

Jill Long Thompson, Board Chair and Chief Executive Officer
Kenneth A. Spearman, Board Member
Leland A. Strom, Board Member



**MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
January 9, 2014**

These minutes reflect the business transacted at the January 9, 2014, Regular Meeting of the Farm Credit Administration Board (FCA Board) pursuant to the Government in the Sunshine Act (Act), 5 U.S.C. § 552b, and the regulations of the Farm Credit Administration (FCA) adopted thereunder.

The FCA Board meeting was held at the FCA office in McLean, Virginia, beginning at 9:00 a.m. and concluding at 9:48 a.m. Members of the Board present were:

**Jill Long Thompson, Board Chair and Chief Executive Officer
Kenneth A. Spearman, Member
Leland A. Strom, Member**

The above named constitute the full Board.

Others present included **Charles Rawls**, General Counsel; **Dale Aultman**, Secretary to the Board; staff of the FCA and Farm Credit System Insurance Corporation (FCSIC); and two members of the general public. (A list of staff attendees is attached as Exhibit A.)

The **Secretary** read a statement that announced the meeting would be conducted according to the requirements of the Government in the Sunshine Act.

Board Chair Long Thompson reviewed the published Agenda. (A copy of the Public Announcement publishing the Agenda for the meeting is attached as Exhibit B.)

Mr. Spearman moved to adopt the Agenda as published.

Mr. Strom seconded the motion.

There being no further discussion, **Board Chair Long Thompson** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

Mr. Strom noted that the Agenda **did** include a portion of the meeting that should be closed to the general public as permitted by the Government in the Sunshine Act and therefore moved that the meeting be closed at that point.

Mr. Spearman seconded the motion.

There being no further discussion, **Board Chair Long Thompson** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

OPEN SESSION

Approval of Minutes

Minutes for December 12, 2013 Regular Board Meeting (BM-09-JAN-14-01)

Mr. Spearman moved to approve the minutes for December 12, 2013 Regular Board Meeting.

Mr. Strom seconded the motion.

There being no further discussion, **Board Chair Long Thompson** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously. **(BM-09-JAN-14-01)**

(A copy of the official "Board Action Item" is attached as Exhibit C.)

New Business

Standards of Conduct – Proposed Rule (BM-09-JAN-14-02)

Jacqui Melvin of the Office of Regulatory Policy and **Mary Alice Donner** of the Office of General Counsel presented the **Standards of Conduct – Proposed Rule**.

Board Chair Long Thompson opened the discussion for questions by the Board.

Board Chair Long Thompson asked if there was any further discussion and asked staff to provide their recommendation. Staff provided their recommendation.

Board Chair Long Thompson called for a motion on the staff's recommendation regarding the final rule.

Mr. Strom moved that the Board approve the **Standards of Conduct – Proposed Rule**.

Mr. Spearman seconded the motion.

Board Chair Long Thompson asked if there was any further discussion.

There being no further discussion, the **Board Chair** called the question.

The **Secretary** polled the Members and the motion carried unanimously. **(BM-09-JAN-14-02)**

(A copy of the “Board Action Item” is attached as Exhibit D.)

Reports

Equal Employment Opportunity and Inclusion Update

Thais Burlew of the Office of Equal Employment Opportunity presented the **Equal Employment Opportunity and Inclusion Update**.

Board Chair Long Thompson asked if there were any questions or further discussion from the Board.

There were no further questions or discussion.

(A copy of the PowerPoint presentation is attached as Exhibit E.)

Auditor’s Report on FCA FY 2013/2012 Financial Statements

Elizabeth Dean, Inspector General, **Kimberly Penn** and **Gail Jenifer** from Brown & Company, CPAs, PLLC. presented the **Auditor’s Report on FCA FY 2013/2012 Financial Statements**.

Board Chair Long Thompson asked if there were any questions or further discussion from the Board.

There were no further questions or discussion.

(A copy of the PowerPoint presentation and the Inspector General’s Audit Report are attached as Exhibit F.)

CLOSED SESSION

Board Chair Long Thompson thanked the general public for attending and asked that members of the general public and others not involved in the executive session to exit.

The closed session convened at 9:40 a.m. The electronic recording device was activated so that the proceedings of the closed session were properly recorded as required by the Government in the Sunshine Act.

The **General Counsel** furnished the **Secretary** with a certification, pursuant to 5 U.S.C. § 552b(f), that the portions of the meeting held in closed session may be properly closed to the public.

(A copy of the Certification is attached hereto as Exhibit G.)

Members of the Board present were:

Jill Long Thompson, Board Chair and Chief Executive Officer
Kenneth A. Spearman, Member
Leland A. Strom, Member

The above named constitute the full Board.

Others present included **Dale Aultman**, Secretary to the Board; and **Charles Rawls**, General Counsel. (A list of staff attendees is attached as Exhibit A).

Reports

Executive Session with External Auditor

The FCA Board held an executive session with **Kimberly Penn** and **Gail Jenifer** from **Brown & Company, CPAs, PLLC** regarding the Auditor's Report on FCA FY 2013/2012 Financial Statements. Others present were Executive Assistants **Inga Smulkstys**, **Russell Middleton**, and **Mark Johansen**; **Dale L. Aultman**, Secretary to the Board; and **Charles Rawls**, General Counsel.

The closed session ended at 9:47 a.m.

ADJOURNMENT

There being no further business to come before the Board, **Board Chair Long Thompson** indicated she would entertain a motion to adjourn the meeting.

Mr. Spearman moved that the meeting be adjourned.

Mr. Strom seconded the motion.

Board Chair Long Thompson called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

The meeting adjourned at 9:48 a.m.

NOTATIONAL VOTE ACTIONS

There were no notational vote actions by the FCA Board from December 13, 2013, through January 8, 2014.

The undersigned hereby certify that the foregoing minutes are the official minutes of the Regular Meeting of the Farm Credit Administration Board held on January 9, 2014.

_____/s/_____
Jill Long Thompson
Board Chair and Chief Executive Officer

_____/s/_____
Dale L. Aultman
Secretary to the Board

Approved: **February 18, 2014**

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
January 9, 2014**

JILL LONG THOMPSON, Board Chair and Chief Executive Officer
KENNETH A. SPEARMAN, Board Member
LELAND A. STROM, Board Member

OFFICE	OPEN SESSION	CLOSED SESSION
Office of the Board		
Aultman, Dale	X	X
Smulkstys, Inga	X	X
Corey, Kathryn	X	
Buccolo, Deb	X	
Johansen, Mark	X	X
Calhoun, Gaye	X	
Middleton, Russell	X	X
OCOO		
Hoffman, William	X	
OCPA		
Stokke, Mike	X	
OSMO		
Rea, Laurie	X	
OGC		
Rawls, Charles	X	X
Strickland, Joy	X	
Donner, Mary Alice	X	

OFFICE	OPEN SESSION	CLOSED SESSION
OE		
Coleman, Robert	X	
Paulsen, Roger	X	
OIG		
Dean, Elizabeth	X	
Penn, Kimberly (Auditor from Brown & Company, CPAs, PLLC)	X	X
Jenifer, Gail (Auditor from Brown & Company, CPAs, PLLC)	X	X
ORP		
Van Meter, Gary	X	
Mardock, Barry	X	
Melvin, Jacqui	X	
Edelstein, Jeremy	X	
OMS		
Smith, Stephen	X	
FCSIC		
Rubin, Howard	X	
Pfitzinger, Rick	X	
EEO & Inclusion		
Burlew, Thais	X	
GENERAL PUBLIC	2	

**PUBLIC ANNOUNCEMENT OF
 MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT
 Farm Credit Administration Board
 Regular Meeting
 January 9, 2014**

Summary: Notice is hereby given, pursuant to the Government in the Sunshine Act (5 U.S.C. Sec. 552b(e) (1)), of the forthcoming regular meeting of the Farm Credit Administration Board.

Date and Time: The regular meeting of the Board will be held January 9, 2014. The meeting is scheduled to be held at the office of the Farm Credit Administration in McLean, Virginia, from 9:00 a.m. until such time as the Board may conclude its business.

Address: Farm Credit Administration, 1501 Farm Credit Drive, McLean, Virginia 22102-5090. Submit attendance requests via e-mail to VisitorRequest@FCA.gov. See SUPPLEMENTARY INFORMATION for further information about attendance requests.

For Further Information Contact: Dale L. Aultman, Secretary to the Farm Credit Administration Board (703) 883-4009. TTY is (703) 883-4056.

Supplementary Information: Parts of this meeting of the Board will be open to the public (limited space available), and parts will be closed to the public. Please send an e-mail to VisitorRequest@FCA.gov at least 24 hours before the meeting. In your e-mail include: name, postal address, entity you are representing (if applicable), and telephone number. You will receive an e-mail confirmation from us. Please be prepared to show a photo identification when you arrive. If you need assistance for accessibility reasons, or if you have any questions, contact Dale L. Aultman, Secretary to the Farm Credit Administration Board, at (703) 883-4009. The matters to be considered at the meeting are:

OPEN SESSION

- 1 **Approval of Minutes**
 December 12, 2013

- 2 **New Business**
 Standards of Conduct – Proposed Rule

- 3 **Reports**
 Equal Employment Opportunity and Inclusion Update
- 4 Auditor’s Report on FCA FY 2013/2012 Financial Statements

CLOSED SESSION

- 5 Executive Meeting with Auditors¹

 December 30, 2013
 Date

 /s/
 Dale L. Aultman
 Secretary to the Board

¹Session Closed-Exempt pursuant to 5 U.S.C. Section 552b(c)(2).

Farm Credit Administration

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

BOARD ACTION ITEM



FCA BOARD ACTION ON

Minutes for December 12, 2013 Regular Board Meeting

BM-09-JAN-14-01

Effective Date: January 9, 2014

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for December 12, 2013, Regular Board Meeting as submitted.

DATED THIS 9th DAY OF JANUARY 2014

BY ORDER OF THE BOARD

_____/s/
Dale L. Aultman
Secretary to the Board

Farm Credit Administration

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

BOARD ACTION ITEM



**FCA BOARD ACTION ON
Standards of Conduct – Proposed Rule
BM-09-JAN-14-02**

Effective Date: January 9, 2014

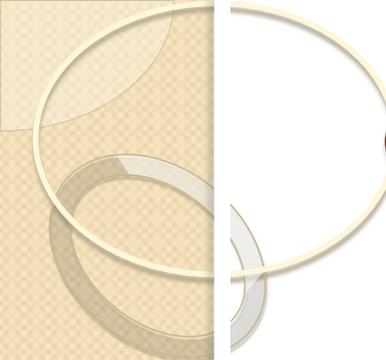
THE FCA BOARD HEREBY:

- Approves the proposed rule that would amend FCA's regulations at part 612, subpart A, to modify the standards of conduct regulations to clarify rules, strengthen responsibility and accountability, require System institutions to establish a Code of Ethics, and enhance the role of the Standards of Conduct Official; and
- Authorizes staff to make any technical or grammatical changes that may be necessary prior to publication in the *Federal Register*.

DATED THIS 9th DAY OF JANUARY 2014

BY ORDER OF THE BOARD

_____/s/
Dale L. Aultman
Secretary to the Board



OFFICE OF EQUAL EMPLOYMENT OPPORTUNITY AND INCLUSION

DIVERSITY UPDATE

FCA Board Meeting
January 9, 2014

Thais Burlew
Director

Exhibit E



Agenda

- Demographics at FCA
- Diversity Programs

Diversity at FCA*

- 293 Employees in FY 2013
- Minority representation maintained at 22 percent
- Individuals with disabilities represented 12.3 percent of FCA's total workforce
- Veterans represent 12 percent of FCA workforce

*Preliminary data

Demographics*

- Women represent 41.9 percent of FCA workforce
 - 48.1 percent of CLF
 - 43.9 percent of FCL
- Hispanics represent 4.8 percent of FCA workforce
 - 10 percent of CLF
 - 8.0 percent of FCL
- Blacks represent 9.2 percent of FCA workforce
 - 12 percent of CLF
 - 17.7 percent of FCL
- Asian represent 5.5 percent of FCA workforce
 - 3.9 percent of CLF
 - 5.6 percent of FCL

*Preliminary data

Areas of Opportunity*

- Minorities represent 22 percent of FCA workforce
 - 27.6 percent of CLF
 - 33.8 percent of FCL
- Veterans represent approximately 12 percent of FCA workforce
 - 54 percent of those vets are or will be retirement eligible by 2016
- Women in Senior Ranks (VH-40 and above) increased to 33 percent
- Minorities in Senior Ranks remained the same – 9 people representing 8.5 percent

*Preliminary data

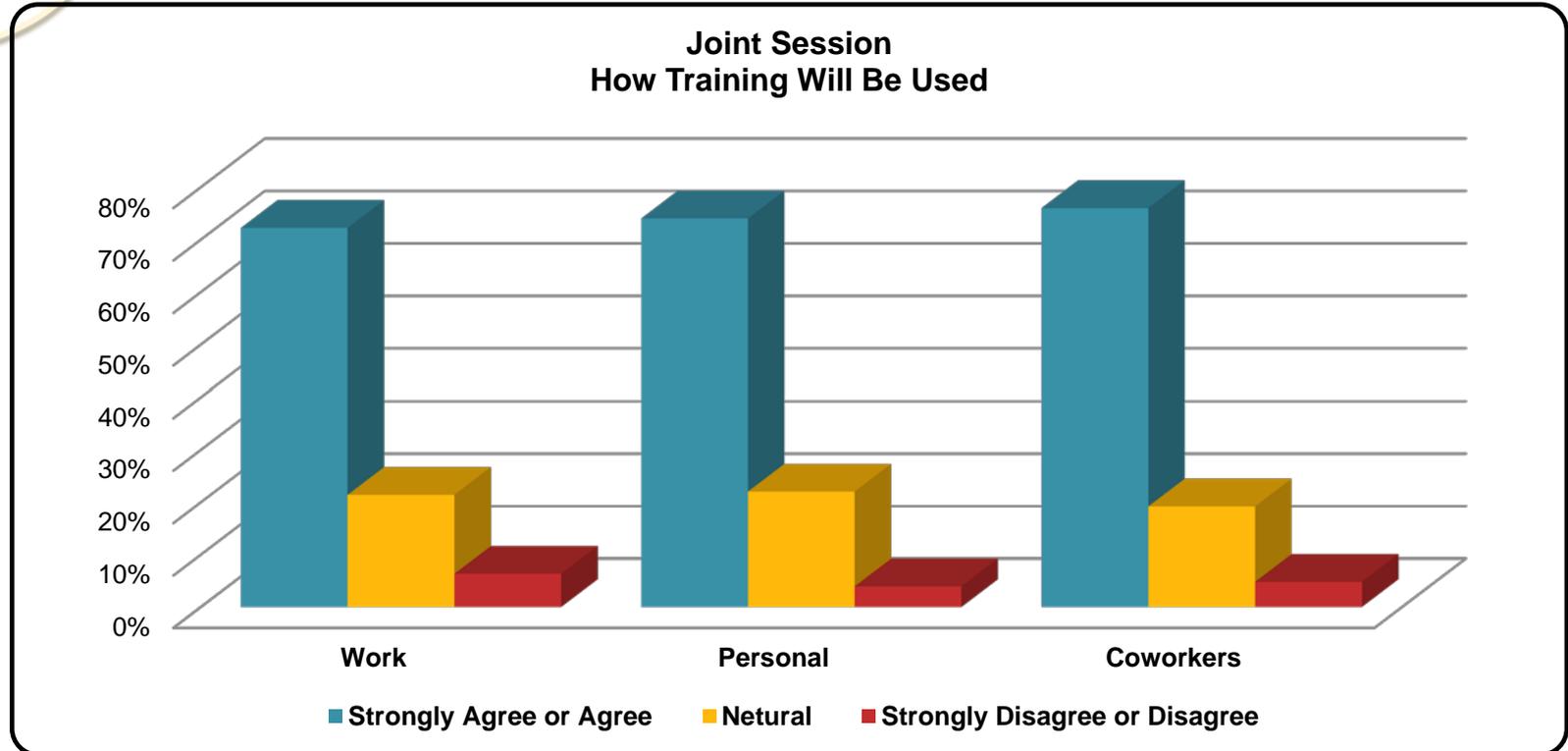


Leadership Development Day

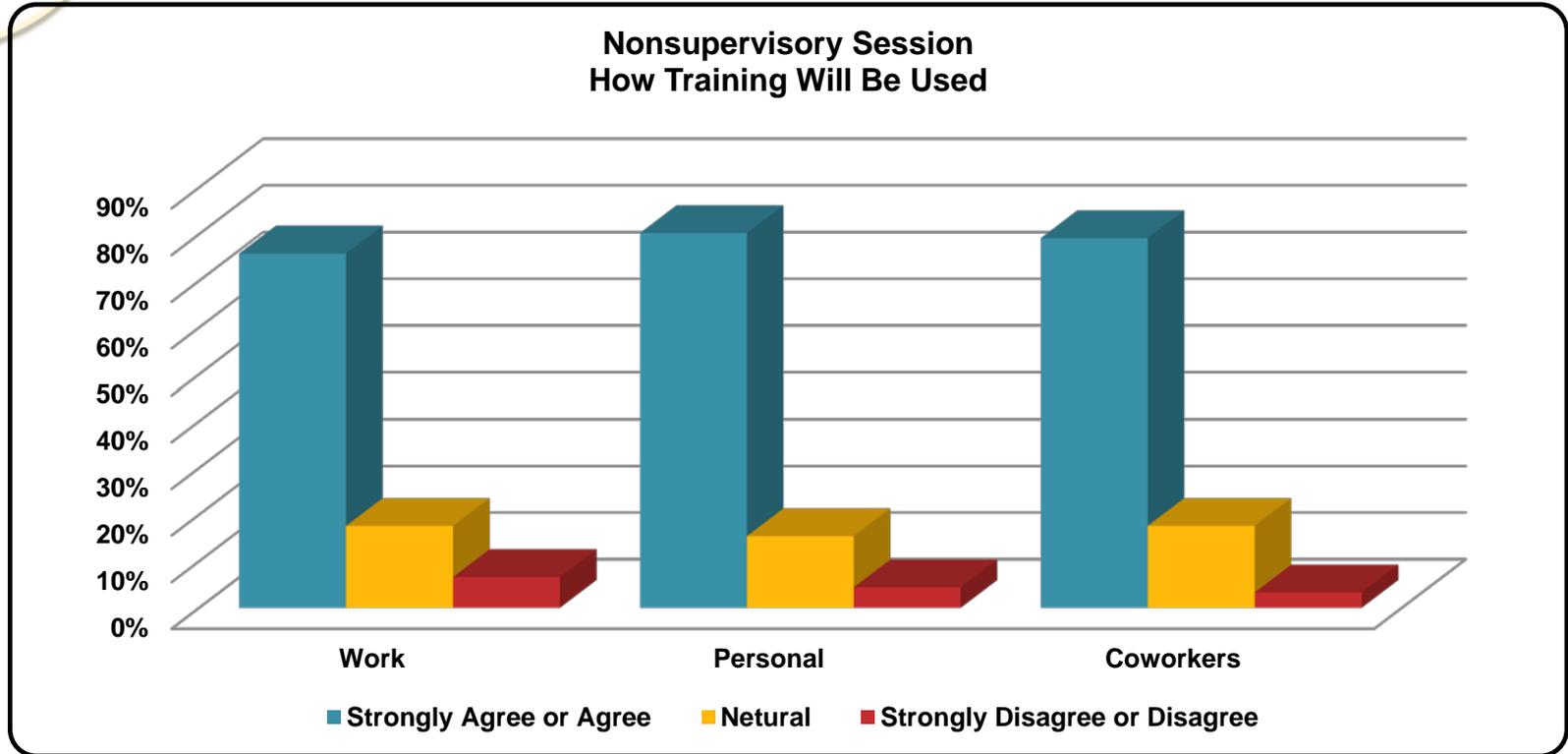
Three Sessions:

- Joint Session
 - “Finding the Leader Within”
- Non-Supervisory
 - “Leaders of Tomorrow”
- Supervisory
 - “Creating a Positive Environment”

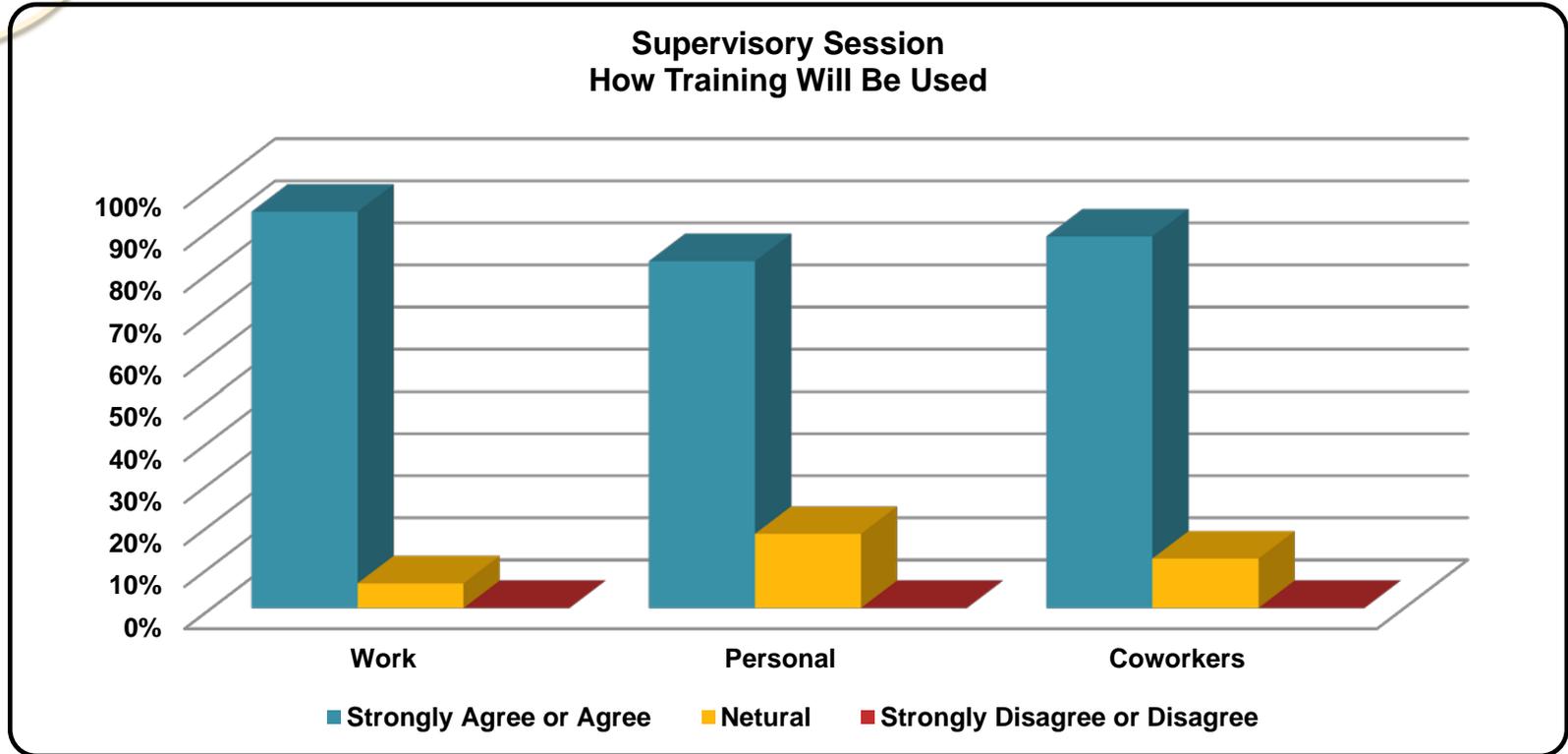
Survey Results – Joint Session



Survey Results - Nonsupervisory



Survey Results - Supervisory





Brown Bag Lunches

- Homestead Grays
- Farmer Veteran Coalition
- Migrant Farm Workers Movement



Thank You

FARM CREDIT ADMINISTRATION BOARD PRESENTATION

**January 9, 2014
9:00 a.m.**



BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

FARM CREDIT ADMINISTRATION

FY 2013 FINANCIAL STATEMENT AUDIT

- Independent Auditor's Reports were:
 - Report on the Financial Statements – FCA received an unmodified opinion, the highest level of assurance.
 - Report on the Internal Control over Financial Reporting – the objective was not to issue an opinion on internal control; however we noted no matters involving internal control that we considered to be a material weaknesses.
 - Report on the Compliance with Laws and Regulations – the objective was not to issue an opinion on compliance with applicable laws and regulations; however, we noted no noncompliance with laws and regulations, which could have a direct and material effect on the financial statements.

FARM CREDIT ADMINISTRATION

FY 2013 FINANCIAL STATEMENT AUDIT

- Basic financial statements include:
 - Balance Sheet
 - Statement of Net Cost
 - Statement of Changes in Net Position
 - Statement of Budgetary Resources

□ Overview of Balance Sheet—Assets

	<u>2013</u>	<u>2012</u>
Fund Balance with Treasury	\$ 837,120	\$ 717,196
Investments	38,352,286	39,824,559
Property, Plant, and Equipment, Net	134,301	402,903
Accounts Receivable, Net	315,436	235,944
Prepaid expenses	<u>186,187</u>	<u>126,811</u>
Total Assets	<u>\$39,825,330</u>	<u>\$41,307,413</u>

FARM CREDIT ADMINISTRATION

FY 2013 FINANCIAL STATEMENT AUDIT

■ Overview of Balance Sheet—Liabilities

	<u>2013</u>	<u>2012</u>
Accounts payable	\$ 457,767	\$ 614,214
Accrued post-employment compensation	34,000	34,488
Employer contributions and payroll taxes	224,396	553,100
Actuarial workers compensation	1,316,210	1,247,046
Accrued payroll and benefits	4,578,402	5,974,658
Accrued taxes payable	1,508	-
Deferred revenue	<u>3,212,730</u>	<u>3,363,965</u>
Total Liabilities	<u>\$ 9,825,013</u>	<u>\$ 11,787,471</u>

■ Analysis of Balance Sheet:

- Total assets for FY 2013 was approximately \$39.8 million, which is an decrease of \$1.5 million or 3.6% from FY 2012. The decrease is largely due to the decrease in investments.

FARM CREDIT ADMINISTRATION

FY 2013 FINANCIAL STATEMENT AUDIT

- Analysis of Balance Sheet :

- Total liabilities for FY 2013 was \$9.8 million, which is an decrease of \$1.9M or 16% from FY 2012. The decrease is largely due to the decrease in accrued payroll and benefits.

- Overview of Statement of Net Costs

	<u>2013</u>	<u>2012</u>
Public Mission		
Gross Cost	\$ 11,695,922	\$ 11,420,694
Less: Earned Revenue	<u>(10,863,530)</u>	<u>(10,835,149)</u>
Net Program Costs	832,392	585,545

FARM CREDIT ADMINISTRATION

FY 2013 FINANCIAL STATEMENT AUDIT

- Overview of Statement of Net Costs

	<u>2013</u>	<u>2012</u>
Safety and Soundness		
Gross Cost	\$ 43,424,434	\$ 46,097,124
Less: Earned Revenue	<u>(39,550,402)</u>	<u>(43,774,261)</u>
Net Program Costs	3,874,032	2,322,863
Other Activities		
Gross Cost	\$ 886,626	\$ 935,349
Less: Earned Revenue	<u>(845,697)</u>	<u>(955,836)</u>
Net Program Costs	40,929	(20,847)

FARM CREDIT ADMINISTRATION

FY 2013 FINANCIAL STATEMENT AUDIT

- Overview of the Statement of Changes in Net Position

	<u>2013</u>	<u>2012</u>
Cumulative Results of Operations, Beginning Balance	\$29,519,942	\$26,782,937
Other Financing Sources :		
Imputed financing sources from costs absorbed by others		
Federal employee benefits	2,527,728	2,674,926
Rent	<u>2,700,000</u>	<u>2,950,000</u>
Total Financing Sources	5,227,728	5,624,926
Less: Net Cost of Operations	<u>(4,747,353)</u>	<u>(2,887,921)</u>
Net position-ending balances	<u>\$ 30,000,317</u>	<u>\$ 29,519,942</u>

FARM CREDIT ADMINISTRATION

FY 2013 FINANCIAL STATEMENT AUDIT

Overview of the Statement of Budgetary Resources

- The Statement of Budgetary Resources is below:

	2013	2012
Beginning Unobligated Balance	\$ 31,866,640	\$ 29,052,387
Spending Authority Earned and Collected	<u>51,031,084</u>	<u>54,897,944</u>
Total Budgetary Resources	\$ 82,897,724	\$ 83,950,331

FARM CREDIT ADMINISTRATION

FY 2013 FINANCIAL STATEMENT AUDIT

Overview of Statement of Budgetary Resources

- The Statement of Budgetary Resources shows resources made available to FCA during the year and the resulting status of budgetary resources at year-end. FCA does not receive an annual appropriation from Congress.
- FCA had total budgetary resources of \$82.8 million, a decrease of \$1.1 from the FY 2012 budgetary resources of \$83.9 million.

Office of Inspector General

Audit of FCA's Financial Statements Fiscal Year 2013

A-13-FS



November 20, 2013

TABLE OF CONTENTS

Inspector General's Transmittal Letter of Auditor's Report.....	1
Auditor's Opinion Letter on the Financial Statements.....	5

For the financial statements and related notes to each fiscal year's financial audit reports, refer to FCA's Performance and Accountability Report (PAR) for that year. The PARs can be found at http://www.fca.gov/reports/performance_reports.html.



November 20, 2013

The Honorable Jill Long Thompson, Board Chair and Chief Executive Officer
The Honorable Kenneth A. Spearman, Board Member
The Honorable Leland A. Strom, Board Member
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Board Chair Long Thompson and FCA Board Members Spearman and Strom:

This letter transmits the report on the audit of the Farm Credit Administration's financial statements for the fiscal year (FY) ended September 30, 2013. The Office of Inspector General (OIG) contracted with the U.S. Department of the Treasury's Bureau of the Fiscal Service for Brown & Company CPAs, PLLC, an independent public accounting firm, to perform the audit.

Brown & Co. issued an unmodified opinion on the Agency's financial statements. It opined that FCA's principal financial statements present fairly, in all material respects, the financial position of the Agency as of the FYs ended September 30, 2013 and 2012, in conformity with generally accepted accounting principles.

Brown & Co. considered FCA's internal control over financial reporting to determine the audit procedures that were appropriate for the limited purpose of expressing an opinion on the financial statements. Although Brown & Co. did not express an opinion on the effectiveness of FCA's internal controls, it did not identify any deficiencies in internal controls considered to be a material weakness.

Additionally, Brown & Co. performed tests of FCA's compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements. Although Brown & Co. did not express an opinion on compliance with those provisions, it did not identify any instances of noncompliance or other matters required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

In the OIG's opinion, Brown & Co.'s audit provides a reasonable basis on which to render its opinion, and we concur with the report dated November 6, 2013.

The OIG's contract with the Bureau of the Fiscal Service required that Brown & Co. perform the audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. To ensure the quality of the work performed, the OIG

- reviewed Brown & Co.'s approach to and planning of the audit,
- evaluated the qualifications and independence of the auditors,
- monitored the progress of the audit,
- examined work papers, and
- reviewed the audit reports.

Management and Performance Challenges

As part of the Agency's annual Performance and Accountability Report, the Inspector General is required by law to provide a summary statement on management and performance challenges facing the Agency. The challenges identified fall into two general categories. First is the challenge related to FCA's mandate of ensuring a safe, sound, and dependable Farm Credit System (FCS or System) as a source of credit and related services to agriculture and rural America. However, it should be recognized that some factors affecting this challenge may be influenced by events outside the control of the Agency. Second, and of equal importance, is the challenge related to the Agency, remaining an independent, arm's-length, objective, and effective regulator of the FCS.

Farm Credit System

Safety and Soundness

The System is a lender to a single industry—agriculture—and is therefore vulnerable to continuing market volatility and uncertain economic conditions. Although the System's overall condition and performance is sound, there are many highly correlated uncontrollable or macroeconomic forces directly affecting agriculture. While the FCS remains generally safe and sound, the current risk environment is a challenge in some FCS institutions, requiring heightened oversight and supervision. System institutions continue to grow in both size and complexity, requiring greater risk management skills and oversight responsibilities both in examination and regulation.

In providing for System oversight, the **challenge** for the Agency is twofold: to continue to be an independent, objective, arm's-length and effective regulator; to continue to assess in a timely manner economic and operational conditions affecting System institutions; and to take prompt preemptive or remedial actions to ensure their ongoing safety and soundness.

Mission

Further, the overall environment facing agriculture, rural America, and the FCS is ever-changing, presenting new vulnerabilities and opportunities. FCA's **challenge** in this environment is to continue to ensure the FCS fulfills its public policy purpose of providing constructive credit to farmers, ranchers, rural residents, agricultural and rural utility cooperatives, and other eligible borrowers.

Farm Credit Administration

Agency Governance

The Farm Credit Act of 1971, as amended, provides for a full-time three-member Board to govern the Agency. Board members are appointed by the President and confirmed by the Senate, and the President designates the Chairman. Board Chair Long Thompson, an FCA Board member since March 2010, replaced Board Member Strom as Chair in November 2012. Board Chair Long Thompson's term expires in May 2014. Board Member Spearman was appointed in October 2009, and his term expires in May 2016. Board Member Strom's term expired October 2012. In accordance with law, he may continue to serve until the President appoints a successor.

All three current Board members are well-experienced, with each having been on the Board for a number of years. Nevertheless, a full-time three-member Board, particularly when a new Chairman is named and a new member(s) joins the Board, presents an ongoing **challenge** of coordination and cooperation for the Chairman and Board members in defining roles and responsibilities. In this regard, the Board's various rules of operation are a significant asset; they provide a foundation for trust and shared expectations among its members, enable the Board to engage in professional and constructive policy debate, and provide continuity of operations and a sound course for the Board and the Agency.

Agency Organization

Although the Agency's statutory mission has remained constant, many factors affect the Agency's operations and organization. A major factor is the periodic turnover in the Board's composition and chairmanship. In addition, the banks and associations of the FCS have continued merging, geographic territories of merged institutions have changed, and FCS institutions' products and the examination thereof have become more complex.

These and other factors bear on FCA's organizational structure. An ongoing **challenge** to the Board and senior management is to periodically reassess FCA's organizational structure to ensure it remains optimal.

Agency Staffing

The Agency has a comprehensive five-year Human Capital Plan covering FYs 2014 to 2018. Recent recruitment initiatives for all levels within the Agency have broad search criteria and have focused on obtaining the best skill sets and achieving diversity in FCA's workforce.

The Board and senior management recognize the area of human capital as critical for the ongoing success of FCA as an effective Federal financial regulator. A few of the factors contributing to the critical nature of human capital, as delineated by the Agency's Office of Management Services, are as follows:

- Projections indicate that a substantial portion of the Agency's workforce is eligible to retire during the next several years.
- The loss of employees during this period will challenge the Agency to retain historical knowledge and perspectives on the programs, practices, and mission of the FCS as well as that of FCA.

- The evolution of FCA, agriculture and rural America, the FCS, and the financial services industry means FCA will need to continue to attract and maintain an experienced and qualified professional staff to meet the anticipated growth and complexity of the FCS and its environment.

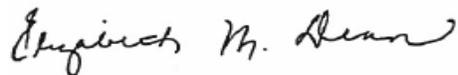
The Agency's **challenge** is to continue to emphasize the implementation of its human capital plan to ensure FCA has the staff it needs to remain an effective regulator of the FCS by, for example, continuing to identify the critical skills needed in the future, appropriately allocating resources between line and staff functions, and ensuring continuity within senior management and other staff positions.

Leveraging Technology

The Agency's ability to leverage investments in technologies is a key element in management's efforts to continually improve Agency performance by increasing the efficiency and effectiveness of operations. The Agency has an active information resource management planning process that identifies, reviews, and prioritizes information technology initiatives to improve Agency operations. The Agency has made significant investments in technologies and implemented several tools to improve communication, collaboration, and efficiency of operations. The Agency's **challenge** is to continue to maximize the use of information technology investments that will increase Agency efficiency and effectiveness. The successful implementation of technologies will provide FCA staff with the tools and skills that will enable the Agency to continue to

- improve the quality and availability of financial data that can be used to examine potential risks across the FCS without creating an undue burden on the FCS;
- streamline business processes and build business intelligence to provide decision-makers with timely management information;
- develop electronic recordkeeping and knowledge management capability for capturing, maintaining, and sharing institutional knowledge; and
- protect and secure FCA information systems and data from ever-increasing external and internal threats.

Respectfully,



Elizabeth M. Dean
Inspector General



INDEPENDENT AUDITOR'S REPORT

Farm Credit Administration
The Board and Office of Inspector General

Report on the Financial Statements

We have audited the accompanying balance sheets of the Farm Credit Administration (FCA) as of September 30, 2013 and 2012, and the related statements of net cost, changes in net position, and budgetary resources, for the years then ended (collectively referred to as the financial statements), 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 accounting principles generally accepted 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FCA as of September 30, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the information in the Management's Discussion and Analysis (MD&A), Required Supplementary Information, and Required Supplementary Stewardship 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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.

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 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.

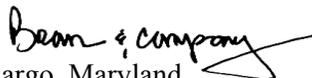
Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. In our fiscal year 2013 audit, we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

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, regulations, contracts and grant agreements, 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. Our fiscal year 2013 audit, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

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


Largo, Maryland
November 6, 2013

