

**Farm Credit Administration  
Office of Inspector General**

**Management Letter for  
the Farm Credit  
Administration's  
Financial Statement  
Audit**

**Fiscal Year 2022**

**November 10, 2022**

**FCAOIG**

Farm Credit Administration  
Office of Inspector General

# FCAOIG

Farm Credit Administration  
Office of Inspector General

November 10, 2022

The Honorable Vincent G. Logan, Board Chairman and Chief Executive Officer  
The Honorable Jeffery S. Hall, Board Member  
The Honorable Glen R. Smith, Board Member  
Farm Credit Administration  
1501 Farm Credit Drive  
McLean, VA 22102-5090

Dear Chairman Logan and Board Members Hall and Smith:

The Office of Inspector General (OIG) contracted with the independent public accounting firm Harper, Rains, Knight & Company P.A. (HRK) to audit the financial statements of the Farm Credit Administration (FCA or Agency) as of and for the fiscal years ended September 30, 2022 and 2021. The auditors issued an unmodified opinion on the financial statements.

As part of the financial statement audit, HRK considered FCA's internal control over financial reporting as a basis for designing audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FCA's internal control. Given these limitations, during the audit, HRK did not identify any deficiencies in internal control over financial reporting that it considered to be a significant deficiency or material weakness. However, the auditors noted an internal control deficiency over payroll operating expenses regarding re-hired annuitants. The attached management letter communicates the internal control deficiency identified by HRK. HRK is responsible for the enclosed management letter and the conclusions expressed therein.

HRK made one recommendation to address the identified deficiency related to re-hired annuitants. FCA Management agreed with the recommendation and provided a corrective action plan, procedures, and updated internal control documentation.

Respectfully,



Sonya K. Cerne  
Assistant Inspector General for Audits, Inspections, and Evaluations

Enclosure

# MANAGEMENT LETTER

FARM CREDIT ADMINISTRATION

MCLEAN, VA

FOR THE YEAR ENDED  
SEPTEMBER 30, 2022

Harper, Rains, Knight & Company, P.A.  
700 12<sup>th</sup> ST NW, Suite 700  
Washington, DC 20005  
202-558-5162  
[www.hrkcpa.com](http://www.hrkcpa.com)



November 10, 2022

Chief Financial Officer  
Farm Credit Administration

We have audited the balance sheet of the Farm Credit Administration (FCA) as of September 30, 2022, and the related statements of net cost, changes in net position, and budgetary resources for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 8, 2022.

In planning and performing our audit of the basic financial statements of the FCA as of and for the year ended September 30, 2022, 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, we considered FCA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FCA's internal control. Accordingly, we do not express an opinion on the effectiveness of FCA's internal control over financial reporting.

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 over financial reporting, 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Certified Public Accountants • Consultants • hrkcpa.com**

1052 Highland Colony Parkway, Suite 100  
Ridgeland, MS 39157  
p: 601-605-0722 • f: 601-605-0733

700 12th Street NW, Suite 700  
Washington, DC 20005  
p: 202-558-5162 • f: 601-605-0733

Chief Financial Officer  
Farm Credit Administration (continued)

The following is a summary of the internal control deficiency for your attention that we determined did not constitute a significant deficiency or material weakness, see Appendix A for the full description:

Payroll Operating Expenses

During our audit, we noted an internal control deficiency over payroll operating expenses, specifically re-hired annuitants. A lack of standard operating procedures in place for cost-of-living increases to re-hired annuitants' annuity offset resulted in overpayment to employees. FCA should develop and implement policies and procedures for updating annuity offsets for re-hired annuitant cost-of-living increases.

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

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

Harper, Rains, Knight & Company P.A.  
Washington, D.C.

**Appendix A**  
Internal Control Deficiency

**I. Internal Control Deficiency**

**A. Internal Control Over Payroll Operating Expenses**

**Condition:**

We tested a sample of fifty-four (54) payroll expense transactions. During our testing, we noted the following:

- For one (1) of the FCA employees tested, who is a re-hired annuitant, the Office of Personnel Management (OPM) annuity amount that should have been used to offset their pay was not updated for the annual adjustment resulting in an overpayment to the employee.
  - After communicating the exception with FCA, it was determined that this exception impacted three (3) employees and goes back to 2018 for one employee, 2019 for another and 2020 for the employee tested. The total effect, for all three (3) employees from 2018 to pay period 19 in 2022, is an overpayment of \$12,540.

**Criteria:**

Civil Service Retirement System and Federal Employees Retirement System Handbook, Chapter 100 - Reemployed Annuitants, Section 100A2.1-1 states:

- The pay of a reemployed annuitant is subject to:
  - Offset by the allocable amount of annuity during the period of reemployment; and
  - Retirement deductions, if elected.

**Cause:**

The exception is due to a lack of procedures in place for updating annuity offsets for re-hired annuitant annual cost-of-living increases.

**Effect:**

For re-hired annuitants, a lack of standard operating procedures in place for cost-of-living increases to annuity offsets can result in overpayment to employees. The total effect, for all three (3) employees from 2018 to pay period 19 in 2022, is an overpayment of \$12,540.

**Recommendation:**

Harper, Rains, Knight & Company recommends that the Farm Credit Administration develop and implement policies and procedures for updating annuity offsets for re-hired annuitant cost-of-living increases and annually obtaining annuity information directly from the Office of Personnel Management.

## **Appendix A**

### Internal Control Deficiency

#### **Management's Response:**

FCA Management agreed with the recommendation and provided a corrective action plan, procedures on reemployed annuitants, and updated internal control documentation.

#### **HRK's Response:**

The corrective actions will be evaluated during the OIG recommendation closeout process.



Farm Credit Administration  
Office of Inspector General

## **REPORT FRAUD, WASTE, ABUSE, & MISMANAGEMENT**

**Fraud, waste, abuse, and mismanagement in government concerns everyone: Office of Inspector General staff, FCA employees, Congress, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to FCA programs and operations. You can report allegations to us in several ways:**

**Phone: (800) 437-7322 (Toll-Free)  
(703) 883-4316**

**Email: [fca-ig-hotline@rcn.com](mailto:fca-ig-hotline@rcn.com)**

**Mail: 1501 Farm Credit Drive  
McLean, VA 22102-5090**

**To learn more about reporting wrongdoing to the OIG, please visit our website at <https://www.fca.gov/about/inspector-general>.**