

Premiums and discounts are amortized and interest is accrued using the level-yield, scientific method of effective interest amortization over the term of the respective issues. Interest revenue on investments was $248,331 and $231,498 for FYs 2016 and 2015, respectively.

Note 4. Accounts Receivable

	2016	2015
Intragovernmental		
Reimbursements for services provided	$ 45,567	$ 3,335
Subtotal	45,567	3,335
With the public		
Reimbursements for services provided	140,798	105,396
Expenditure refunds	49,466	16,278
Subtotal	190,264	121,674
Total accounts receivable	**$ 235,831**	**$125,009**

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

Note 5. General Property, Equipment, and Software

As of September 30, 2016

	Estimated Useful Life	Depreciation Method	Acquisition Value	Accumulated/ Amortized Depreciation	Book Value
Equipment	3 years	Straight line	$723,580	$(120,597)	$602,983
Equipment	5 years	Straight line	167,703	(16,770)	150,933
Equipment	10 years	Straight line	305,304	(45,319)	259,985
Software in development			263,200	0	263,200
Total			**$1,459,787**	**$(182,686)**	**$1,277,101**

As of September 30, 2015

	Estimated Useful Life	Depreciation Method	Acquisition Value	Accumulated/ Amortized Depreciation	Book Value
Equipment	3 years	Straight line	$805,805	$(805,805)	$0
Equipment	10 years	Straight line	295,770	(14,789)	280,981
Construction in progress			109,182	0	109,182
Total			**$1,210,757**	**$(820,594)**	**$390,163**

Note 6. Liabilities Not Covered by Budgetary Resources (Actuarial Workers' Compensation Liability)

We record an unfunded liability for the actuarial liability under the Federal Employees' Compensation Act (FECA). The Department of Labor estimates future workers' compensation liability for specified entities that are preparing statements under the Chief Financial Officers Act and the Government Management Reform Act. The actuarial liability estimates for benefits under FECA include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but unreported claims. Because we are not one of the entities for which the Labor Department provides individual estimates on a routine basis, we calculated our estimated FECA actuarial liability amount by using the Labor Department's FY 2016 model to estimate FECA actuarial liability.

FECA Actuarial Liability

	2016	**2015**
Actuarial FECA Liability	$1,258,152	$1,260,697
Total liabilities not covered by budgetary resources	1,258,152	1,260,697
Total liabilities covered by budgetary resources	11,806,307	8,829,140
Total liabilities	$13,064,459	$10,089,837

Note 7. Intragovernmental Costs and Exchange Revenue

	For the Years Ended September 30, 2016 and 2015	
	2016	2015
Public Mission		
Intragovernmental costs	$ 3,249,440	$ 3,001,370
Public costs	13,658,862	10,506,094
Total costs—Public mission	16,908,302	13,507,464
Intragovernmental earned revenue	(62,405)	(50,493)
Public earned revenue	(14,664,718)	(11,265,491)
Total revenue—Public mission	(14,727,123)	(11,315,984)
Net program costs—Public mission	2,181,179	2,191,480
Safety and Soundness		
Intragovernmental costs	10,717,624	10,534,299
Public costs	39,658,130	37,886,349
Total costs—Safety and soundness	50,375,754	48,420,648
Intragovernmental earned revenue	(185,926)	(181,005)
Public earned revenue	(43,680,833)	(40,280,211)
Total revenue—Safety and soundness	(43,866,759)	(40,461,216)
Net program costs—Safety and soundness	6,508,995	7,959,432
Other Activity		
Intragovernmental costs	119,158	76,165
Public costs	721,454	549,955
Total costs—Other activity	840,612	626,120
Intragovernmental earned revenue	(511,622)	(446,081)
Public earned revenue	(140,798)	(105,195)
Total revenue—Other activity	(652,420)	(551,276)
Net program costs—Other activity	188,192	74,844
Net cost of operations (+/-)	**$ 8,878,366**	**$ 10,225,756**

We have classified our costs and revenues in this way to enable the federal government to provide consolidated financial statements. The intragovernmental costs relate to the source of goods and services we purchased and not to the classification of related revenue.

Note 8. Suborganization Program Costs/Program Costs by Segment

The following tables provide a detailed breakout of the Statement of Net Cost for each of the fiscal years ended 2016 and 2015. We display our cost and earned revenue amounts by office within each program.

For the Year Ended September 30, 2016

	Office				
	Examination	Regulatory Policy	Secondary Market Oversight	Other Organizations	Total
Public Mission					
Gross costs	$ 459,242	$ 4,863,675	$ 391,997	$ 11,193,388	$16,908,302
Less: Earned revenue	(397,223)	(4,207,183)	(387,359)	(9,735,358)	(14,727,123)
Net program cost	62,019	656,492	4,638	1,458,030	2,181,179
Safety and Soundness					
Gross costs	34,451,776	1,546,784	1,059,045	13,318,149	50,375,754
Less: Earned revenue	(29,886,288)	(1,337,895)	(1,041,844)	(11,600,732)	(43,866,759)
Net program cost	4,565,488	208,889	17,201	1,717,417	6,508,995
Other Activity					
Gross costs	306,583	88,458	926	444,645	840,612
Less: Earned revenue	(237,947)	(68,654)	(719)	(345,100)	(652,420)
Net program cost	68,636	19,804	207	99,545	188,192
Net cost of operations	**$ 4,696,143**	**$ 885,185**	**$ 22,046**	**$ 3,274,992**	**$ 8,878,366**

Note 8. Suborganization Program Costs/Program Costs by Segment (continued)

For the Year Ended September 30, 2015

	Office				
	Examination	Regulatory Policy	Secondary Market Oversight	Other Organizations	Total
Public Mission					
Gross costs	$ 427,788	$ 4,315,001	$ 445,341	$ 8,319,334	$13,507,464
Less: Earned revenue	(355,822)	(3,589,174)	(401,462)	(6,969,526)	(11,315,984)
Net program cost	71,966	725,827	43,879	1,349,808	2,191,480
Safety and Soundness					
Gross costs	31,968,071	1,247,552	969,577	14,235,448	48,420,648
Less: Earned revenue	(26,642,203)	(1,037,677)	(852,801)	(11,928,535)	(40,461,216)
Net program cost	5,325,868	209,875	116,776	2,306,913	7,959,432
Other Activity					
Gross costs	290,291	49,044	814	285,971	626,120
Less: Earned revenue	(255,591)	(43,181)	(717)	(251,787)	(551,276)
Net program cost	34,700	5,863	97	34,184	74,844
Net cost of operations	**$ 5,432,534**	**$ 941,565**	**$ 160,752**	**$ 3,690,905**	**$ 10,225,756**

Note 9. Federal Employee Benefits

	2016	2015
Imputed pension cost	$ 787,888	$ 915,417
Other imputed retirement benefits	1,823,936	1,473,299
Total	**$ 2,611,824**	**$ 2,388,716**

Retirement—Our employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which we make contributions according to plan requirements. CSRS and FERS are multiemployer plans. We do not maintain or report information about the assets of the plan, nor do we report actuarial data for accumulated plan benefits. The reporting of such amounts is the responsibility of OPM. We report the amount of our pension expense for employees in accordance with SFFAS No. 5, Accounting for Liabilities of the Federal Government. 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 we recognize for FYs 2016 and 2015. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

Other Retirement Benefit Expenses—SFFAS No. 5 requires employing federal agencies to recognize an expense for the cost of providing health benefits and life insurance to its employees after they retire. OPM provided the factors used to calculate these costs. 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. We record corresponding amounts of imputed revenue to offset the imputed cost.

Note 10. Rent

	2016	2015
Leased field offices	$ 1,226,614	$ 1,221,193
FCA headquarters	2,173,386	1,728,807
Total	**$ 3,400,000**	**$ 2,950,000**

In accordance with the Farm Credit Act, we occupy buildings owned and leased by the FCSBA. Our administrative headquarters building and land are located in McLean, Virginia. In addition, the FCSBA leases office space for field offices on our behalf at various locations throughout the United States. Rent is provided at no cost to us. The above imputed rent expense is an estimate based on the Building Association's estimated budget for 2016. In accordance with SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, the rent expense and the associated imputed revenue are recorded as a nonmonetary transaction.

Note 11. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

FY 2016

The 2018 Budget of the United States Government, with the Actual Column completed for FY 2016, had not been published as of the date of these financial statements. The budget is expected to be published and delivered to Congress in early February 2017. It will be available on our Web site at www.fca.gov/reports/publications.html.

FY 2015

The 2017 Budget of the United States Government, with the Actual Column completed for FY 2015, has been reconciled to the amounts reported in the Statement of Budgetary Resources, and there are no significant differences.

Note 12. Undelivered Orders at the End of the Period

SFFAS No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. For the periods ended Sept. 30, 2016, and 2015, undelivered orders that were unpaid amounted to $4,369,169 and $4,202,970 respectively.

Note 13. Incidental Custodial Collections

Our custodial collections include receipts to cover the costs of fulfilling Freedom of Information Act requests; they also include other receipts, such as interest and penalties. During the fiscal year, we include these collections in the Fund Balance with Treasury. However, these collections are immaterial to the financial statements and incidental to our mission, we do not provide a Statement of Custodial Activity. Custodial collections totaled $299 for the period ended Sept. 30, 2016, and $88 for Sept. 30, 2015. The funds collected in FY 2016 were transferred to the Department of the Treasury at the end of FY 2016.

Note 14. Reconciliation of the Net Cost of Operations to the Budget

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

Reconciliation of Net Cost of Operations to Budget
for the Years Ended September 30, 2016 and 2015
(In Dollars)

	2016	2015
Resources Used to Finance Activities		
Budgetary resources obligated		
Obligations incurred	$ 63,217,157	$ 59,019,903
Spending authority from offsetting collections and recoveries	(61,678,681)	(51,422,219)
Net obligations	1,538,476	7,597,684
Other resources		
Imputed financing from costs absorbed by others	6,011,824	5,338,716
Other resources	2,535,327	(1,611,017)
Net other resources used to finance activities	8,547,151	3,727,699
Total resources used to finance activities	10,085,627	11,325,383
Resources used to finance items not part of net cost of operations	(1,089,260)	(1,186,364)
Total resources used to finance net cost of operations	8,996,367	10,139,019
Components of the net cost of operations that will not require or generate resources in current period	(118,001)	86,737
Net cost of operations	**$ 8,878,366**	**$ 10,225,756**

Other Information

Letter from the Inspector General on FCA's Management Challenges

Farm Credit Administration

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

October 17, 2016

The Honorable Kenneth A. Spearman, Board Chairman
The Honorable Dallas P. Tonsager, Board Member
The Honorable Jeffery S. Hall, Board Member
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Dear Board Chairman Spearman and FCA Board Members Tonsager and Hall:

As part of the Agency's annual Performance and Accountability Report, the Inspector General is required by law, the Reports Consolidation Act of 2000, to provide a summary perspective on management and performance challenges facing the Agency. I have identified four challenge areas. Please see the attached summary and paragraphs expanding on the challenges and the Agency's progress on meeting these challenges.

We appreciate the continued, ongoing support the OIG receives from Agency leadership. We will continue to work with you in addressing these and other challenges that you face in achieving FCA's mission.

If you have any questions, please call me at 703-883-4036 or 4030.

Respectfully,

Elizabeth M. Dean
Inspector General

Enclosure

Summary of the Inspector General's Identification of Major Challenges	
Examination and Supervision Program	Agricultural credit and collateral risk conditions have been intensifying in recent years. This adds to an agricultural environment already complex and volatile. Farm Credit System (FCS) institutions will need to have foresight as they address changing risk conditions. Likewise, the Farm Credit Administration (FCA or Agency) must plan for risk conditions in its examination and supervision program. The FCA will also need to update its examination activities to evaluate capital reporting and compliance by FCS institutions when new capital regulations become effective in January 2017.
Information Technology	The speed at which technology changes and the ever-present concerns raised by cybersecurity threats and vulnerabilities require a technology program that is both realistic and forward-thinking. This is made more complex with the FCA's anticipated investments in technologies, examiners' increased reliance on the FCS Loan Database, and the impact of new electronic record retention requirements.
Human Capital	Building and sustaining a high-performing and diverse workforce is imperative, and FCA faces numerous challenges with human capital. The Agency must evaluate its strategies for recruitment and hiring to attain a more diverse and inclusive workforce while maintaining the high quality and knowledge of its historical resources.
Organizational Structure and Governance	Changes to FCA's organizational structure resulting from the statutory term limits of the FCA Board, as well as FCA's reorganization activities, including creation of an FCA Office of Information Technology, Office of the Chief Financial Officer, and Office of Agency Services, highlight the need for FCA to consider whether additional revisions to governance structure would optimize operations.

Challenge 1: Examination and Supervision Program

The Farm Credit System (FCS or System) continues to be fundamentally safe and sound. However, agricultural credit and collateral risk conditions have been intensifying in recent years in an agricultural environment that is already complex. FCS institutions will need to have foresight as they address changing risk conditions. Likewise, the Farm Credit Administration (FCA or Agency) will need to continue to use all economic and financial expertise to address the dynamic economic conditions, especially in its examination and supervision program. The Agency will also need to update its examination activities to evaluate capital reporting and compliance by FCS institutions with new capital regulations effective as of January 1, 2017 – the Tier 1/Tier 2 Regulatory Capital Framework Final Rule (Tier 1/Tier 2 Rule). FCA must be flexible and forward-thinking in responding to these economic and regulatory changes.

As highlighted in last year's Management Challenges, the risk environment is a key area for anticipating and planning for the FCA. An appropriate control environment must align with existing and emerging risk factors to identify and deter consequences with the greatest potential impact, especially with the Tier 1/Tier 2 Rule going into effect. As these new requirements are implemented and FCS institutions' business practices become more sophisticated, this will heighten the need for enhanced internal control systems. FCA's examination and supervision program must align with these evolving threats and risks, and doing so will require increased monetary, human capital, and information technology resources.

From time to time, FCS institutions do not exhibit needed risk management and internal controls. In these cases, FCA must respond accordingly and intervene, when necessary, to ensure the health of the System is protected. FCS institutions are subject to special supervision and enforcement actions as a result of various internal weaknesses, as well as external weaknesses in the economy, credit markets, and the changing agricultural industry. FCA must provide prompt, preemptive actions, when needed, to prevent escalation of issues that may impact the safety and soundness of the System.

Agency Progress

FCA continually works to address the challenges of the examination and supervision roles and responsibilities. Each year, the Office of Examination (OE) identifies National Oversight Plan risk topics that are emphasized in ongoing examinations and oversight activities. For Fiscal Year 2016, two risk topics were identified: Internal Controls and Operations Risks, and Intensifying Credit Risks. For Fiscal Year 2017, OE's two identified risk topics are Intensifying Credit Risk – Deeper into the Commodities Cycle, and Implementing the New Capital Regulations.

OE has recognized that credit and collateral risk conditions have been intensifying, with the declining commodities cycle continuing to result in projected losses and limited profits and creating stresses for borrowers. In anticipation of these conditions, OE issued an Informational Memorandum titled Servicing Loans to Borrowers in Distressed Industries (January 21, 2016) that highlighted risk conditions and encouraged System institutions to ready themselves and their customers for less favorable conditions. OE is also planning additional credit-related communications with System institutions to encourage institutions to work with borrowers as they navigate the intensifying credit conditions. The Agency has therefore worked to position its workforce to respond to changes in the System, particularly changes to agricultural credit that might impact the examination function.

In FY 2016, the FCA adopted a final rule that becomes effective early in 2017, establishing new capital regulations. These new regulations modernize the capital requirements to ensure institutions will hold enough capital to fulfill their mission as a Government-sponsored enterprise. The new regulations also make the System's capital requirements comparable with the Basel III framework as well as other Federal banking agencies' regulations, thereby meeting requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. FCA is further updating its Call Report schedules to provide for increased capital-related reporting. This progress demonstrates FCA's attention and focus on potential and ever-evolving challenges.

Also, in response to OIG's audit report on the Examination of Business Continuity at Farm Credit System Institutions, the Agency agreed with, and closed in this fiscal year, two actions addressing workpaper templates and documentation requirements that will enhance examination of business continuity at FCS institutions.

The Office of Inspector General (OIG) plans to review OE programs during Fiscal Years 2017–2018 to ensure the challenges of the examination and supervision program are adequately addressed, including a plan to evaluate the Agency's examination process as it relates to the oversight of IT security at System institutions.

Challenge 2: Information Technology

Cybersecurity threats and vulnerabilities require a technology program that is both realistic and forward-looking. For the FCA and other government agencies, the speed at which technology changes and the ever-present concerns raised by security threats are made more complex with the expected costly investments in technologies, examiners' increased reliance on the FCS Loan Database, and the impact of new FCA electronic record retention requirements. Thus, information technology resources are a critical component in maintaining and improving the efficiency and effectiveness of the Agency.

The continuous challenge created by cybersecurity is also highlighted by ongoing extensive, broad-reaching instances of computer hacking involving the public and private sectors and increased instances of malware across the government, all serving to threaten FCA and other government agencies' abilities to perform their missions. As such, it is imperative to prevent and respond to these types of attacks to ensure the Agency has the tools it needs to perform its mission.

In this context, Agency spending in the IT arena must align with strategic goals and statutory mandates to facilitate information gathering, retrieval, and sharing. Considering increased reliance on technology for examiners and more extensive use of the FCS Loan Database, there is an even greater need for ensuring best practices are followed in IT security. Also, the Agency's movement into cloud-based computer services, as well as the upcoming December 31, 2016, deadline for agencies to have established electronic email management systems in place, emphasizes the importance and challenges created by IT in Federal agencies.

Agency Progress

FCA has made significant changes in FY 2016, with a new Chief Information Officer joining FCA and the Office of Information Technology (OIT). In addition, the Office of Information Technology was split into three different divisions:

- Applications Division
- Governance Division
- Technology Division

In response to OIG's audit of the Agency's Risk Project and the resulting agreed-upon actions, FCA made progress in re-evaluating software licenses in order to reduce costs while retaining necessary licenses. Updates that were made to IT-related FCA policies and directives, including guidance on inappropriate use of Agency resources, will further enhance FCA controls and reduce risks of abuse and waste.

The OIG will conduct its annual evaluation of FCA's compliance with the Federal Information Security Modernization Act, and plans to review Email Configuration, Security, and Records Management.

Challenge 3: Human Capital

Building and sustaining a high-performing and diverse workforce is imperative since FCA's employees are its most valuable asset. As of September 30, 2016, FCA had 315 employees. The Agency must continue to invest in a qualified, experienced workforce and, to do so, must evaluate its strategies for recruitment and hiring and increase emphasis on developing a more diverse and inclusive workforce. FCA faces numerous challenges, however, in developing and building its human capital. These challenges include succession planning, retirement eligibilities, recruitment initiatives, and diversity and inclusion.

In terms of succession planning and retirement eligibilities, the trend in recent years continues with a significant portion of FCA's current workforce eligible to retire. The loss of historical knowledge and potential experience gaps resulting from retiring employees being followed by newer, less experienced hires will challenge the Agency in its mission work. It will be challenging for the Agency to replace key individuals without disrupting Agency operations. There is also a need to focus on identifying key-person dependencies. Knowledge sharing, cross-training, and using information imparted when departing employees engage in the Agency's exit interview process, as well as gathering and analyzing data, will reduce the impact of this significant transition.

The success of FCA's mission is highly dependent on the Agency's ability to hire and retain skilled personnel. Staff must possess the skillsets and qualifications necessary to meet the challenges facing the System and FCA, challenges that can change from year to year. And recruiting the right individuals can alleviate the costs associated with high personnel turnover and training.

There is no question that recruitment initiatives present an opportunity to attract veterans, minorities, and individuals with disabilities to apply for FCA positions. However, like many segments of government, increasing workplace diversity and inclusion at the Agency remains a challenge. The Agency must continue to develop and assess strategies to achieve its goals. It can do this through the use of various tools that will identify and reduce potential barriers to diversity; enhance outreach to diverse groups through increased coordination involving the Agency's Equal Employment Opportunity and Inclusion Office and the Office of Agency Services; evaluate the Agency's use of data relating to recruitment; and other emphasis and awareness programs that can support hiring and retention and convey the importance of diversity and inclusion at FCA.

Agency Progress

The Agency maintains a Human Capital Plan to address these challenges and has taken other actions in response to OIG's audit of Human Capital Planning. The FCA management agreed to and improved succession planning efforts, the exit interview process, and providing training to employees on potential biases and barriers to employment. The Agency also tracks retirement projections five years out and assesses human capital needs. With recruitment as a top priority, the Agency has recruiting initiatives underway to fill needed skillsets and has enhanced employee benefits, including a new Agency-wide 401k plan, in an effort to attract high-quality applicants.

Having completed major audits in the human capital area this past year relating to the Agency's Human Capital Plan, Position Management and Job Evaluation, Official Personnel Files, and Personnel Security and Suitability, the OIG plans to continue its work in this area in the coming years by reviewing the Pathways Program and the Separating Employee Process.

Challenge 4: Organizational Structure and Governance

Changes to FCA's organizational structure resulting from the statutory term limits of the FCA Board, as well as FCA's reorganization activities, including creation of an FCA Office of Information Technology, Office of the Chief Financial Officer, and Office of Agency Services, highlight the opportunity to consider optimal governance and management structure.

Although the Agency's statutory mission has remained constant, many factors affect the Agency's operations and organization. One factor is the periodic turnover in the FCA Board. Chairman Spearman was first appointed to the FCA Board in 2009, and his term expired in May 2016. Board Member Hall's term will expire in October 2018, and Board Member Tonsager's term will expire in May 2020. By law, Board Members may continue to serve until the President appoints a successor. However, given the fact that Chairman Spearman's term expired in May 2016, it is expected the FCA Board composition may change in the near future. As a result, the FCA will have the ongoing challenge of coordination and cooperation between the Chairman and Board members in defining and adjusting to roles and responsibilities.

Also, as an arm's length regulator, FCA has unique challenges in terms of ensuring it is both independent and equitable, as well as transparent in keeping open communications. This dynamic is especially important for the Board and employees with decision-making authorities. FCA must also be cognizant of how outside forces can affect, or be perceived to affect, regulations and policy. To achieve its mission, the organizational structure must align in a way that ensures quality staff are dedicated to understanding, communicating, and addressing these issues.

Agency Progress

The Agency has been active in ensuring its creation of a new Office of Information Technology and its reorganization of the Office of the Chief Financial Officer and Office of Agency Services, as well as its distribution of associated authorities and responsibilities, recognize the challenges inherent in a reorganization. The Agency also has taken steps to communicate, Agency-wide, the authorities of these offices in order to facilitate a smooth transition. The Agency should periodically reassess its organizational structure to ensure it remains optimal.

In terms of preparing for any turnover in the FCA Board's composition, the Agency is certainly aware of this potential and plans for it to the extent possible. The Agency is also staying informed regarding changes to agriculture risks, including lower commodity prices, softening of agricultural land values, the impact of any decline in farm support, and other factors outside FCA's control having a major impact on the FCA's ability to perform its mission as an arm's length regulator.

The OIG plans to conduct audits examining FCA's Internal Control Process and Communications Process and, in doing so, will consider the impact of FCA governance during this work.

Farm Credit Administration

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

FARM CREDIT ADMINISTRATION

November 14, 2016

Ms. Elizabeth Dean
Inspector General
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Ms. Dean:

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

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

Sincerely,

Kenneth A. Spearman
Board Chairman and CEO

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

Challenge 1: Examination and Supervision Program

We agree with the IG's assessment of this challenge and provide the following additional thoughts for consideration.

The Office of Examination (OE) will continue to focus resources for examination and supervision based on institution risks. To address specific risks and concerns in FY 2017, our examiners will emphasize certain "focus areas" in their examinations. We have outlined two risk topics in our National Oversight Plan for FY 2017:

- Intensifying credit risk – deeper into the commodities cycle
- Implementing the new capital regulations

We reinforced these topics in OE's FY 2017 Operating Plan and in an Informational Memorandum sent to the System in September 2016.

OE plans to issue additional guidance to the System and our examination staff that outlines our expectations for how institutions are to manage the intensified credit risk. We will also assess institutions' strategies and internal controls that promote accurate capital reporting and compliance with the new capital regulations. If we identify deficiencies in credit risk management practices or compliance with the new capital regulations at System institutions, we will require the institutions to address these deficiencies.

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

Challenge 2: Information Technology

We agree with the IG's assessment of this challenge and provide the following additional thoughts for consideration.

Through our information resources management planning, we ensure that FCA business needs drive our IT program and expenditures. The planning process supports timely and cost-effective IT services and identifies new application development needs. In our planning, we stress the importance of input and ideas from our business units.

We have invested in business intelligence tools to model and analyze Farm Credit System loan data to better identify and address risks in the System. We will use these tools in the future for internal operations analysis.

To further protect FCA information against ever-evolving threats from malware and viruses, we will continue to update our security toolset. We are working with the Director of National Intelligence and the Department of Homeland Security to enhance our network monitoring. We will also continue to consider risk in our IT-related decisions and to establish security controls to help protect us from those risks. We will also continuously train our employees to guard against cybersecurity threats.

Because information technology and the security over information are now considered more of a line operation than a support structure, FCA's senior management recommended, and the board approved, elevating the IT functions and responsibilities to a separate office. The new CIO is actively involved in our leadership meetings to better understand our needs and educate others about the risks and benefits of our IT program.

Management's Response to Challenges Identified by FCA's Inspector General
Challenge 3: Human Capital
We agree with the IG's assessment of this challenge and provide the following additional thoughts for consideration. Because a large percentage of the agency's workforce will be eligible to retire in the next few years, we will need to continue to attract and retain well-qualified staff. In FYs 2015 and 2016, we hired a large number of associate examiners and summer interns for the Office of Examination. By participating in recruiting events at various career fairs and universities, including several with high minority enrollment, we were able to hire a diverse group of new associate examiners. We also formed an agency recruitment committee to identify additional ways to build a more diverse and inclusive workforce—one that includes qualified veterans, minorities, and individuals with disabilities. We will need to continue to provide a full range of training to ensure that employees not only have fundamental skills and knowledge but also the specialized skills to perform complex analyses and oversight, including more in-depth data analysis. In FY 2016 we offered numerous training opportunities to employees. Most of these opportunities were based on an extensive survey conducted last year to determine both the learning culture of the agency, as well as the skills most needed. We are working closely with our learning officer to support a continuous learning environment that values and rewards employees who work hard to enhance their skills. In addition, we are working to provide a clear training path for our future leaders. To retain highly qualified staff members, we must provide them with challenging work and strong job incentives. We updated the Strategic Plan in FY 2016 to include a third goal that emphasizes human capital because we recognize the important role that human capital factors play in achieving our mission. We have formed a Human Capital Steering Committee to help implement the human capital factors in the Strategic Plan and in our Human Capital Plan.

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

Challenge 4: Organizational Structure and Governance

We agree with the IG's assessment: Managing and governing the agency is a dynamic challenge. The leadership and organizational changes may create challenges, but they also provide great opportunities for the agency. We provide the following additional thoughts for consideration.

FCA has had a full board and strong, consistent leadership for the past several years. We have a smooth transition process as new board members come to FCA or take on new roles. As noted in the human capital section above, we continue to focus on preparing our staff to step into leadership roles as current leaders retire. Most recently, an internal candidate was selected to fill the position of director of the newly created Office of Agency Services.

The FCA Board regularly updates the Strategic Plan and oversees processes to ensure the continuity of its operations. Congress designed the FCA Board to change on a regular basis. This change is an opportunity to bring new insight and perspective to the agency. FCA has turned what might be a challenge into a strength by using the new outlooks, experience, and knowledge of new members.

As one can see from the revisions to the Strategic Plan and the organizational changes made over the past year, the Board has been proactive in seeking the optimal organizational structure for the agency. The Strategic Plan recognizes and addresses the risks associated with changes inside the agency, among our stakeholders, and in the agriculture industry. In addition to refining and refocusing the Strategic Plan, the agency has defined those risks and is working to address them.

FCA will manage performance and risk from an organizational perspective. In addition to existing processes, FCA's executive leadership will implement enterprise risk management, the integrated management of risk at the strategic, program, and operational levels.

Summary of Financial Statement Audit and Management Assurances

Table 6. Summary of Financial Statement Audit

Audit Opinion: **Unmodified**
Restatement: **No**

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
(Not applicable)					

Table 7. Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)
Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
(Not applicable)						

Effectiveness of Internal Control over Operations (FMFIA § 2)
Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
(Not applicable)						

Conformance with Federal Financial Management System Requirements (FMFIA § 4)
Statement of Assurance: Federal systems conform

Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
(Not applicable)						

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)

	Agency	Auditor
1. System Requirements	No lack of compliance noted	No lack of compliance noted
2. Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

Improper Payments Elimination and Recovery Improvement Act

Background

The Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), requires agencies to annually report information on improper payments to the President and Congress. OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments outlines the requirements for complying with IPERIA. OMB Circular A-136 provides the guidance for reporting on IPERIA in the Performance and Accountability Report. As noted in OMB A-136, section II.5.8, there are twelve sections outlining the various reporting details for IPERIA compliance. Of the twelve sections, only three are applicable to FCA:

- Section I – Risk Assessment
- Section X – Recapture of improper payments reporting
- Section XII – Agency reduction of improper payments with the Do Not Pay Initiative.

Risk assessment

All agencies are required to assess the improper payment risk level at least once every three years. Our last IPERIA assessment was completed in FY 2014. We reviewed five payment processes: contract payments, purchase card, travel card, claims and vouchers, and payroll. Each payment process has its own set of internal control processes. Our risk assessment did not find any programs or activities that were susceptible to significant improper payments. We have assessed our risk as low for all of these processes.

IPERIA defines significant improper payments as gross annual improper payments in a given program. Payments are considered improper and significant if they meet one of two criteria:

- they exceed both 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported, or
- they exceed $100 million (regardless of the improper payment percentage of total program outlays).

In addition, OMB has designated the threshold for high-priority programs as programs with $750 million in estimated improper payments as reported in the Annual Financial Report or in the Performance and Accountability Report. FCA's entire budget for FY 2016 was $66.2 million, which was well under this threshold; therefore, we do not have any high-priority programs.

Since our risk of improper payments is considered low, we are not required to perform any statistically valid estimates of improper payments or to report on any corrective actions or root causes. We are, however, required to reassess our risk for improper payments every three years. Our next assessment will be in FY 2017.

Recapture of improper payments reporting

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

Our service provider, BFS, has internal control procedures to ensure that payments are made properly. One such procedure is the post-payment audit in which BFS reviews a random sample of 10 percent of all invoices processed each month.

In addition to the internal control procedures of BFS, our agency invoice approvers also provide an additional layer of review and approval to the payment process to ensure that approved payments are appropriate before they are made. Generally, BFS reviews invoices before our own invoice approvers review them. We also work with BFS to ensure that payroll and charge card payments are reviewed and monitored to ensure proper payments are being made.

We also perform routine operational reviews and oversight to help identify improper payments. For FY 2016, we identified three improper payments amounting to $36,533, or 0.06 percent of total outlays for the year. In all instances, the amounts were fully recovered.

Agency reduction of improper payments with the Do Not Pay Initiative

We work closely with our service provider to ensure that all payments are proper and paid to valid vendors. Our service provider continually monitors the vendor file in the financial system and cross-checks it against the various Do Not Pay databases. This process serves both the pre-payment and the pre-award review requirement to ensure only eligible recipients are paid. To date, we have not had any vendors with a match to these Do Not Pay databases.

Table 8 (IPERIA Table 4)*
Overpayment Payment Recaptures Without Recapture Audit Programs
($ in millions)

Overpayments Recaptured Outside of Payment Recapture Audits		
Program	**Amount Identified**	**Amount Recaptured**
Contract Payments	$.0365M	$.0365M
Purchase Card	$0	$0
Travel Card	$0	$0
Claims and Vouchers	$0	$0
Payroll	$0	$0

*OMB circular A-136 requires agencies to use the same table numbers that are used in the circular. See section II.5.8.

Table 9 (IPERIA Table 7)*
Results of the Do Not Pay Initiative in Preventing Improper Payments
($ in millions)

	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined to be accurate	Dollars ($) of potential improper payments reviewed and determined to be accurate
Reviews with the Do Not Pay databases	6,060	$9.3737	0	$0	0	$0
Reviews with databases not listed in IPERIA as Do Not Pay databases	0	$0	0	$0	0	$0

*OMB circular A-136 requires agencies to use the same table numbers that are used in the circular. See section II.5.8.

Additional Information

The Farm Credit Administration Performance and Accountability Report Fiscal Year 2016 is available on FCA's website at www.fca.gov. While supplies last, printed copies of this publication and earlier editions may be obtained without charge from

Office of Congressional and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
Telephone: 703-883-4056
Fax: 703-790-3260
E-mail: info-line@fca.gov

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

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

The Farm Credit System Insurance Corporation publishes an annual report. Copies are available on FCSIC's website at www.fcsic.gov or from

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

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

Copies are available from
Office of Congressional and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
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703-883-4056
www.fca.gov
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