Farm Credit Administration
Regulator of the Farm Credit System

Performance and Accountability Report
Fiscal Year 2020
Mission

The Farm Credit Administration ensures that Farm Credit System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.
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<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAMELS</td>
<td>capital, assets, management, earnings, liquidity, and sensitivity</td>
</tr>
<tr>
<td>CARES</td>
<td>Coronavirus Aid, Relief, and Economic Security Act</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>COO</td>
<td>Chief Operating Officer</td>
</tr>
<tr>
<td>COVID-19</td>
<td>coronavirus disease 2019</td>
</tr>
<tr>
<td>CSRS</td>
<td>Civil Service Retirement System</td>
</tr>
<tr>
<td>DATA</td>
<td>Digital Accountability and Transparency Act</td>
</tr>
<tr>
<td>EEO</td>
<td>Equal Employment Opportunity</td>
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<tr>
<td>Farmer Mac</td>
<td>Federal Agricultural Mortgage Corporation</td>
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<tr>
<td>FCA</td>
<td>Farm Credit Administration</td>
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<tr>
<td>FCS</td>
<td>Farm Credit System</td>
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<tr>
<td>FCSIC</td>
<td>Farm Credit System Insurance Corporation</td>
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<tr>
<td>FCSBA</td>
<td>Farm Credit System Building Association</td>
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<tr>
<td>FERS</td>
<td>Federal Employees Retirement System</td>
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<tr>
<td>FFMIA</td>
<td>Federal Financial Management Improvement Act</td>
</tr>
<tr>
<td>FMFIA</td>
<td>Federal Managers’ Financial Integrity Act</td>
</tr>
<tr>
<td>FIRS</td>
<td>Financial Institution Rating System</td>
</tr>
<tr>
<td>FY</td>
<td>fiscal year</td>
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<tr>
<td>GAAP</td>
<td>generally accepted accounting principles</td>
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<tr>
<td>GAO</td>
<td>Government Accountability Office</td>
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<tr>
<td>GSE</td>
<td>government-sponsored enterprise</td>
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<tr>
<td>IM</td>
<td>informational memorandum</td>
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<tr>
<td>IT</td>
<td>information technology</td>
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<tr>
<td>Libor</td>
<td>London Interbank Offered Rate</td>
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<tr>
<td>NCB</td>
<td>National Consumer Cooperative Bank</td>
</tr>
<tr>
<td>ODAE</td>
<td>Office of Data Analytics and Economics</td>
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<tr>
<td>OE</td>
<td>Office of Examination</td>
</tr>
<tr>
<td>OIG</td>
<td>Office of Inspector General</td>
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<tr>
<td>OIT</td>
<td>Office of Information Technology</td>
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<tr>
<td>OMB</td>
<td>U.S. Office of Management and Budget</td>
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<tr>
<td>OPM</td>
<td>U.S. Office of Personnel Management</td>
</tr>
<tr>
<td>OSMO</td>
<td>Office of Secondary Market Oversight</td>
</tr>
<tr>
<td>PPP</td>
<td>Paycheck Protection Program</td>
</tr>
<tr>
<td>SFFAS</td>
<td>Statements of Federal Financial Accounting Standards</td>
</tr>
<tr>
<td>USDA</td>
<td>United States Department of Agriculture</td>
</tr>
<tr>
<td>YBS</td>
<td>young, beginning, and small (farmers and ranchers)</td>
</tr>
</tbody>
</table>
Statement of Board Chairman and CEO

November 12, 2020

As board chairman and CEO of the Farm Credit Administration, I invite you to review our Performance and Accountability Report for Fiscal Year 2020. Most of the report covers our activities from Oct. 1, 2019, to Sept. 30, 2020. However, the reporting period for two of the three goals in our Program Performance section begins on July 1, 2019, and ends on June 30, 2020, because the Sept. 30 results are not yet available for those goals when this report is due.

In March of this year, shortly after President Trump declared a national emergency because of the COVID-19 pandemic, we directed most of our workforce to telework from home or an approved alternate work location to reduce their chance of exposure. We also restricted business travel and in-person training to protect both our own staff and the staff of the institutions we regulate.

Despite the pivot to mandatory telework and the restriction of business travel and in-person training during the second half of the fiscal year, we achieved the goals outlined in our strategic plan and met or exceeded almost all performance targets. In addition, our financial statements received an unmodified opinion from an independent auditor. Based on the results of our internal evaluations, I can provide reasonable assurance that the financial and performance information in this report is complete and reliable. We also have no material weaknesses in our internal controls.

FCA is the arm’s length regulator of the Farm Credit System (System) and the Federal Agricultural Mortgage Corporation (Farmer Mac). Our mission is to ensure that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

The System holds 42.6% of the nation’s total farm business debt, so it plays a vital role in the health of the nation’s agricultural economy. And Farmer Mac, which provides a secondary market for agricultural real estate mortgages and rural cooperative loans, enhances the ability of lenders to offer competitive financing to rural borrowers and farmland investors.

Both the System and Farmer Mac are well capitalized and remain financially safe and sound. Together, the Farm Credit System banks and associations held $385 billion in assets as of June 30, 2020, up 9.1% from the year before. Farmer Mac had a net worth of $824 million as of that date, up 6.5% from the year before.

Over the past fiscal year, we worked to protect the financial soundness of the System and Farmer Mac and to ensure that they continue to fulfill their missions to serve agriculture and rural America. Here are some of the ways we accomplished these goals during the reporting period from July 1, 2019, to June 30, 2020:

- Examined System institutions and Farmer Mac in accordance with statutory requirements
- Prepared 53 formal reports of examination and 29 interim activity letters
- Issued final rules on the criteria for reinstating nonaccrual loans and on margin and capital requirements for covered swap entities
• Issued an interim final rule to give covered swap entities an additional year to implement initial margin requirements because of the COVID-19 pandemic

• Issued proposed rules governing the amortization limits on certain loans, district financial reporting, the eligibility of investments made by the System's associations, and the implementation of the methodology for current expected credit losses for allowances

• Requested public comment on interagency questions and answers on flood insurance

• Continued to study the loan syndicate market

• Analyzed and reported on the System's service to young, beginning, and small farmers and ranchers, as well as economic conditions in agriculture and the Farm Credit System

• Issued guidance to System institutions on such topics as the following:
  — Ensuring critical infrastructure services and functions during the pandemic
  — Managing challenges associated with the COVID-19 pandemic
  — Making loans under the Paycheck Protection Program
  — Issuing loans when the National Flood Insurance Program is unavailable
  — Financing hemp
  — Servicing loans to borrowers affected by significant weather events

• Issued guidance to Farmer Mac on working with its lending and servicing partners to provide flexibility and assistance to borrowers experiencing financial challenges due to the COVID-19 pandemic, and on working with these partners on the reporting of troubled debt restructuring, borrower rights, and nonaccrual determinations for borrowers affected by COVID-19

• Responded to 33 borrower inquiries and complaints

Also, our efforts to strengthen employee engagement continue to yield results. In 2019, we were ranked number two among small agencies in the Partnership for Public Services' Best Places to Work in the Federal Government, and first in the subcategory for diversity and inclusion. We do not yet know our ranking for 2020 because of the delay in the release of the Federal Employee Viewpoint Survey, but we anticipate strong results for this year as well.

So despite a year of unprecedented challenges, I'm pleased to report that we had a successful year in FY 2020, thanks to the hard work and dedication of our staff. I look forward to continued success in FY 2021 and beyond.

Glen R. Smith
Board Chairman and CEO
Management’s Discussion and Analysis

This section provides an overview of the Farm Credit Administration and our mission. It highlights information on FCA’s performance, financial results, systems and controls, compliance with laws and regulations, and an assessment of future challenges and plans.
FCA at a Glance

The Farm Credit Administration is an independent agency in the executive branch of the U.S. government. We are responsible for regulating and supervising the Farm Credit System (its banks, associations, and related entities) and the Federal Agricultural Mortgage Corporation (Farmer Mac).

The System is a nationwide network of borrower-owned financial institutions that provide credit to farmers, ranchers, residents of rural communities, agricultural and rural utility cooperatives, and other eligible borrowers.

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

- We ensure that System institutions, including Farmer Mac, operate safely and soundly and comply with applicable laws and regulations.
- We issue policies and regulations governing how System institutions conduct their business and interact with borrowers.

FCA history

An executive order by President Franklin D. Roosevelt in 1933 placed all existing agricultural credit organizations under the supervision of a new agency, the Farm Credit Administration. FCA was independent until 1939, when it became part of the U.S. Department of Agriculture (USDA), but became an independent agency again under the Farm Credit Act of 1953. This act created a federal Farm Credit Board with 13 members (one from each of the 12 farm credit districts and one appointed by the Secretary of Agriculture) to develop policy for FCA. Farmer-borrowers now had a voice at the national level.

FCA also played a pivotal role in the federal credit union movement, when in 1934 it was given responsibility for chartering, examining, and supervising all federal credit unions. Before this oversight was turned over to the Federal Deposit Insurance Corporation in 1942, FCA had chartered and examined annually more than 4,000 credit unions.

FCA derives its current powers and authorities from the Farm Credit Act of 1971, as amended (12 U.S.C. 2001 – 2279cc). This act gave the banks and associations more flexibility in lending to production agriculture and authorized lending to commercial fishermen and rural homeowners. In 1980, the law was amended to encourage lending to young, beginning, and small farmers. The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee FCA and the Farm Credit System.

FCA funding and governance

FCA does not receive a federal appropriation. We maintain a revolving fund financed primarily by assessments from the institutions we regulate. Other sources of income for the revolving fund are interest earned on investments with the U.S. Treasury and reimbursements for services we provide to federal agencies and others.

FCA’s policy, regulatory agenda, and supervisory and examination activities are established by a full-time, three-person board whose members are appointed by the president of the United States with the advice and consent of the Senate.

Board members serve a six-year term and may remain on the board until a successor is appointed. The president designates one member as chairman of the board, who serves in that capacity until the end of his or her own term. The chairman also serves as our chief executive officer.

FCSIC

FCA board members also serve as the board of directors for the Farm Credit System Insurance Corporation (FCSIC), which is a separate
independent agency. FCSIC was established by the Agricultural Credit Act of 1987 in the wake of the agricultural credit crisis of the 1980s. The purpose of FCSIC is to protect investors in Systemwide debt securities by insuring the timely payment of principal and interest on certain System notes, bonds, and other obligations purchased by investors. FCSIC does so by maintaining the Farm Credit Insurance Fund, a reserve that represents the equity of FCSIC.

**FCA offices**

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

As of Sept. 30, 2020, FCA had 312 full- and 5 part-time employees. These employees work in 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. Glen R. Smith is the board chairman.

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

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

The **Office of Agency Services** manages and delivers human capital and administrative services for the agency. The office consists of three service delivery teams: Human Resources Division, Operations Division, and Learning and Organizational Change Team. Services provided include strategic human capital management, staffing and placement, job evaluation, compensation and benefits, payroll administration, performance management, awards, employee relations, employee training and development, property management, personnel security, continuity of operations and emergency preparedness, supply services, and mail service.

The **Office of the Chief Financial Officer** supports FCA’s operations by providing financial management policy advice, reporting the agency’s financial results, and facilitating the agency’s strategic planning efforts. The office manages the agency’s compliance with federal financial management requirements. It also reports on the accuracy and propriety of transactions, the extent to which assets are accounted for and safeguarded, and the adequacy of internal controls to detect and prevent material financial misstatements. It oversees the agency’s budget, the investments committee, the FCS assessments, and the agency’s purchasing, credit card, and travel/relocation programs. It also facilitates the agency’s risk management and internal control efforts to help ensure operational and fiscal effectiveness and efficiency.

The **Office of Congressional and Public Affairs** serves as the agency’s principal point of contact for Congress, the media, other government agencies, FCS institutions, employees, System borrowers, and the public. The office develops and monitors legislation pertinent to FCA and the FCS, serves as the agency’s congressional liaison, facilitates
The Office of Information Technology supports the information, solutions, and IT infrastructure that empower FCA to fulfill its mission. It is a respected partner in fulfilling FCA’s mission through innovative solutions. The office is responsible for protecting agency technology assets, planning and controlling information technology investments, leading change to improve the efficiency and effectiveness of agency operations, and maintaining compliance with IT regulatory mandates. It is responsible for continuing to leverage FCA’s investment in technology by collaborating across agency offices to identify and re-engineer business applications, data systems, and processes.

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

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

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

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

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

The **designated agency ethics official** 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: FCA organizational chart as of September 2020

For an accessible version of this chart, go to www.fca.gov/about/fca-organizational-chart

The headquarters of the Farm Credit Administration, located in McLean, Virginia.

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

† Maintains a confidential advisory relationship with each of the board members.
Highlights of FCA’s Performance Goals and Results

FCA’s mission is to ensure that Farm Credit System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

In our Strategic Plan for Fiscal Years 2018 – 2023, we identified three goals we must meet to fulfill our mission. For each goal, we identified strategies and actions to achieve the goal, as well as a set of performance measures to monitor our progress in meeting the goal.

Our Performance Report (page 29) shows that we met the goals identified in our strategic plan and met or exceeded most of the performance measures for which there are data to measure performance. The following is a summary analysis of our performance in reaching our goals.

**Goal 1 Highlights**

**Public mission:** Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.

There are nine strategies and six performance measures established for goal 1 in the strategic plan (see table 7a). The six performance measures are as follows:

1. Percentage of FCS institutions providing products and services that serve creditworthy and eligible persons and perform outreach to enhance diversity and inclusion. (Target: ≥90%)
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%)
4. Percentage of direct-lender institutions with young, beginning, and small (YBS) programs for farmers and ranchers that are in compliance with YBS regulations. (Target: ≥90%)
5. Whether the majority of objectives listed in the preamble of each final rule were met on the two-year anniversary of the rule’s effective or implementation date. (Target: Yes)
6. Percentage of prerulemaking projects and proposed rules on which FCA requested input from persons outside of FCA. (Target: 100%)

We achieved or exceeded our targets for all six measures associated with goal 1.

**Goal 2 Highlights**

**Safety and soundness:** Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the System and Farmer Mac.

There are six strategies and six performance measures for goal 2 (see table 7b). The performance measures are as follows:

1. Percentage of System assets in institutions with composite CAMELS\(^1\) ratings of 1 or 2. (Target: ≥90%)
2. Percentage of requirements in supervisory agreements with which FCS institutions have at

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1 CAMELS is a rating of capital, assets, management, earnings, liquidity, and sensitivity.
least substantially complied within 18 months of execution of the agreements. (Target: ≥80%)

3. Percentage of institutions complying with regulatory capital ratio requirements. (Target: ≥90%)

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%)

6. Whether five or more reports and dashboards were created that use data collected from the Farm Credit System to assess risk in the System. (Target: Yes)

We achieved or exceeded the targets for four of the six measures associated with goal 2. During this reporting period, performance measure 2 was not applicable because we did not have any supervisory agreements in place with FCS institutions. For performance measure 5, we missed our target of 100% because one institution’s corrective action plan did not adequately address a weakness at the end of the reporting period. We have continued to follow up with the institution.

**Goal 3 Highlights**

**Workforce management:** Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.

There are four strategies and two performance measures for goal 3 (see table 7c). The performance measures are as follows:

1. Whether, as part of its recruiting efforts for entry-level examiners, FCA has ensured that at least 25% of its outreach efforts target applicants with a disability or who are members of a minority group. (Target: Yes)

2. Whether we have maintained or improved our score from last year in the annual employee satisfaction survey. (Target: Yes)

We achieved the targets for the first measure associated with goal 3. For the second measure, we could not calculate our employee engagement index score because the Federal Employee Viewpoint Survey for 2020 was not released by the Office of Personnel Management until Sept. 24, and the results will not be available until January 2021.

**Resources to achieve our strategic goals**

The performance goals, as outlined in the strategic plan, provide a framework for the development of the annual budget request and the performance measures and targets. We formulate and execute our budget by allocating resources according to the agency goals. We assess and measure our overall effectiveness in fulfilling our mission through the resulting analysis of the performance measures.

When we formulate and execute our budget, we allocate dollars as follows:

- Goal 1 — Public mission
- Goal 2 — Safety and soundness
- Goal 3 — Other activity

Goals 1 and 2 above align with the goals as noted in the performance report. Goal 3, however, differs between the performance report and the performance budget and execution. Costs for the workforce management goal in the strategic plan are an inherent part of our ability to fulfill our primary agency goals of public mission and safety and soundness. In the performance budget and in our execution of the budget, we use the other activity goal to track reimbursable activity separate from other agency primary mission costs. Table 1 displays the proportion of our budget allocated to each goal and the proportion of the costs associated with each goal.
Table 1. FY 2020 performance budget versus program costs

<table>
<thead>
<tr>
<th>Agency programs</th>
<th>% of total performance budget</th>
<th>% of total program costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public mission</td>
<td>21.6%</td>
<td>24.3%</td>
</tr>
<tr>
<td>Safety and soundness</td>
<td>76.4%</td>
<td>74.7%</td>
</tr>
<tr>
<td>Other activity</td>
<td>2.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

During FY 2020, we had a higher proportion of program costs for public mission than anticipated in our budget. This was primarily due to our additional regulatory efforts to address issues in the System related to the COVID-19 pandemic. The percentage of costs related to our safety and soundness goal were lower than budgeted partly because we restricted agency travel as part of our COVID-19 strategy to keep our employees safe.

For specifics on the agency resources expended in support of our agency goals, please refer to the Program costs and revenues section on page 19.

For more information about our performance results, see the performance results tables on page 41 to 45.
Analyses and Highlights of FCA’s Financial Statements

Financial Highlights

Financial operation of FCA

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

We calculate the assessments using a formula established by FCA regulation. The FCA board approves our budget, and Congress usually imposes a limitation on the dollar 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 the cost of examining the National Consumer Cooperative Bank and for performing services for the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture (USDA).
- **Interest earned**: We earn interest on investments with the U.S. Department of the Treasury. We use interest earned on investments to build and maintain an agency reserve. The reserve ensures that we can effectively and efficiently respond to unexpected, unbudgeted expenses without needing to increase assessments.

The following sections highlight our financial condition for FYs 2020 and 2019. Our financial statements are provided on page 54 to page 69.

Activity in response to COVID-19

Beginning March 16, the agency directed most of its workforce to telework from home or an alternate work location because of the COVID-19 pandemic. It also suspended all on-site examinations and restricted business travel and in-person training. The telework period has been extended several times because of ongoing health and safety concerns; however, staff have been allowed to return to the office on a limited and voluntary basis.

We issued a news release on March 17 encouraging System institutions to work with System borrowers whose operations have been affected by COVID-19 and outlining the measures taken to prevent its spread. The agency also offered temporary relief from certain regulatory and reporting requirements to System institutions affected by the pandemic.

During FY 2020, we did not experience any significant financial impact as a result of COVID-19. We also did not receive any budgetary resources under any of the COVID-19 supplemental appropriations or other acts. Any expenses related to COVID-19 were nominal and immaterial to our overall costs.

FCA’s assets, liabilities, and net position

As shown in table 2, our total assets (the resources we own) for FY 2020 are composed of the following:

- Fund balance with Treasury (10.3%)
- Investments (84.6%)
- Accounts receivable and prepayments (0.7%)
- Property and equipment (4.4%)

During FY 2020, total assets increased by $3,116,602, or 8.3%, from amounts reported in FY 2019.

As of Sept. 30, 2020, the agency held $4,204,180 in cash (fund balance with Treasury). While we invest all excess cash in U.S. Treasury securities, the timing of when cash is collected affects the ending
The increase in our cash balance relative to 2019 was due to a higher influx of funds collected on Sept. 30 after the cutoff time for investing. Cash collected after the investment cutoff for the day remains as an available cash balance and is invested the following day. The collections on Sept. 30 were prepaid assessments (that is, assessments due on Oct. 1 but received on or before Sept. 30) from several FCS institutions.

Property and equipment assets increased in 2020 primarily because the agency added new laptops to the capitalized asset inventory. Depreciation expense on the current set of capitalized equipment offset the increase in property and equipment due to the new laptops.

Our investment portfolio, which accounts for the largest portion of our total assets, decreased by only $142,532 in FY 2020, thus remaining relatively flat compared with that of FY 2019. We purchased $16,668,733 in U.S. Treasury securities during fiscal year 2020, using an investment strategy that enables us to both maintain a steady cash flow for agency operations and earn interest to build the agency reserve. We hold the reserve funds in contingency to address specific, onetime, unforeseen events without increasing assessments at a time that may be financially difficult for System institutions. Our policy is to maintain a reserve balance that covers approximately two months of operating expenses. Section 5.15 of the Farm Credit Act of 1971, as amended, (12 U.S.C. 2250) allows FCA to maintain a necessary reserve. The interest reserve makes up roughly 42% of our total investment portfolio. The remaining balance in the interest portfolio is our unobligated balance net of our cash balance at Sept. 30, 2020.

<table>
<thead>
<tr>
<th>Assets</th>
<th>FY 2020</th>
<th>FY 2019</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund balance with Treasury</td>
<td>$4,204,180</td>
<td>$1,388,463</td>
<td>202.8%</td>
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<tr>
<td>Investments</td>
<td>34,471,697</td>
<td>34,614,229</td>
<td>(0.4%)</td>
</tr>
<tr>
<td>Accounts receivable and prepayments</td>
<td>261,233</td>
<td>447,803</td>
<td>(41.7%)</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>1,803,072</td>
<td>1,173,085</td>
<td>53.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$40,740,182</strong></td>
<td><strong>$37,623,580</strong></td>
<td><strong>8.3%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>FY 2020</th>
<th>FY 2019</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$517,512</td>
<td>$764,605</td>
<td>(32.3%)</td>
</tr>
<tr>
<td>Accrued liabilities (payroll and benefits)</td>
<td>8,192,979</td>
<td>7,659,548</td>
<td>7.0%</td>
</tr>
<tr>
<td>Employer contributions and taxes payable</td>
<td>1,291,653</td>
<td>1,094,009</td>
<td>18.1%</td>
</tr>
<tr>
<td>Workers’ compensation (funded and unfunded)</td>
<td>1,511,590</td>
<td>1,630,984</td>
<td>(7.3%)</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>6,331,840</td>
<td>5,572,620</td>
<td>13.6%</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$17,845,574</strong></td>
<td><strong>$16,721,766</strong></td>
<td><strong>6.7%</strong></td>
</tr>
</tbody>
</table>
Our liabilities, as shown in table 3, consist of the following:

- Accounts payable (2.9%)
- Payroll and benefits (45.9%)
- Employer contributions and taxes payable (7.2%)
- Workers’ compensation (8.5%)
- Deferred revenue (35.5%)

Like total assets, our total liabilities (what we owe to the public and other government agencies) increased. Driven primarily by the increase in deferred revenue and accrued liabilities, overall liabilities increased by $1,123,808 or 6.7% from 2019 to 2020.

Deferred revenue — assessments received from FCS institutions that are not due until Oct. 1 — increased by $759,220 relative to 2019. This was due to a higher number of institutions paying their assessment before Oct. 1 this year. At the beginning of each fiscal year we reclassify any prepaid assessments as revenue earned in October of the new year.

Accrued liabilities increased by $533,431 as of Sept. 30, 2020 compared with those as of Sept. 30, 2019. This increase is primarily the result of a higher year-end payroll accrual in 2020. We record a liability (an accrual) for payroll expenses not posted in the financial system as of Sept. 30 each year. Based on the timing of the pay periods and when payroll is posted, the year-end accrual could include extra days in the calculation. For 2020, the year-end payroll accrual included two more days than the 2019 accrual.

Our accounts payable decreased by $247,093 this year. The amount of our 2020 year-end liabilities for services received but not paid was lower than that of 2019.

Our net position, which represents the cumulative results of operations since the agency began, increased by $1,992,794, or 9.5%, during FY 2020. The net position increased primarily because of the decrease in the net cost of operations (see the Program Costs and Revenues section). For a breakdown of the net position, see the statement of changes in net position on page 57.

**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 4 shows our board-approved budget amounts for FYs 2020 and 2019. The overall FY 2020 budget increased by 3.0% over the 2019 budget.

In FY 2020, we continued to carry out our mission, program goals, and objectives within the available budget. Our board-approved budget for FY 2020 was $77.6 million and the congressional limitation on our spending was $77.0 million. The FY 2019 congressional limitation was $74.6 million. The congressional limitation is the spending limit imposed by Congress on the non-reimbursable portion of our budget for the year. It limits the

<table>
<thead>
<tr>
<th>Table 4. Agency budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budget funding sources</strong></td>
</tr>
<tr>
<td>Assessments (current year)*</td>
</tr>
<tr>
<td>Assessments (carryover from prior years)</td>
</tr>
<tr>
<td>Reimbursable activity</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

* Assessments for FY 2020 were reduced by $3 million in the fourth quarter.
amount of assessments that we may use to pay for administrative expenses. The limitation includes assessment amounts for the current year as well as assessment carryover from prior years.

As table 5 shows, the funds used in 2020 decreased by $1,141,085 over 2019. The largest factor in this decrease was a result of reduced travel in the second half of the fiscal year. Due to the COVID-19 pandemic, we restricted agency travel for the safety of our staff and System staff.

The assessment funds we used in 2020 amounted to 95.0% of our congressional limitation in 2020 (see table 6). We reduced the FY 2020 assessments in the 4th quarter by $3.0 million. Personnel compensation and benefits continue to account for the most significant use of funds at FCA, representing approximately 86.2% of total funds used in 2020. Salary and benefits increased by $1,044,965 in FY 2020, which is a smaller increase than in years past. We had more employees depart or retire in 2020 than in 2019.

Contractual services increased by 3.7% over last year and represented approximately 8.9% of the total funds used in 2020. The increase in contractual services was from actions to address agency needs for security, data analytics, examiner training, and temporary gaps in staffing. Funds used for property and equipment decreased by $708,036;

### Table 5. Funds used by major budget category

<table>
<thead>
<tr>
<th>Budget category</th>
<th>FY 2020</th>
<th>FY 2019</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel compensation and benefits</td>
<td>$63,406,743</td>
<td>$62,361,778</td>
<td>1.7%</td>
</tr>
<tr>
<td>Travel and transportation</td>
<td>1,076,845</td>
<td>2,907,216</td>
<td>(63.0%)</td>
</tr>
<tr>
<td>Contractual services</td>
<td>6,550,001</td>
<td>6,314,604</td>
<td>3.7%</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>465,321</td>
<td>1,173,357</td>
<td>(60.3%)</td>
</tr>
<tr>
<td>Other</td>
<td>2,024,967</td>
<td>1,908,007</td>
<td>6.1%</td>
</tr>
<tr>
<td>Total*</td>
<td><strong>$73,523,877</strong></td>
<td><strong>$74,664,962</strong></td>
<td>(1.5%)</td>
</tr>
</tbody>
</table>

* The total funds used include reimbursable activity that is not subject to the congressional limitation.

### Table 6. Funds used based on congressional limitation

<table>
<thead>
<tr>
<th>Funds used category</th>
<th>2020 Funds used</th>
<th>Congressional limitation</th>
<th>Percentage used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessment funds used*</td>
<td>$73,119,944</td>
<td>$77,000,000</td>
<td>95.0%</td>
</tr>
</tbody>
</table>

* Includes amounts used from the assessed amounts for the year and assessment carryover amounts used to fund the budget.
this decrease reflects the planned acquisition of new laptops for the agency in 2019. The new laptops were rolled out to agency staff during FY 2020 and added to our capitalized asset inventory.

Program costs and revenues

This section describes our program costs and revenues for the fiscal years ended Sept. 30, 2020, and Sept. 30, 2019. Please read this section in conjunction with the statements of net cost. Because this section focuses on the cost of operations, some of the data provided here may differ from data provided in other sections of this report that are based on budgetary accounting.

Another difference when assessing our program costs relative to our performance goals and measures is the analysis of goal 3. For purposes of the strategic plan and the performance goals, goal 3 is related to workforce management. Costs to address workforce management are intrinsic to our main goals of public mission and safety and soundness and are captured as part of those goals. Goal 3 for purposes of the performance budget and costs is related to our reimbursable activity. We track these costs separately from the rest of our agency mission costs noted in goals 1 and 2.

We achieve our strategic goals and manage our costs with sound business planning and effective resource management. The net cost of our programs totaled $4,093,119 for the 12 months ended Sept. 30, 2020, compared with $6,744,924 for the same period the previous year. While earned revenue remained virtually unchanged, a decrease in gross costs in 2020 resulted in a lower net cost — a decrease in net cost of $2,651,805 from 2019.

The total cost of our programs for FY 2020 is $78,216,033, compared with $80,918,903 for FY 2019. This represents a decrease of $2,702,870, or 3.3%, from 2019. Figure 2 shows the breakdown of FY 2020 gross costs for each of our goals. Most of our costs support our mission and program goals. The decrease in total costs is primarily due to decreases in travel because of COVID-19 travel restrictions.

Employee salaries and benefits represent our greatest overall cost. For 2020, employee compensation totaled $65,397,706, or 83.6%, of total cost. Though the size of our staff increased in 2020,
employee compensation decreased slightly with decreases in costs for imputed employee benefits and the attrition of higher salaried personnel. We recruit and train staff to fill vacancies in accordance with our employment and diversity strategies to meet operational challenges such as the COVID-19 pandemic and evolving risks in the FCS, including Farmer Mac. We periodically perform compensation studies to comply with the Financial Institution Reform, Recovery, and Enforcement Act of 1989, which requires us to keep our salaries and benefits comparable with the salaries and benefits of other federal financial institution regulators.

Keeping compensation competitive helps us continue to fulfill our mission to provide the FCS, including Farmer Mac, with effective regulation and oversight.

Figure 3 shows the breakdown of FY 2020 gross revenue allocated to each of our goals. Earned revenue for 2020 totaled $74,122,914, down $51,065, or .1%, from 2019. Earned revenue for 2020 remained relatively static compared with that of 2019. We reduced assessments by $3.0 million in FY 2020, which resulted in similar assessment totals for 2020 and 2019 — a difference of only $300,000.

Figure 4 shows the breakdown of our three sources of revenue — assessments, interest on investments, and reimbursable activity. As one would expect, most of our revenue is derived from assessments (98.5%). Those revenues are used to fulfill our primary goals of carrying out our public mission and ensuring the safety and soundness of the System.

Public mission program

We invest significant resources in our policymaking, regulatory, and corporate activity functions to ensure that the FCS, including Farmer Mac, fulfills its public mission as mandated by Congress. During FY 2020, 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.

Costs for our 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. During FY 2020, we also took additional policy and regulatory actions to address issues in the System that stemmed from the ongoing COVID-19 pandemic.

Figure 3. Percentage of FY 2020 gross revenue by agency goal

![Pie chart showing the breakdown of FY 2020 gross revenue by agency goal: Safety & soundness 74.9%, Public mission 24.4%, Other 0.7%]
Figure 4 shows the breakdown of our three sources of revenue — assessments, interest on investments, and reimbursable activity. As one would expect, most of our revenue is derived from assessments (98.5%). Those revenues are used to fulfill our primary goals of carrying out our public mission and ensuring the safety and soundness of the System.

**Public mission program**

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For the fiscal year ended Sept. 30, 2020, the program cost for our public mission was $19,014,091, representing a decrease of $1,458,089, or 7.1%, from the same period the previous year. The decrease is primarily from a decrease in program staff because of personnel work reassignments and attrition. The cost for the public mission program represents 24.3% of our total costs for 2020.

**Safety and soundness program**

Costs associated with the agency’s examination and supervision activities make up the largest portion of our expenditures at the program level. In 2020, the cost of the safety and soundness program decreased primarily because of decreases in travel and contract services for professional training resulting from our response to the COVID-19 pandemic. Despite the decrease in travel, we still rose to the challenge of fulfilling our safety and soundness goal and addressing growing risk in the FCS from a decline in the U.S. agricultural economy.

We invest heavily in the recruitment and training of examination staff through our Examiner Commissioning Program. These recruiting and training efforts are necessary to meet human resource needs and to offset the impact of unplanned employee attrition and the large number of retirements expected within the next few years. These actions have enabled us to maintain our level of supervision of the FCS while our entire staff worked remotely during the second half of the fiscal year. During FY 2020, we met our goals and performance targets to ensure the safety and soundness of the System while at the same time ensuring the safety of our staff and the staff of the FCS and Farmer Mac during the ongoing COVID-19 pandemic.

Program cost for the examination and supervision of the FCS and Farmer Mac decreased $1,020,685 to $58,420,531. Safety and soundness represents 74.7% of our total costs in 2020.

**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. We performed fewer reimbursable services this year than last year. Costs associated with this category decreased by $224,096 from 2019 to $781,411. The costs for providing reimbursable services remain relatively low compared with the total costs for our public mission and safety and soundness goals.

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**Figure 4. FY 2020 sources of revenue**
Other activity represented approximately 1.0% of our total costs in 2020.

Earned revenue for other activity totaled $504,831 for 2020, compared with $668,273 for 2019. Like costs, revenue for other activity also decreased as a result of the decreased reimbursable work performed in 2020.

**Limitations of financial statements**

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

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

**Forward-looking analysis**

In FY 2020, we have focused on three main priorities: monitoring credit risk; improving service to young, beginning, and small (YBS) farmers and ranchers; and improving the timeliness and efficiency of our regulatory activities. These continue to be our priorities during the fall of 2020, so we can ensure the Farm Credit System is safe and sound.

To keep our staff, as well as the staff at System institutions, safe during the COVID-19 pandemic we shifted to conducting most of our examination activities remotely this year and will continue to do so in the coming year until public health conditions improve. Besides monitoring the effects of COVID-19 on the farm economy and farm lenders, we will continue to closely monitor the effects that wildfires, storms, drought, low commodity prices, and other challenges are having on credit quality.

We have worked with System institutions both to improve the quality of current reporting on YBS data and to enhance reporting on YBS lending for the future. We are working to make the collection of YBS data more automated and consistent. The past year’s progress in improving data quality will support our other two YBS goals — to share best practices across the System and to evaluate the growth and performance of YBS programs over the long term. In addition, we recently began working with USDA’s Farm Service Agency to find specific ways for agricultural lenders to better leverage USDA resources for YBS producers.

We’re pleased to report significant progress in the timeliness and efficiency of our regulatory activities in recent months despite the regulatory pause we had in place until July 10 to address COVID-19 concerns. Beginning in the summer of 2020, we resumed some of our regulatory activities and issued four final rules (on swap margins, amortization, investment eligibility, and financial reporting) and a proposed rule on the capital framework. We are continuing the regulatory pause for the final rule on outside directors until the end of the calendar year to allow more time to consider recently received comments. For 2021, we will continue work on a variety of regulations, including regulations involving governance and capital issues consistent with the Unified Agenda of Regulatory and Deregulatory Actions published by the Office of Management and Budget.

To help the System manage the challenges associated with COVID-19, we issued an informational memorandum in April 2020, followed by half a dozen supplements. We acted decisively and quickly to provide extensive guidance to the System regarding the Paycheck Protection Program, and we continue to monitor legislative action to extend relief to qualified borrowers. As the COVID-19 crisis evolves, we will provide additional informational memorandum supplements to guide System institutions, as appropriate.

FCA has also been a leader among federal financial regulators in providing guidance to lenders on financing hemp production. In February 2020, we issued an informational memorandum that outlined several factors institutions should consider when extending loans to hemp producers and processors. We will continue to monitor the hemp industry and provide guidance to System institutions in FY 2021.
Analysis of FCA’s Systems, Controls, and Legal Compliance

Strategy for FCA’s financial management system

We partner with the Department of the Treasury’s Bureau of the Fiscal Service to provide FCA with several financial management services. This shared-services approach helps us maximize efficiency while maintaining a high standard of financial management and accountability.

This partnership gives us access to core financial systems without our having to maintain the necessary technical and systems architectures. Our partnership with the Fiscal Service has also improved our data reliability, which is a requirement of Office of Management and Budget (OMB) M-15-12, Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable.

Through our partnership with the Fiscal Service, 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 the Fiscal Service 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 the Fiscal Service, 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. The partnership also helps us address the President’s Management Agenda cross-agency priority goal for sharing quality services.

Federal Managers’ Financial Integrity Act

The Federal Managers’ Financial Integrity Act (FMFIA) requires federal agencies to establish and maintain a system of internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

The management control objectives under the FMFIA are to reasonably ensure the following:

- Obligations and costs comply with applicable laws.
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriations.
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

Agencies must evaluate and report on the effectiveness of their internal controls and assess whether their financial management systems comply with requirements outlined in section 4 of the FMFIA.

Through our financial management system strategy, management control program, and compliance with applicable laws and regulations, we ensure our compliance with the FMFIA.

Management control program

We have established management controls to meet the objectives of section 2 and section 4 of the FMFIA. Our system of internal control conforms
with the Government Accountability Office’s Standards for Internal Control in the Federal Government (Green Book).

Our internal controls are designed to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and that assets are safeguarded.

Our program offices are responsible for implementing and maintaining effective risk-management practices and internal controls to ensure (1) alignment of strategic goals with the agency’s mission, (2) effective and efficient operations, (3) reliable reporting, and (4) compliance with applicable laws and regulations.

We conduct risk-based internal control assessments in accordance with OMB Circular A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control, and all applicable appendices. Based on the results of the assessments, we have reasonable assurance that controls over operations, reporting, and compliance with laws and regulations are designed and operating effectively.

In addition, our independent financial statement auditor reported that we maintained effective internal control over financial reporting and compliance with applicable laws and regulations. The auditor did not report any material weaknesses or significant deficiencies.

**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 2020, we paid on time 99.9% of the 2,448 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 (DATA Act) to require that debts outstanding for more than 120 days be transferred to the Treasury Department for collection under the Treasury Offset Program. We currently have one debt being serviced by the Treasury Department.

**Improper payments**

The Payment Integrity Information Act of 2019, issued on March 2, 2020, requires executive branch agencies to identify programs and activities that may be susceptible to significant improper payments, conduct risk assessments to determine risk factors that are likely to contribute to a susceptibility to significant improper payments, estimate annual improper payment amounts in the susceptible program(s), and report on actions to recover improper payments.

Additional information on our improper payment activities are reported under “Payment Integrity Information Act Reporting” in the “Other Information” section of this report.

**Digital Accountability and Transparency Act**

The 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. Since our agency does not receive federal tax dollars, OMB has determined that FCA is not subject to the reporting requirements of the DATA Act.

**Inspector General Act**

The Inspector General Act of 1978, as amended, requires inspectors general to report semiannually to their agency heads and to Congress. The semianual reports prepared by FCA’s Office of Inspector
General (OIG) describe its audits, inspections, evaluations, investigations, and other oversight activities.

The FCA OIG posts all audit, inspection, and evaluation reports on its website within three days of final submission to the FCA board. These reports are also posted on Oversight.gov, which contains OIG reports from across the federal government.

Below is a summary of the recommendations in these reports, as well as our progress in taking corrective action.

**Summary of OIG audit, inspection, and evaluation activities**

The OIG issued 4 audit, inspection, or evaluation reports during FY 2020, resulting in 14 new recommendations. At the beginning of this fiscal year, 11 recommendations remained open from prior years. Over the course of FY 2020, 16 of those 25 recommendations were closed. As of Sept. 30, 9 remained open (including 4 from a prior fiscal year.) The reports are available on the FCA OIG’s website at www.fca.gov/about/inspector-general-plans-and-reports.


- March 12, 2020: The OIG issued the audit report, Farm Credit Administration’s Criminal Referral Process. The audit resulted in seven recommendations.


**Summary of OIG recommendations**

| Open recommendations as of Oct. 1, 2019 | 11 |
| New recommendations during FY 2020 | 14 |
| Recommendations closed during FY 2020 | 16 |
| Open recommendations as of Sept. 30, 2020 | 9 |
| Recommendations open more than one year | 4 |

**OIG survey of FCS institutions regarding the agency’s examination function**

The OIG normally conducts a quarterly survey of FCS institutions on our examination function and examiners. The OIG issues semiannual reports and a fiscal year summary report to the FCA chief examiner and the FCA board.

Because of COVID-19, the Farm Credit Administration has reduced examination activity. The OIG decided to pause the quarterly survey process in April 2020 given that FCS institutions are working under unusual circumstances caused by the pandemic. We notified the chief executive officers of all FCS institutions that the OIG remains available to confidentially discuss issues or concerns they may have with an FCA examination.

**FCA’s compliance with improper payments reporting requirements for FY 2019**

The OIG determined that FCA complied with improper payment reporting requirements applicable to the agency for FY 2019. In accordance with the Improper Payments Information Act of 2002, as amended, and implementing guidance, the OIG issued the conclusions to the FCA board and required oversight bodies on May 15, 2020.
Statement of Assurance

The Farm Credit Administration's management is responsible for managing risks and maintaining effective internal control and financial management systems that meet the objectives of sections 2 and 4 of the Federal Managers’ Financial Integrity Act (FMFIA).

FCA has considered risk management practices in the design of internal controls and in the assessment of their effectiveness. We conducted our assessment of risk and internal controls in accordance with OMB Circular A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control. Based on the results of this assessment, we can provide reasonable assurance that the internal controls over financial reporting and operational and compliance objectives were operating effectively as of Sept. 30, 2020. No material weaknesses were found in the design or operation of the internal controls.

As part of our evaluation process, we considered the results of extensive testing and assessment across the organization, as well as independent audits, to provide our unmodified statement of assurance.

Glen R. Smith
Chairman and Chief Executive Officer
FARM CREDIT ADMINISTRATION

September 30, 2020
Program Performance

This section discusses FCA’s performance in achieving the goals and strategic objectives identified in the agency’s Strategic Plan for Fiscal Years 2018 – 2023. This section also details the actions we are taking to achieve our goals and the targets we are using to measure our success.

We use the June 30 end date for reporting on operational performance measures because the information statements for the fourth quarter arrive after the November submission deadline for this report. However, for Goal 3 — Performance measures and results for workforce management — we report the results for the federal fiscal year, as of Sept. 30, 2020.
FCA's mission is to ensure that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

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

- Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.
- Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the System and Farmer Mac.
- Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.

Our Strategic Plan for Fiscal Years 2018 – 2023 contains a desired outcome for each goal, as well as 19 strategies we are using to meet these goals. In addition, we have 14 performance measures with associated targets to measure our success in meeting our goals.

The strategic plan addresses the changing environment facing agriculture: commodity and input price volatility; sustainability, environmental, food safety, and animal welfare issues; fluctuating interest rates and land values; diversity; and pressure to reduce subsidies and support payments in the 2018 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.

Data validation and verification

FCA ensures the completeness, reliability, and quality of all reported information included in this report through validation of performance data and other information contained in this section. These efforts primarily entail regular internal agency processes for ensuring accurate data generation, entry, and reporting; data integrity; and independent peer review.

FCA's data validation and verification include the following:

- Use of applied measurement techniques to identify sources, validate data, and generate meaningful information
- Identification and implementation of authoritative sources, calculations, and standards
- Use of automated data collection systems and reporting whenever available
- Use of automated data checking procedures in addition to manual verification
- Analysis of data and identification of possible discrepancies for resolution
- Implementation of controls such as restricting permissible values, flagging outliers for review, and doing visual checks of results in development stages of dashboards and reports before deployment
- Reviews by data owners and data users
- Consolidation and deployment of enterprise tools for standardized reporting
- Independent quality assurance reviews before reports are issued
- Review and discussion of performance results with the executive leadership team
Goals

As our performance results show, we succeeded in meeting the three strategic goals described below. Summary tables that follow the goals outline our performance measures and results. Each goal reflects our mission of ensuring that Farm Credit System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America. The performance measures and targets were established in the FCA Strategic Plan Fiscal Years 2018 – 2023.

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

In our Strategic Plan for Fiscal Years 2018 – 2023, we established this goal to meet the credit and related financial service needs of agricultural producers as the agricultural industry changes. Agricultural production and processing methods are evolving and becoming more integrated. The demographics of farmers and agricultural producers are gradually changing. The varieties and types of food and fiber production continue to grow. Trends, such as heightened demand for locally grown and specialty foods, and the growth in urban agriculture, are creating additional options for persons interested in becoming farmers, ranchers, and agricultural suppliers and distributors.

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.

Goal 1, Strategy 1: Ensure that the capital rules for the FCS and Farmer Mac are consistent with standards for the financial service industry and preserve their financial strength and stability so they can meet the credit needs of eligible borrowers.

The FCA board adopted a final rule in March 2016 that revised our capital rules for FCS banks and associations and provides clearly defined capital standards that are both consistent with Basel III and appropriate for the farmer-owned cooperative Farm Credit System. (A 2009 international regulatory accord, Basel III introduced a set of reforms to mitigate risk in the international banking sector.)

In FY 2017, we updated our Financial Institution Rating System benchmarks for capital and our examination guidance and examiner training to ensure that FCS institutions implement the capital rules properly. We also issued an informational memorandum to the System titled “Implementation of the Tier 1/Tier 2 Capital Framework.” (Tier 1 and tier 2 are categories of capital that banks are required to hold. Tier 1 is considered higher quality because of its stability and availability to absorb losses compared with tier 2 capital.)

In FY 2016, we issued the capital planning rule requiring an annual assessment of Farmer Mac’s capital plan, including capital adequacy modeling and stress testing methodologies.

In FY 2019, we issued guidance on Farmer Mac’s interest rate risk management. The guidance makes clear the board of directors’ ultimate responsibility for governance of interest rate risk and management’s role in the design and execution of measurement systems for interest rate risk.

Goal 1, Strategy 2: Within the framework of the Farm Credit Act, develop and update policies and regulations as appropriate so that the System, including Farmer Mac, can continue to effectively serve its members as conditions in agriculture and rural America change.

The following actions are examples of ways we have used this strategy in FY 2020:

- Issued guidance to the System about its role in ensuring critical infrastructure services and functions during the coronavirus disease (COVID-19) pandemic
- Issued guidance to the System on managing challenges associated with the COVID-19 pandemic
- Issued guidance to the System on the Paycheck Protection Program
• Issued guidance to Farmer Mac on working with its lending and servicing partners to provide flexibility and assistance to borrowers experiencing financial challenges due to the COVID-19 pandemic

• Issued guidance to Farmer Mac on working with its lending and servicing partners on the reporting of troubled debt restructuring, borrower rights, and nonaccrual determinations for borrowers affected by COVID-19

• Approved a final rule governing the criteria for reinstating nonaccrual loans

• Approved a final rule governing eligibility criteria for outside directors

• Approved a proposed rule and subsequent final rule governing the margin and capital requirements for regulations for covered swap entities

• Issued an interim final rule to give covered swap entities an additional year to implement initial margin requirements because of the COVID-19 pandemic

• Issued a proposed rule governing the tier 1/tier 2 capital framework

• Issued a proposed rule governing the amortization limits on certain loans

• Issued a proposed rule governing district financial reporting

• Issued a proposed rule governing the eligibility of investments made by the System's associations

• Issued a proposed rule governing the implementation of the methodology for current expected credit losses for allowances

• Issued a notice and request for comment on interagency questions and answers on flood insurance

• Continued to study the loan syndication market

• Issued guidance to the System on assessing whether financing hemp fits into their lending strategies

• Issued guidance to System institutions affected by unusual and significant weather events, which covers the impact of these events on servicing distressed loans

As part of every rulemaking project, we consider ways to reduce the burden of existing rules and to minimize the regulatory burden of the rule being proposed. Also, we regularly solicit public comments on regulations that are unnecessary, unduly burdensome, or not based on law; our most recent solicitation was in May 2017.

We 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, servicers, and other business partners 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 and services.

In addition, we continue to advance regulatory rulemaking projects on topics related to capital and margin, and liquidity reserve requirements. We are also working to enhance our data management and collection and to update other areas of supervisory guidance.
Goal 1, Strategy 3: Emphasize the public purpose and mission-related responsibilities of the agricultural government-sponsored enterprises (GSEs) to serve all of agriculture and rural America. This includes innovative programs for serving the credit and related service needs of young, beginning, and small (YBS) farmers, ranchers, and producers and harvesters of aquatic products.

FCA examiners evaluate the operating and strategic plans and the credit delivery programs of System institutions. We also evaluate System outreach efforts and best practices for serving the credit and related service needs of all creditworthy, eligible customers.

In addition, our examiners evaluate each institution’s YBS farmer and rancher program relative to the demographics of its chartered territory. These evaluations help examiners identify trends in lending to YBS farmers and ranchers and assess the System’s efforts to provide financial and business management assistance and outreach to YBS farmers and ranchers.

When evaluating YBS programs, we continue to assess the extent to which FCS institutions use loan guarantee programs. We encourage System institutions to work with federal and state agencies that offer such programs. For example, we encourage institutions to meet the requirements to qualify for the USDA Farm Service Agency’s “preferred lender” status.

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

We validate compliance with YBS laws and regulations through our risk-based oversight and examination processes. All 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. With one exception, all FCS institutions had adequate marketing plans to provide products and services to all creditworthy and eligible persons. The one institution without an adequate marketing plan was evaluating various strategic options.

In addition, each institution must report annually to its board of directors on the progress it has made in this area. We review these reports and evaluate the System’s progress in meeting this requirement. As part of our examination activities, we also review institution annual reports and encourage institutions to include a discussion of how they are meeting their mission.

We evaluate the extent to which Farmer Mac has accomplished its mission as well. Farmer Mac’s customer base includes financial institutions and other lenders that seek a secondary market for their agricultural, rural housing, and rural utility cooperative loans. We evaluate Farmer Mac’s performance in reaching out to all potential customers and in creating easy access to its services.

Farmer Mac submits an annual mission report to FCA. This report includes data on Farmer Mac’s participation in federal guarantee programs, the geographic distribution of Farmer Mac’s program business, the proportion of fixed- versus variable-rate loan volume, and activity related to rural utilities. In addition, the report highlights activity related to small and family farms, which Farmer Mac is required by statute to promote and encourage. These reporting requirements encourage Farmer Mac’s business development staff to focus on the credit needs of small and family farms when working with its lender customers.

Goal 1, Strategy 4: Encourage the System to provide products and services to all creditworthy and eligible potential borrowers and to promote outreach to enhance diversity and inclusion.

Our examinations assess the System’s efforts to provide financial or business management assistance and outreach to all creditworthy, eligible
customers, including YBS farmers and ranchers. The System continues to implement programs to meet the needs of YBS producers and other borrowers.

The business plan of each direct-lender institution must include strategies and actions to market the institution’s products and services to all eligible and creditworthy persons, with specific outreach toward diversity and inclusion within each market segment. We evaluate the System's progress in meeting this requirement. We have updated our examination guidance and communications with the System to clearly convey our minimum expectations regarding business plans, including our expectations regarding diversity and inclusion requirements.

In addition, we review borrower inquiries and complaints about the lending process and investigate any allegations of discrimination. During the reporting period from July 1, 2019, through June 30, 2020, we responded to 33 borrower inquiries. Our investigations did not discover any pattern or practice of deliberate discrimination or an unwillingness of FCS institutions to serve eligible customers within their chartered territories. We also found that System institutions continued to comply with equal credit opportunity and equal housing laws. However, our examinations did identify three institutions with weaknesses in complying with federal lending and borrower rights regulations. In all three cases, we are in the process of verifying the appropriateness of corrective actions taken by institution management to address the weaknesses.

We are also concerned about the needs of farmers with disabilities and farmer veterans. In previous years, we have held presentations on these topics to raise awareness among our staff about the challenges these individuals face. In 2016, members of our staff met with the USDA undersecretary 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.

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

FCA Bookletter (BL-066) “Providing Credit to Farmers and Ranchers Operating in Local/Regional Food Systems” encourages System associations to meet the credit and related service needs of farmers who market their agricultural products through local and regional food systems. It explains that System associations have authority to finance local-food farmers and certain farm-related businesses under existing statutes and regulations and under prior FCA guidance. The 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).

Goal 1, Strategy 5: Encourage diversity on the boards and in the workforce of System institutions.

Our oversight and examination programs include risk-based evaluation of each institution’s human capital planning, director elections, and nominating committees. Examination guidance and procedures consider any significant changes in bylaws, policies, control systems, staffing, board membership, board involvement, election processes, or issues related to standards of conduct. As part of our review of the nominating committee’s processes and practices, we evaluate the committee’s outreach efforts to expand diversity on the board. In 2018 we updated examination guidance on this topic.
As part of the review of human capital management, we may evaluate conditions such as staff turnover levels or changes in key personnel (actual or upcoming), depth of management, changes in compensation and benefit programs or levels, involvement of the compensation committee, and extent of operational weaknesses cited in audit, review, and examination reports that could be connected to human capital issues.

**Goal 1, Strategy 6:** Consistent with the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their members and rural America.

FCA analyzes and approves periodic requests by institutions to restructure or offer new programs designed to better serve their customers.

During the year, FCA approved the merger of subsidiaries for an association affiliated with CoBank, ACB, and the creation of a service corporation in the AgriBank district.

At fiscal year-end 2020, the System had 68 associations (67 agricultural credit associations and 1 federal land credit association).

**Goal 1, Strategy 7:** Encourage System institutions to be conscious of the reputation risk associated with their lending and investments decisions.

We issue guidance on business planning, capital management, portfolio risk management, debt issuance, secondary liquidity sources, and related topics. We also work with FCS-wide committees and groups to discuss challenges, opportunities, and best practices in these areas. Further, we assess System institutions’ use of programs undertaken jointly with other financial service providers. Through our supervisory and enforcement activities, we require institutions to develop plans to address any potential reputation risks associated with their lending and investment decisions.

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

We further support public trust and investor confidence by reviewing borrower inquiries and complaints about the loan-granting process and by investigating any allegations of discrimination. See strategy 4 above for more information about borrower inquiries and complaints.

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

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

In addition, the FCA board adopted the policy statement titled “Oversight of the Federal Agricultural Mortgage Corporation” in FY 2020 to
document the strategy and direction for the agency’s oversight of Farmer Mac.

**Goal 1, Strategy 9:** Encourage full participation of stakeholders in the development and review of regulatory and policy proposals as appropriate.

We encourage stakeholders to provide 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.**

In our Strategic Plan for Fiscal Years 2018 – 2023, we included this goal to ensure that FCA, the System, and Farmer Mac can manage data to operate effectively. As the System continues to consolidate and institutions become larger and more sophisticated, our ability to effectively examine and monitor risk becomes even more critical.

To accomplish goal 2, we examine and supervise each System institution and Farmer Mac. We have six strategies to accomplish this goal and six performance measures to evaluate our success.

**Goal 2, Strategy 1:** Seek early FCA board input on policy and regulatory issues. Ensure that the board has timely and comprehensive information to be fully informed and able to respond appropriately.

The FCA board provides early input on regulatory and policy projects. For regulatory projects, the board provides input before and during the development and approval of the semiannual Regulatory Projects Plan, which outlines our regulatory agenda. For policy projects, the board also provides early input; a policy project may produce a guidance document, or it may eventually become a regulatory project.

After we’ve started a regulatory or policy project, board involvement continues to be crucial. We obtain board input regarding the initial issues paper, and we provide board briefings and monthly progress reports throughout the project.

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

**Goal 2, Strategy 2:** Maintain strong and frequent two-way communication with stakeholders on issues of risk and safety and soundness.

FCA management and staff participate regularly in FCS meetings and conferences to answer questions related to regulatory and FCS operational issues. We also use these opportunities to reinforce our expectations regarding these issues and to discuss new regulatory direction. FCA staff members also participate in agencywide workgroups and FCS-wide committees and groups to discuss challenges, opportunities, and best practices.

Our approach to oversight and examination involves meeting with institution boards and audit committees on risk issues, interim examination activities, and corrective actions. Through direct interaction with System institutions, we hear about emerging issues and acquire a systemic view of issues warranting regulatory attention. Our oversight and examination approach also involves timely written communication through interim activity letters and examination reports. We also regularly communicate with FCS management on upcoming examination practices that may affect their institutions.

Annually, we issue an informational memorandum on our National Oversight Plan in which we identify risk topics that we will emphasize in our
examination and oversight of System institutions. Likewise, we issue an annual informational memorandum to Farmer Mac identifying the focus areas of the current examination cycle. These informational memorandums provide perspective on our concerns and priorities. When needed, we use the supervisory and enforcement process to require institutions to take certain action. In addition, we review borrower inquiries and complaints about the lending process and investigate any allegations.

**Goal 2, Strategy 3:** Continue proactive oversight of institution-specific and systemic risks.

We proactively identify and evaluate emerging issues that create Systemwide risk and allocate oversight and examination resources based on that risk in accordance with board policy statement 53. FCA continues to prioritize oversight activities according to risk, and we develop individualized oversight and examination plans for each institution. A key element to this approach is the national oversight planning process, which guides our efforts to ensure the safety and soundness of the System. We manage and update this process on a regular basis. We strive to provide timely guidance related to how examinations are conducted and emerging risks.

Through examinations, we routinely evaluate the operations and risk management practices of System institutions, and we share our conclusions and recommendations with System boards of directors. We determine whether FCS institutions have internal control systems and processes to manage their operations and loan portfolios, and whether direct-lender institutions maintain systems that allow them to properly assess the loans and risk exposures in their portfolios. With one exception, all institutions had adequate internal control programs or adequate corrective actions in place in FY 2020. In the case of the exception, all institutions had adequate internal control programs or adequate corrective actions in place in FY 2020. In the case of the exception, the institution's corrective action plan did not adequately address a weakness. We have continued to follow up with the institution.

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 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

**Goal 2, Strategy 4:** Effectively remediate weakened institutions.

We use a risk-based supervisory and enforcement program to respond differentially 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 mitigated appropriately. Corrective actions include reducing risk exposures; increasing capital and enhancing earnings, which improve 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 use our formal enforcement authorities. We may take an enforcement action for several 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 the requirements of the action and report back to our agency on its progress in fulfilling the requirements. Our examiners oversee the institution's performance to ensure compliance with the enforcement action. As of June 30, 2020, there were no formal enforcement actions in place.

**Goal 2, Strategy 5:** Ensure that technology, information management, and cybersecurity awareness are priorities at FCA and in the FCS.

Through the FCS Loan Database Project, we built an enterprise system for the dependable collection and storage of data for examination activities and systemic risk analysis. The loan database provides a robust dataset for analyzing institution loan portfolios and facilitating the loan review activities of the Office of Examination. It also supports Systemwide risk analysis.

We previously established uniform instructions for the timely and reliable reporting of accounts. We also worked with the System to improve data quality, systems, and analysis capabilities. This improvement effort included adding the ability to identify shared assets and systemically significant customers by incorporating into the dataset both the System shared-asset and customer numbers and the attribution data on the largest System customers.

We deployed an agency-level data mart/data cube environment, which is a centralized data warehouse for transactional and indicative data provided by each financial institution in the Farm Credit System.

In 2020, we continued to improve our examination processes by using technology more effectively:

- We implemented new business intelligence tools and analysis applications for examiners to leverage the agency's various information sources, including the data mart, for analytical purposes.
- We continued enhancements to the EDGe Loan Workpaper, a web-based application that accesses the FCS Loans2 database.
- We continued improvements to the FCS Loan Database.
- We continued developing and integrating new management reports and examination tools as part of the EDGe project.
- We continued improving connectivity to System institutions through videoconferencing, teleconferencing, and electronic access to loan files.

We continually evaluate whether institutions are maintaining systems to analyze their portfolio risk and borrower profiles. We review their processes and tools for analyzing sensitivity and stress. In December 2018, we issued a System memorandum on cybersecurity risks titled "Use of Personal Email and Cybersecurity Concerns."

**Goal 2, Strategy 6:** Ensure that strong governance, standards of conduct, and ethical behavior are part of the organizational culture of the FCS.

We evaluate the compliance of System institutions with governance regulations and their adherence to cooperative principles. We evaluate each institution's standards of conduct, ethics, and organizational culture. We share our conclusions and
recommendations with System boards of directors. As discussed under goal 2, strategy 4, we use a three-tiered supervision program to ensure that institutions take appropriate measures to mitigate any risks our examiners identify.

In May 2018, we issued a proposed rule that would require FCS institutions to develop a standards of conduct program based on certain core principles. It would also require each institution to adopt a code of ethics and to develop strategies and a system of internal controls to promote institutional and individual accountability for ethical conduct. We are in the process of developing a final rule.

Goal 3 — Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.

In our Strategic Plan for Fiscal Years 2018 – 2023, we established this goal so that we can be an effective organization with the right number of people with the right skills, experiences, and competencies. The purpose of goal 3 is to ensure that FCA maintains a workforce that can carry out its mission.

We have four strategies to accomplish goal 3 and two performance measures to evaluate our success. The data cited for this goal are for the federal fiscal year ended Sept. 30, 2020.

Goal 3, Strategy 1: Maintain a highly skilled and diverse workforce to meet FCA’s current and future regulatory development, risk analysis, examination, and supervision needs.

Our success as an agency depends on our people and the effective use of technology. We will continue to invest in hiring, developing, and retaining a talented, diverse workforce and to provide employees with the tools and support 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.

We have emphasized diversity in our recruiting, training, policies and procedures, and management/employee performance standards. We have made good use of the Schedule A, Persons with Disabilities, hiring authority. As a result, the diversity of our workforce is growing. According to FCA’s FY 2020 employment data, 20.2% of our workforce have disabilities (and serious health issues), and 4.6% of our workforce have targeted disabilities or conditions that can create significant barriers to employment. These results surpass the goal set in the Equal Employment Opportunity Commission’s final rule, which directs federal agencies to aim for 12% of its workforce to be people with disabilities and 2% to be people with targeted disabilities.

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; and review, approve, and store work products. As a result, our workforce has become more effective and efficient as demonstrated by our exemplary performance during the pandemic.

To ensure we are able to continue to attract and retain a diverse, highly skilled workforce, we are doing the following:

Continuing to assess staffing needs, discontinuing functions no longer required, offering development options to those affected by the discontinuation of those functions, and identifying new staffing requirements

Fostering transparency and inclusiveness in the selection process, including plans to use selection panels and behavioral interviews

• Updating policies and procedures to foster consistency in approach and to leverage organizational best practices
• Enhancing the onboarding process
• Implementing a leadership readiness program to provide aspiring leaders the necessary skills and experiences to lead
• Expanding team-based developmental learning to build knowledge across offices and providing
experiential learning opportunities to broaden and deepen the expertise of staff

• Maximizing flexibility in the work-life balance, leveraging lessons learned from the agency’s response to the pandemic

• Offering additional opportunities for staff to engage with senior leaders

• Administering periodic “pulse surveys” to assess staff perceptions on organizational initiatives in a timely fashion

Through our examiner commissioning program, we are building a diverse cadre of 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, as well as examination management.

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

**Goal 3, Strategy 2:** Facilitate the development of the skills our workforce needs to evaluate FCS risk and provide timely and proactive oversight.

In 2020, FCA continued to devote significant resources to training new employees through our examiner commissioning program. In addition, we increased our focus on helping midcareer staff develop their skills. For example, we took the following measures:

• Trained examination staff in the technical and soft skills they need

• Provided opportunities for commissioned examiners to develop their careers further by completing specialist programs (for credit, finance, operations, and examination management) to ensure they have the expertise and credibility to carry out our mission

• Helped our examiners maintain their readiness to administer elevated supervision when necessary

• Ensured that all our examiners understand our risk supervision approaches and how to implement them

**Goal 3, Strategy 3:** Ensure adequate succession planning and knowledge transfer to ensure that future FCA leadership and staff possess the knowledge and skills required to be an effective arm’s length regulator.

We have updated our examiner career development program to help us replace retiring managers and supervisors by developing the leadership, management, and supervisory skills of our examiners. Our strategy is to develop a pool of candidates who could become successful supervisors and managers, including director of the Office of Examination. We recognize that retirements also create opportunities for diversity and inclusion in management.

We use the following methods to develop our next group of program managers and leaders:

• Creating leadership positions for program and portfolio managers

• Providing selected candidates with formal leadership training, on-the-job training, and opportunities to participate in other projects

• Helping staff build skillsets by providing developmental assignments, such as serving as examiners-in-charge of complex institutions, completing special projects, and participating in Office of Examination specialist programs

• Providing internal rotational assignments between divisions in our Office of Examination

• Offering opportunities for Office of Examination employees to work in other FCA offices

To transfer knowledge from more tenured examiners to the new generation of examination staff, we use developmental initiatives. Our ongoing project to update the FCA Examination Manual also provides opportunities for knowledge transfer.
Goal 3, Strategy 4: Encourage a workplace culture that motivates staff to be engaged, embraces diversity in all its forms, and promotes strong ethical behavior.

According to the Federal Employee Viewpoint Survey, FCA’s employee engagement index increased by one percentage point in 2019, from 78% to 79%. We do not have an employee engagement index for 2020 because the survey was not released by the Office of Personnel Management until Sept. 24, and the results will not be available until January 2021. Since 2017, FCA has been ranked by the Partnership for Public Service as one of the top five best places to work among small federal agencies. We promote engagement in various ways, such as providing training and development opportunities for employees to build their skills and advance their careers.

We also strengthen engagement by having an inclusive workplace. For example, our Special Emphasis Programs, such as the Federal Women’s Program Committee, Blacks in Government, and HOLA-FCA (Hispanic Organization for Leadership and Advancement), sponsor regular presentations on issues affecting women and minority groups. And each year we have a Diversity Day on which we celebrate the diverse cultures represented in our workplace.

We also strive to increase workforce diversity. We target at least 25% of our recruiting efforts toward potential applicants who have a disability or who are members of a minority group. For example, during each recruiting season, we attend career fairs at historically Black colleges and universities and schools with a high rate of minority enrollment.

And as a financial banking regulator, we emphasize ethical conduct among all employees. In 2011, our board adopted a policy statement on ethics, independence, and our role as an arm’s length regulator. This document states the following:

- FCA board members and employees must remain mindful of their duty to make independent determinations on matters being considered by the agency.
- As the arm’s length regulator of the Farm Credit System, FCA is committed to carrying out its work without any undue influence, favoritism, or special access.

Our ethics program performs the following functions:

- Oversees financial disclosure reporting (that is, the completion of public, confidential, and certification forms) of covered FCA and FCSIC employees
- Provides ethics counseling to FCA and FCSIC employees
- Provides ethics training to all covered FCA and FCSIC employees annually, as well as to new employees during orientation
- Provides a liaison to coordinate with other government agencies regarding ethics issues
- Helps develop regulations and policies related to ethics
Table 7a. Goal 1 — Performance measures and results for public mission

July 1, 2019, to June 30, 2020

**Measure 1:** Percentage of FCS institutions providing products and services that serve credit-worthy and eligible persons and perform outreach to enhance diversity and inclusion.

Results: Ninety-nine percent of FCS institutions had satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons. One institution did not meet this standard because it had an inadequate marketing plan. We continued to follow up with the institution as it evaluated strategic options.

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**Measure 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.

Results: 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. Farmer Mac submits an annual mission report to FCA, highlighting activity related to small and family farms. In addition, FCA draws conclusions on mission achievement in Farmer Mac’s annual Report of Examination.

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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>✓</td>
</tr>
</tbody>
</table>

**Measure 3:** Percentage of direct-lender institutions with satisfactory consumer and borrower rights compliance.

Results: Ninety-six percent of direct-lender institutions have satisfactory consumer and borrower rights compliance. Three institutions did not meet this standard because of weaknesses in compliance with federal lending and borrower regulations. In all three cases, we are verifying the appropriateness of corrective actions the institutions have taken to address the weaknesses.

<table>
<thead>
<tr>
<th>2016 Target</th>
<th>2016 Results</th>
<th>2017 Target</th>
<th>2017 Results</th>
<th>2018 Target</th>
<th>2018 Results</th>
<th>2019 Target</th>
<th>2019 Results</th>
<th>2020 Target</th>
<th>2020 Results</th>
<th>Results vs. target</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥90%</td>
<td>95%</td>
<td>≥90%</td>
<td>100%</td>
<td>≥90%</td>
<td>97.3%</td>
<td>≥90%</td>
<td>95%</td>
<td>≥90%</td>
<td>96%</td>
<td>▲</td>
</tr>
</tbody>
</table>

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: ≥ is greater than or equal to; N/A indicates either that the measure is not applicable or that FCA’s performance could not be measured; ▲ indicates we exceeded the FY 2020 target; ✓ indicates we achieved the FY 2020 target; ▼ indicates we did not meet the FY 2020 target.

Notes: In April 2018, the FCA board adopted the FCA Strategic Plan for FYs 2018 – 2023. The performance measures in the new plan remain substantially the same as the measures in the previous plan.
Measure 4: Percentage of direct-lender institutions with YBS programs that are in compliance with YBS regulations.

<table>
<thead>
<tr>
<th>Year</th>
<th>Target</th>
<th>2016 Results</th>
<th>2017 Target</th>
<th>2017 Results</th>
<th>2018 Target</th>
<th>2018 Results</th>
<th>2019 Target</th>
<th>2019 Results</th>
<th>2020 Target</th>
<th>2020 Results</th>
<th>Results vs. target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>≥90%</td>
<td>100%</td>
<td>≥90%</td>
<td>100%</td>
<td>≥90%</td>
<td>100%</td>
<td>≥90%</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td>▲</td>
</tr>
</tbody>
</table>

Results: All direct-lender institutions with YBS programs are in compliance with YBS regulations.

Measure 5: Whether the majority of objectives listed in the preamble of each final rule were met on the two-year anniversary of the rule’s effective or implementation date.

<table>
<thead>
<tr>
<th>Year</th>
<th>Target</th>
<th>2016 Results</th>
<th>2017 Target</th>
<th>2017 Results</th>
<th>2018 Target</th>
<th>2018 Results</th>
<th>2019 Target</th>
<th>2019 Results</th>
<th>2020 Target</th>
<th>2020 Results</th>
<th>Results vs. target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>N/A</td>
<td>N/A</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>✔</td>
</tr>
</tbody>
</table>

Results: There were two rules that met the reporting requirement. In both cases, a majority of the objectives listed in the preambles of the final rules were met on the two-year anniversary of the implementation dates.

Measure 6: Percentage of pre-rulemaking projects and proposed rules on which FCA requested input from persons outside of FCA. (This measure considers all the pre-rulemaking projects and proposed rules that were listed as completed on FCA’s Unified Agenda Abstracts for the reporting period.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Target</th>
<th>2016 Results</th>
<th>2017 Target</th>
<th>2017 Results</th>
<th>2018 Target</th>
<th>2018 Results</th>
<th>2019 Target</th>
<th>2019 Results</th>
<th>2020 Target</th>
<th>2020 Results</th>
<th>Results vs. target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>100%</td>
<td>N/A</td>
<td>100%</td>
<td>89%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>✔</td>
</tr>
</tbody>
</table>

Results: There were six pre-rulemaking projects or proposed rules that met the reporting requirement; we did request input on these projects or rules from persons outside of FCA.

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: ≥ is greater than or equal to; N/A indicates either that the measure is not applicable or that FCA’s performance could not be measured; ▲ indicates we exceeded the FY 2020 target; ✔ indicates we achieved the FY 2020 target; ▼ indicates we did not meet the FY 2020 target.

Notes: In April 2018, the FCA board adopted the FCA Strategic Plan for FYs 2018 – 2023. The performance measures in the new plan remain substantially the same as the measures in the previous plan.
Table 7b. Goal 2 — Performance measures and results for safety and soundness
July 1, 2019, to June 30, 2020

<table>
<thead>
<tr>
<th>Measure 1:</th>
<th>Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.</th>
<th>Results: Ninety-nine percent of System assets are in institutions with composite CAMELS ratings of 1 or 2.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 Target</td>
<td>2016 Results</td>
<td>2017 Target</td>
</tr>
<tr>
<td>≥90%</td>
<td>99.7%</td>
<td>≥90%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Measure 2:</th>
<th>Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.</th>
<th>Results: The agency does not have any supervisory agreements in place with FCS institutions.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 Target</td>
<td>2016 Results</td>
<td>2017 Target</td>
</tr>
<tr>
<td>≥80%</td>
<td>91%</td>
<td>≥80%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Measure 3:</th>
<th>Percentage of institutions complying with regulatory capital ratio requirements.</th>
<th>Results: All institutions complied with regulatory capital ratio requirements.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 Target</td>
<td>2016 Results</td>
<td>2017 Target</td>
</tr>
<tr>
<td>≥90%</td>
<td>100%</td>
<td>≥90%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Measure 4:</th>
<th>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.</th>
<th>Results: OSMO’s examination and oversight plan effectively identifies risk. In addition, an annual informational memorandum identifies specific areas of emphasis during the examination cycle. We evaluate actions taken to address matters requiring attention (MRAs) on an ongoing basis and summarize progress in the Report of Examination. Supervisory actions taken strengthened operations, and efforts to address MRAs were satisfactory.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 Target</td>
<td>2016 Results</td>
<td>2017 Target</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Notes: In April 2018, the FCA board adopted the FCA Strategic Plan for FYs 2018 – 2023. The performance measures in the new plan remain substantially the same as the measures in the previous plan. Also, for the purposes of this table, “all institutions” is defined as System banks, associations, and the Farm Credit Leasing Services Corporation.

1 CAMELS is a rating of capital, assets, management, earnings, liquidity, and sensitivity.

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: ≥ is greater than or equal to; N/A indicates either that the measure is not applicable or that FCA’s performance could not be measured; ▲ indicates we exceeded the FY 2020 target; ✓ indicates we achieved the FY 2020 target; ▼ indicates we did not meet the FY 2020 target.

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: ≥ is greater than or equal to; N/A indicates either that the measure is not applicable or that FCA’s performance could not be measured; ▲ indicates we exceeded the FY 2020 target; ✓ indicates we achieved the FY 2020 target; ▼ indicates we did not meet the FY 2020 target.

Notes: In April 2018, the FCA board adopted the FCA Strategic Plan for FYs 2018 – 2023. The performance measures in the new plan remain substantially the same as the measures in the previous plan. Also, for the purposes of this table, “all institutions” is defined as System banks, associations, and the Farm Credit Leasing Services Corporation.
Measure 5: Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans.

Results: All institutions but one had satisfactory audit and review programs, including institutions with acceptable corrective action plans. In the case of the exception, the institution's corrective action plan did not adequately address a weakness. We have continued to follow up with the institution.

<table>
<thead>
<tr>
<th>2016 Target</th>
<th>2016 Results</th>
<th>2017 Target</th>
<th>2017 Results</th>
<th>2018 Target</th>
<th>2018 Results</th>
<th>2019 Target</th>
<th>2019 Results</th>
<th>2020 Target</th>
<th>2020 Results</th>
<th>Results vs. target</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>99%</td>
<td>100%</td>
<td>95.9%</td>
<td>100%</td>
<td>97%</td>
<td>100%</td>
<td>99%</td>
<td>▼</td>
</tr>
</tbody>
</table>

Measure 6: Whether five or more reports and dashboards were created that use data collected from the Farm Credit System to assess risk in the System.

Results: The agency exceeded this goal. Numerous tracking and analysis reports and dashboards related to mergers, shared assets, portfolios, and others were created to better spot trends and identify risks.

<table>
<thead>
<tr>
<th>2016 Target</th>
<th>2016 Results</th>
<th>2017 Target</th>
<th>2017 Results</th>
<th>2018 Target</th>
<th>2018 Results</th>
<th>2019 Target</th>
<th>2019 Results</th>
<th>2020 Target</th>
<th>2020 Results</th>
<th>Results vs. target</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A²</td>
<td>N/A</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>✔</td>
</tr>
</tbody>
</table>

2 This measure was added to the strategic plan the following year.

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: ≥ is greater than or equal to; N/A indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates we exceeded the FY 2020 target; ✔ indicates we achieved the FY 2020 target; ▼ indicates we did not meet the FY 2020 target.

Notes: In April 2018, the FCA board adopted the FCA Strategic Plan for FYs 2018 – 2023. The performance measures in the new plan remain substantially the same as the measures in the previous plan. Also, for the purposes of this table, “all institutions” is defined as System banks, associations, and the Farm Credit Leasing Services Corporation.
Table 7c. Goal 3 — Performance measures and results for workforce management

Oct. 1, 2019, to Sept. 30, 2020

**Measure 1:** Whether, as part of its recruiting efforts for entry-level examiners, FCA has ensured that at least 25% of its outreach efforts target applicants with a disability or who are members of a minority group.

**Results:** At least 25% of our outreach efforts targeted potential applicants who have a disability or who are members of a minority group.

<table>
<thead>
<tr>
<th>2016 Target</th>
<th>2016 Results</th>
<th>2017 Target</th>
<th>2017 Results</th>
<th>2018 Target</th>
<th>2018 Results</th>
<th>2019 Target</th>
<th>2019 Results</th>
<th>2020 Target</th>
<th>2020 Results</th>
<th>Results vs. target</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A³</td>
<td>N/A</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>✓</td>
</tr>
</tbody>
</table>

**Measure 2:** Whether we have maintained or improved our score from last year in the annual employee satisfaction survey.

**Results:** There are no results for fiscal year 2020 because OPM delayed the release of the Federal Employee Viewpoint Survey until Sept. 24. The results will not be available until January 2021.

<table>
<thead>
<tr>
<th>2016 Target</th>
<th>2016 Results</th>
<th>2017 Target</th>
<th>2017 Results</th>
<th>2018 Target</th>
<th>2018 Results</th>
<th>2019 Target</th>
<th>2019 Results</th>
<th>2020 Target</th>
<th>2020 Results</th>
<th>Results vs. target</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A⁴</td>
<td>N/A</td>
<td>≥72%</td>
<td>75%</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

³ This measure was added to the strategic plan the following year.

⁴ This measure was added to the strategic plan the following year.

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: ≥ is greater than or equal to; N/A indicates either that the measure is not applicable or that FCA’s performance could not be measured; ▲ indicates we exceeded the FY 2020 target; ✔ indicates we achieved the FY 2020 target; ▼ indicates we did not meet the FY 2020 target.

Notes: In April 2018, the FCA board adopted the FCA Strategic Plan for FYs 2018 – 2023. The performance measures in the new plan remain substantially the same as the measures in the previous plan.
Financial Section

In this section, we present our independent auditors’ report and our financial statements and notes. We prepared these statements and accompanying notes in compliance with U.S. generally accepted accounting principles for the federal government and OMB Circular A-136, Financial Reporting Requirements.
Statement of Chief Financial Officer

November 12, 2020

I am pleased to present the Farm Credit Administration’s 2020 financial statements and the auditor’s report on the financial position of the agency as of the fiscal year ended September 30, 2020. The audit was conducted by an independent public accounting firm contracted with the Office of Inspector General.

Our agency received an unmodified audit opinion on our financial statements for the 27th consecutive year. The auditors concluded that FCA’s financial statements are presented fairly, in all material respects, and in accordance with U.S. generally accepted accounting principles.

As part of the financial audit, the auditors assessed our internal controls over financial reporting and compliance with selected provisions of applicable laws, regulations, and contracts that are material to the financial statements. No material weaknesses or significant deficiencies were reported.

During fiscal year 2020, our leadership and staff remained committed to sound financial management practices while supporting and ensuring the safety of our employees as well as the ongoing safety and soundness of the Farm Credit System institutions through the unprecedented COVID-19 pandemic.

Our investments in technology had prepared us for the transition to telework for all FCA employees in March 2020. We continued to operate effectively and efficiently during the second half of fiscal year 2020, while complying with federal guidelines and state mandates regarding the evolving pandemic.

To protect the safety and health of our employees, we suspended all travel for institution examinations in March 2020. Our examiners continued to monitor and evaluate risk in the Farm Credit System remotely. With lower operating expenses, we reduced the assessment amount to the Farm Credit System institutions to further support the agriculture community.

With statewide stay-at-home mandates in place, many employees canceled or postponed their scheduled leave, which resulted in a significant increase in our leave liability. We actively monitored our leave accrued and reallocated funds accordingly to address the unanticipated increase in our leave liability.

During the pandemic, we have continued to make significant investments in employee recruitment and retention consistent with our strategic human capital plans. We have also made additional investments in training and development opportunities for our employees.

We will continue to operate in a safe and sound manner and ensure agency resources are used appropriately throughout the COVID-19 health crisis. We will continue to comply with federal guidance to support our employees and the Farm Credit System. Our top priority continues to be our core mission: ensuring that the Farm Credit System meets the needs of our nation’s farmers, ranchers, and rural communities.

I would like to thank all the FCA financial personnel, as well as the staff from other offices who worked with them, for their conscientious management of agency resources. Our shared commitment to ensuring accountability and transparency in the execution of our fiduciary duties is the foundation of our strong stewardship and ability to deliver reliable financial information to our stakeholders.

Sincerely,

Stephen G. Smith
Chief Financial Officer
November 12, 2020

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

Dear Chairman Smith and Board Member Hall:

We 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) as of and for the fiscal years ended September 30, 2020 and 2019 and to provide a report on internal control over financial reporting and compliance with laws and other matters. The contract required that the audit be performed in accordance with Government Auditing Standards, Office of Management and Budget audit guidance, and the U.S. Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency's Financial Audit Manual.

In its audit of FCA, HRK reported:

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting and compliance with laws and other matters; and
- no reportable noncompliance with provisions of laws tested or other matters.

In connection with the contract, we reviewed HRK’s report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on FCA’s financial statements or conclusions about the effectiveness of internal control over financial reporting, or on compliance with laws and other matters. HRK is responsible for the attached auditor’s report dated November 10, 2020, and the conclusions expressed therein. However, our review disclosed no instances where HRK did not comply, in all material respects, with Government Auditing Standards.
Respectfully,

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

cc: Wendy R. Laguarda
Inspector General

Enclosure
Independent Auditor’s Report

FCA Board and Inspector General
Farm Credit Administration

Report on the Financial Statements

We have audited the accompanying financial statements of the Farm Credit Administration (FCA). FCA’s financial statements comprise the balance sheets as of September 30, 2020 and 2019, 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

FCA’s management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; (2) preparing, measuring, and presenting the Required Supplementary Information (RSI) in accordance with accounting principles generally accepted in the United States of America; (3) preparing and presenting other information included in documents containing the audited financial statements and auditors' report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 19-03, Audit Requirements for Federal Financial Statements. Those standards and OMB require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the auditors' assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal
Auditors' Responsibility (continued)

control relevant to the entity's preparation and fair presentation of the financial statements in order to
design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an
opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An
audit of financial statements also involves evaluating the appropriateness of the accounting policies used
and the reasonableness of significant accounting estimates made by management, as well as evaluating
the overall presentation of the financial statements. Our audits also included performing such other
procedures as we considered necessary in the circumstances.

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

Opinion on the Financial Statements

In our opinion, FCA's financial statements present fairly, in all material respects, FCA's financial position
as of September 30, 2020 and 2019, and its net cost of operations, changes in net position, and budgetary
resources for the fiscal years then ended, in accordance with accounting principles generally accepted in
the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America issued by the Federal
Accounting Standards Advisory Board (FASAB) require that the information in the Management's
Discussion and Analysis be presented to supplement the financial statements. Such information, although
not a part of the financial statements, is required by FASAB who considers this information to be an
essential part of financial reporting for placing the financial statements in appropriate operational,
economic, or historical context. We have applied certain limited procedures to the RSI in accordance with
auditing standards generally accepted in the United States of America, which consisted of inquiries of
management about the methods of preparing the RSI and comparing the information for consistency with
management's responses to the auditors' inquiries, the financial statements, and other knowledge we
obtained during the audit of the financial statements, in order to report omissions or material departures
from FASAB guidelines, if any, identified by these limited procedures. We did not audit, and we do not
express an opinion or provide any assurance on the RSI because the limited procedures we applied do not
provide sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on FCA's financial statements. The
information in the Statement of Board Chairman and CEO, Statement of Chief Financial Officer, FCA
Performance Report, and Other Information section contains a wide range of information, some of which
is not directly related to the financial statements. This information is presented for purposes of additional
The FCA Board and Inspector General  
Farm Credit Administration (continued)

_Other Information (continued)_

analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements.

The Statement of Board Chairman and CEO, Statement of Chief Financial Officer, Program Performance, and Other Information section has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

_Other Reporting Required by Government Auditing Standards_

**Internal Control over Financial Reporting**

In planning and performing our audit of FCA's financial statements as of and for the year ended September 30, 2020, in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 19-03, _Audit Requirements for Federal Financial Statements_, we considered the entity's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the entity's internal control over financial reporting. We did not consider all internal controls relevant to operating objectives as broadly established by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to preparing performance information and ensuring efficient operations. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses.

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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. 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 selected provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which would have a direct and material effect on the financial statements. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 19-03, Audit Requirements for Federal Financial Statements. We caution that noncompliance may occur and not be detected by these tests.

Management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the entity.

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to the entity that have a direct effect on the determination of material amounts and disclosures in the entity's financial statements and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to FCA.

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2020 that would be reportable under U.S. generally accepted government auditing standards or OMB Bulletin 19-03, Audit Requirements for Federal Financial Statements. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to FCA. Accordingly, we do not express such an opinion.

Purpose of the Other Reporting Required by Government Auditing Standards

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

November 10, 2020
Financial Statements

We have prepared the accompanying financial statements in accordance with U.S. generally accepted accounting principles and with the Office of Management and Budget Circular A-136, as amended. For comparison purposes, we present our financial statements and notes for FY 2020 and FY 2019. All amounts are in whole dollars. Our financial statements include the following:

- Balance sheets, which show our assets, our liabilities, and our net position (assets minus liabilities).
- Statements of net cost, which show our net cost of operations. We calculate our net costs by subtracting from our gross costs any revenue we earn. We break the statement of net cost into three program components: public mission, safety and soundness, and other activity.
- Statements of changes in net position, which show the changes in our net position over the two-year period ending Sept. 30, 2020.
- Statements of budgetary resources, which show our resources, the status of our resources, and the outlay of resources during the fiscal year.
- Notes to the financial statements, which clarify and provide additional detail regarding the amounts in the financial statements.

Not all the statements mentioned in Circular A-136 apply to our agency. For this reason, we do not include a statement of custodial activity, a statement of social insurance, or a statement of changes in social insurance amounts.
## Balance sheets
As of Sept. 30, 2020 and 2019
(In dollars)

<table>
<thead>
<tr>
<th>Balance sheet categories</th>
<th>Line item description</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intragovernmental</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund balance with Treasury (note 2)</td>
<td>$4,204,180</td>
<td>$1,388,463</td>
<td></td>
</tr>
<tr>
<td>Investments (note 3)</td>
<td>34,471,697</td>
<td>34,614,229</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable (note 4)</td>
<td>31,007</td>
<td>7,516</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>2,396</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Total intragovernmental</strong></td>
<td><strong>38,709,280</strong></td>
<td><strong>36,010,208</strong></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable (note 4)</td>
<td>13,009</td>
<td>150,342</td>
<td></td>
</tr>
<tr>
<td>General property, equipment, and software, net (note 5)</td>
<td>1,803,072</td>
<td>1,173,085</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>214,821</td>
<td>289,945</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$40,740,182</strong></td>
<td><strong>$37,623,580</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intragovernmental</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$132,622</td>
<td>$37,859</td>
<td></td>
</tr>
<tr>
<td>Accrued post-employment compensation</td>
<td>30,231</td>
<td>35,914</td>
<td></td>
</tr>
<tr>
<td>Employer contributions and payroll taxes payable</td>
<td>695,654</td>
<td>549,182</td>
<td></td>
</tr>
<tr>
<td>Other (note 7)</td>
<td>0</td>
<td>132</td>
<td></td>
</tr>
<tr>
<td><strong>Total intragovernmental</strong></td>
<td><strong>858,507</strong></td>
<td><strong>623,087</strong></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>384,890</td>
<td>726,614</td>
<td></td>
</tr>
<tr>
<td>Actuarial workers' compensation liability (note 6)</td>
<td>1,481,359</td>
<td>1,595,070</td>
<td></td>
</tr>
<tr>
<td>Accrued payroll and benefits</td>
<td>8,192,979</td>
<td>7,659,548</td>
<td></td>
</tr>
<tr>
<td>Employer contributions and payroll taxes payable</td>
<td>595,999</td>
<td>544,827</td>
<td></td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>6,331,840</td>
<td>5,572,620</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities (note 6)</strong></td>
<td><strong>$17,845,574</strong></td>
<td><strong>$16,721,766</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Net position</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulative results of operations</td>
<td>$22,894,608</td>
<td>$20,901,814</td>
<td></td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td><strong>22,894,608</strong></td>
<td><strong>20,901,814</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities and net position</strong></td>
<td><strong>$40,740,182</strong></td>
<td><strong>$37,623,580</strong></td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these statements.
## Statements of net cost
For the years ended Sept. 30, 2020 and 2019
(In dollars)

<table>
<thead>
<tr>
<th>Agency programs</th>
<th>Program costs</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public mission</strong></td>
<td>Gross costs</td>
<td>$19,014,091</td>
<td>$20,472,180</td>
</tr>
<tr>
<td></td>
<td>Less: Earned revenue</td>
<td>(18,082,433)</td>
<td>(18,833,677)</td>
</tr>
<tr>
<td></td>
<td>Net program cost</td>
<td>$931,658</td>
<td>$1,638,503</td>
</tr>
<tr>
<td><strong>Safety and soundness</strong></td>
<td>Gross costs</td>
<td>$58,420,531</td>
<td>$59,441,216</td>
</tr>
<tr>
<td></td>
<td>Less: Earned revenue</td>
<td>(55,535,650)</td>
<td>(54,672,029)</td>
</tr>
<tr>
<td></td>
<td>Net program cost</td>
<td>$2,884,881</td>
<td>$4,769,187</td>
</tr>
<tr>
<td><strong>Other activity</strong></td>
<td>Gross costs</td>
<td>$781,411</td>
<td>$1,005,507</td>
</tr>
<tr>
<td></td>
<td>Less: Earned revenue</td>
<td>(504,831)</td>
<td>(668,273)</td>
</tr>
<tr>
<td></td>
<td>Net program cost</td>
<td>$276,580</td>
<td>$337,234</td>
</tr>
<tr>
<td><strong>Net cost of operations (note 8 and note 13)</strong></td>
<td>$4,093,119</td>
<td>$6,744,924</td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these statements.
## Statements of changes in net position
For the years ended Sept. 30, 2020 and 2019
(In dollars)

<table>
<thead>
<tr>
<th>Cumulative results of operations</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning balances</strong></td>
<td>$20,901,814</td>
<td>$20,523,940</td>
</tr>
<tr>
<td><strong>Other financing sources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Non-exchange)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal employee benefits (note 9)</td>
<td>2,435,913</td>
<td>3,472,798</td>
</tr>
<tr>
<td>Rent (note 9)</td>
<td>3,650,000</td>
<td>3,650,000</td>
</tr>
<tr>
<td><strong>Total financing sources</strong></td>
<td>6,085,913</td>
<td>7,122,798</td>
</tr>
<tr>
<td><strong>Net cost of operations</strong></td>
<td>(4,093,119)</td>
<td>(6,744,924)</td>
</tr>
<tr>
<td><strong>Net change</strong></td>
<td>1,992,794</td>
<td>377,874</td>
</tr>
<tr>
<td><strong>Cumulative results of operations</strong></td>
<td>$22,894,608</td>
<td>$20,901,814</td>
</tr>
<tr>
<td><strong>Net position</strong></td>
<td>$22,894,608</td>
<td>$20,901,814</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these statements.
## Statements of budgetary resources

For the years ended Sept. 30, 2020 and 2019
(In dollars)

<table>
<thead>
<tr>
<th>Statement of budgetary resources categories</th>
<th>Line item description</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budgetary resources</strong></td>
<td>Unobligated balance from prior year budget authority, net</td>
<td>$21,427,515</td>
<td>$21,951,094</td>
</tr>
<tr>
<td></td>
<td>Spending authority from offsetting collections</td>
<td>74,878,764</td>
<td>73,430,739</td>
</tr>
<tr>
<td></td>
<td><strong>Total budgetary resources (note 11)</strong></td>
<td>$96,306,279</td>
<td>$95,381,833</td>
</tr>
<tr>
<td><strong>Status of budgetary resources</strong></td>
<td>New obligations and upward adjustments (total)</td>
<td>$73,181,829</td>
<td>$73,954,318</td>
</tr>
<tr>
<td><strong>Unobligated balance, end of year</strong></td>
<td>Exempt from apportionment, unexpired accounts</td>
<td>16,792,610</td>
<td>15,854,895</td>
</tr>
<tr>
<td></td>
<td>Exempt from apportionment, not available</td>
<td>6,331,840</td>
<td>5,572,620</td>
</tr>
<tr>
<td></td>
<td>Unobligated balance, end of year (total)</td>
<td>23,124,450</td>
<td>21,427,515</td>
</tr>
<tr>
<td></td>
<td><strong>Total budgetary resources (note 11)</strong></td>
<td>$96,306,279</td>
<td>$95,381,833</td>
</tr>
<tr>
<td><strong>Outlays, net</strong></td>
<td>Outlays, net (total)</td>
<td>(2,630,675)</td>
<td>(264,710)</td>
</tr>
<tr>
<td></td>
<td><strong>Agency outlays, net (note 13)</strong></td>
<td>$(2,630,675)</td>
<td>$(264,710)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these statements.
Notes to the financial statements

Note 1. Significant accounting policies

A. Reporting entity — We are an independent agency in the executive branch of the U.S. government. We are responsible for regulating and supervising the Farm Credit System (its banks, associations, and related entities) and the Federal Agricultural Mortgage Corporation (Farmer Mac). 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.

While FCA’s board members also serve as the board of directors for the Farm Credit System Insurance Corporation (FCSIC), FCSIC is a separate independent agency from the Farm Credit Administration. FCSIC was established by the Agricultural Credit Act of 1987 in the wake of the agricultural credit crisis of the 1980s. The purpose of FCSIC is to protect investors in Systemwide debt securities by insuring the timely payment of principal and interest on obligations issued by FCS banks. FCSIC does so by maintaining the Farm Credit Insurance Fund, a reserve that represents the equity of FCSIC.

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 generally accepted accounting principles and the Statements of Federal Financial Accounting Standards (SFFAS) prescribed by the Federal Accounting Standards Advisory Board, the official body for setting accounting standards for the federal government. Under the accrual method, revenues are recognized when earned, and expenses are recognized when goods or services are received, without regard to receipt of funds or payment of cash. FCA is not subject to apportionment. Budgetary accounting has been applied to facilitate compliance with legal constraints and control over the use of funds.

C. Fund balance with Treasury — We maintain a revolving, no-year account with the U.S. Treasury through which cash receipts and disbursements are processed. We do not receive appropriated funds. See note 2.

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

E. Accounts receivable — Accounts receivable are composed of

- reimbursements for FCA administrative expenses according to agreements with other federal entities,
- assessments from institutions in accordance with the Farm Credit Act and FCA regulations, and
- amounts owed FCA that are generated through the normal course of business with employees and vendors.
Amounts due from federal agencies are considered fully collectible. An allowance for uncollectible amounts receivable from the public is established when we have determined that the collection is unlikely to occur after considering the debtor’s ability to pay.

The Office of the Chief Financial Officer, in conjunction with the agency’s accounting service provider, the Bureau of the Fiscal Service, reviews the agency’s accounts receivable on a regular basis. We have determined that all accounts receivable as of Sept. 30, 2020, are fully collectible. See note 4.

F. **Advances and prepaid expenses** — Payments made before the receipt of goods and services are recorded as advances or prepaid expenses at the time of prepayment and are recognized as expenses when the goods and services are received. This process helps to minimize large dollar fluctuations in cost and provides for the recognition of cost based on use. When the prepayment amount has minimal impact on cost, it is more cost-effective to expense the advance or prepayment at the time of payment. We establish advances for prepaid maintenance agreements over $20,000 and for prepaid training exceeding $15,000.

G. **General property, equipment, and software** — Property (including vehicles), equipment, and software are recorded at cost, net of an allowance for accumulated depreciation. Repairs and maintenance costs are expensed as incurred. We capitalize all property and equipment with itemized costs of $50,000 or more and a useful life of two years or more. We also capitalize groups of items that individually are under $50,000 but together meet the bulk purchase criteria of $500,000 or more. We capitalize software when its costs exceed $250,000 and when the software has a useful life of two years or more. We use the straight-line method of depreciation with half-year convention to allocate the cost of capitalized property, equipment, or software over its estimated useful life. See note 5.

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

I. **Liabilities** — Liabilities may or may not be covered by budgetary or other resources. All our liabilities are covered by budgetary resources except for the actuarial workers’ compensation liability (see note 6). Intragovernmental liabilities are claims against us by other federal agencies.

J. **Inter-entity costs** — Goods and services are received from other entities at no cost or at a cost less than full cost to the providing entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by FCA are recognized as imputed cost on the statement of net cost and are offset by imputed revenue on the statement of changes in net position. FCA’s inter-entity costs that are reported as imputed costs include federal employee benefits and rent. See note 9.

K. **Annual, sick, and other leave** — Annual leave, compensatory leave, credit hours, and some other types of leave are accrued as a funded liability when earned, with an offsetting reduction for leave taken. The accrued leave liability for each of these types of leave is calculated using current pay rates. Sick leave and other types of nonvested leave are expensed as the leave is taken. Our methodology for calculating the leave liability includes the cost of benefits associated with the compensation. This ensures that our estimated liability for leave reflects the current composition of our staff; most of our employees are under the Federal Employees Retirement System instead of the Civil Service Retirement System.

L. **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.

M. Deferred revenue — Any funds received before the beginning of the new fiscal year are considered unearned revenue and are reported as deferred revenue on the balance sheet. These amounts are also reported as “exempt from apportionment, not available” on the statement of budgetary resources.

N. 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.

O. Financial data — All amounts presented in this report are in whole dollars.

P. Reclassifications — Certain amounts presented in the prior years have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net position or budgetary resources.

Q. Classified activities — Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. FCA does not have any classified activities.

Note 2. Fund balance with Treasury

<table>
<thead>
<tr>
<th>Line item description</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status of fund balance with Treasury</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unobligated balance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available</td>
<td>$16,792,610</td>
<td>$15,854,895</td>
</tr>
<tr>
<td>Unavailable</td>
<td>6,331,840</td>
<td>5,572,620</td>
</tr>
<tr>
<td>Obligated balance not yet disbursed</td>
<td>15,227,056</td>
<td>14,293,317</td>
</tr>
<tr>
<td>Subtotal — Status of fund balance</td>
<td>38,351,506</td>
<td>35,720,832</td>
</tr>
<tr>
<td>Funds invested with Treasury, net of unamortized discount</td>
<td>(34,147,326)</td>
<td>(34,332,369)</td>
</tr>
<tr>
<td>Total fund balance with Treasury</td>
<td><strong>$4,204,180</strong></td>
<td><strong>$1,388,463</strong></td>
</tr>
</tbody>
</table>

The fund balance with Treasury is an asset account that shows our available cash. The balance in the account increases as we collect funds and decreases as we disburse funds. 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 before 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.

Unobligated balances noted above agree with unobligated balances reported on the Statement of Budgetary Resources.
All our funds invested with Treasury are in U.S. Treasury securities.

Note 3. Investments

Amounts for 2020 balance sheet reporting

<table>
<thead>
<tr>
<th>Intragovernmental securities</th>
<th>Cost</th>
<th>Amortized (premium) discount</th>
<th>Investments, net</th>
<th>Interest receivable</th>
<th>9/30/20 Investment balance</th>
<th>Market value disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonmarketable: market-based</td>
<td>$34,329,817</td>
<td>$40,783</td>
<td>$34,370,600</td>
<td>$101,097</td>
<td>$34,471,697</td>
<td>$34,585,814</td>
</tr>
</tbody>
</table>

Amounts for 2019 balance sheet reporting

<table>
<thead>
<tr>
<th>Intragovernmental securities</th>
<th>Cost</th>
<th>Amortized (premium) discount</th>
<th>Investments, net</th>
<th>Interest receivable</th>
<th>9/30/19 Investment balance</th>
<th>Market value disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonmarketable: market-based</td>
<td>$34,345,472</td>
<td>$178,865</td>
<td>$34,524,337</td>
<td>$89,892</td>
<td>$34,614,229</td>
<td>$34,611,584</td>
</tr>
</tbody>
</table>

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 $617,438 and $805,339 for FYs 2020 and 2019, respectively.

Note 4. Accounts receivable

<table>
<thead>
<tr>
<th>Description</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intragovernmental</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reimbursements for services provided</td>
<td>$31,007</td>
<td>$7,516</td>
</tr>
<tr>
<td>Subtotal</td>
<td>31,007</td>
<td>7,516</td>
</tr>
<tr>
<td>With the public</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reimbursements for services provided</td>
<td>12,300</td>
<td>146,536</td>
</tr>
<tr>
<td>Expenditure refunds</td>
<td>709</td>
<td>3,806</td>
</tr>
<tr>
<td>Subtotal</td>
<td>13,009</td>
<td>150,342</td>
</tr>
<tr>
<td><strong>Total accounts receivable</strong></td>
<td><strong>$44,016</strong></td>
<td><strong>$157,858</strong></td>
</tr>
</tbody>
</table>

The intragovernmental receivables represent reimbursable services provided to USDA and FCSIC but unbilled as of Sept. 30. Receivables for services provided to the public represent uncollected amounts related to the cost of examining the National Consumer Cooperative Bank.

We do not have any uncollectible accounts receivable and therefore do not display any estimate for allowance for uncollectible accounts.
Note 5. General property, equipment, and software

As of Sept. 30, 2020

<table>
<thead>
<tr>
<th>Type of asset</th>
<th>Estimated useful life</th>
<th>Depreciation method</th>
<th>Acquisition value</th>
<th>Accumulated/Amortized depreciation</th>
<th>Book value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>3 years</td>
<td>Straight line</td>
<td>$1,641,722</td>
<td>$(876,603)</td>
<td>$765,119</td>
</tr>
<tr>
<td>Equipment</td>
<td>5 years</td>
<td>Straight line</td>
<td>498,326</td>
<td>(339,262)</td>
<td>159,064</td>
</tr>
<tr>
<td>Equipment</td>
<td>10 years</td>
<td>Straight line</td>
<td>305,304</td>
<td>(167,440)</td>
<td>137,864</td>
</tr>
<tr>
<td>Internal use software</td>
<td>5 years</td>
<td>Straight line</td>
<td>1,270,813</td>
<td>(779,016)</td>
<td>491,797</td>
</tr>
<tr>
<td>Software in development</td>
<td></td>
<td></td>
<td>249,228</td>
<td>0</td>
<td>249,228</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$3,965,393</td>
<td>$(2,162,321)</td>
<td>$1,803,072</td>
</tr>
</tbody>
</table>

As of Sept. 30, 2019

<table>
<thead>
<tr>
<th>Type of asset</th>
<th>Estimated useful life</th>
<th>Depreciation method</th>
<th>Acquisition value</th>
<th>Accumulated/Amortized depreciation</th>
<th>Book value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>3 years</td>
<td>Straight line</td>
<td>$723,580</td>
<td>$(723,580)</td>
<td>$0</td>
</tr>
<tr>
<td>Equipment</td>
<td>5 years</td>
<td>Straight line</td>
<td>498,326</td>
<td>(239,595)</td>
<td>258,731</td>
</tr>
<tr>
<td>Equipment</td>
<td>10 years</td>
<td>Straight line</td>
<td>305,304</td>
<td>(136,910)</td>
<td>168,394</td>
</tr>
<tr>
<td>Internal use software</td>
<td>5 years</td>
<td>Straight line</td>
<td>1,270,813</td>
<td>(524,853)</td>
<td>745,960</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$2,798,023</td>
<td>$(1,624,938)</td>
<td>$1,173,085</td>
</tr>
</tbody>
</table>

Capitalization thresholds for property and equipment are $50,000 per individual asset and $500,000 for bulk purchase of equipment. Capitalized internal use software is capitalized when costs exceed $250,000.
Note 6. Liabilities not covered by budgetary resources (actuarial workers’ compensation liability)

We record an unfunded liability (liability not covered by budgetary resources) for the actuarial liability under the Federal Employees’ Compensation Act (FECA). The actuarial FECA liability is the estimated liability for future benefit payments and is recorded as a component of federal employee benefits. The actuarial liability estimate for benefits under FECA includes the expected liability for costs associated with death, disability, and medical care for approved compensation cases. The estimate also includes costs associated with incurred but unreported claims.

The Department of Labor estimates future workers’ compensation liability for specified entities that are preparing statements under the Chief Financial Officers Act and the Government Management Reform Act. Because we are not one of the entities for which the Department of Labor provides individual estimates on a routine basis, we calculated our estimated FECA actuarial liability amount by using the Department of Labor’s FY 2020 model.

<table>
<thead>
<tr>
<th>Liability description</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Employees’ Compensation Act actuarial liability</td>
<td>$1,481,359</td>
<td>$1,595,070</td>
</tr>
<tr>
<td>Total liabilities not covered by budgetary resources</td>
<td>1,481,359</td>
<td>1,595,070</td>
</tr>
<tr>
<td>Total liabilities covered by budgetary resources</td>
<td>16,364,215</td>
<td>15,126,696</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>$17,845,574</strong></td>
<td><strong>$16,721,766</strong></td>
</tr>
</tbody>
</table>

Note 7. Other liabilities

The other liabilities represented on the balance sheet for FY 2019 are custodial liabilities, which were amounts to be collected on behalf of the General Fund of the U.S. Government. The amounts we show on our balance sheet for 2019 were from interest and penalties levied on outstanding accounts receivable.
### Note 8. Suborganization program costs

The following tables provide a detailed breakout of the statement of net cost for each of the fiscal years ended 2020 and 2019. We display our cost and earned revenue amounts by office within each program.

#### For the year ended Sept. 30, 2020

<table>
<thead>
<tr>
<th>Agency programs</th>
<th>Program costs</th>
<th>Office of Examination</th>
<th>Office of Regulatory Policy</th>
<th>Office of Secondary Market Oversight</th>
<th>Other offices</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public mission</strong></td>
<td>Gross costs</td>
<td>$425,969</td>
<td>$5,224,056</td>
<td>$418,921</td>
<td>$12,945,145</td>
<td>$19,014,091</td>
</tr>
<tr>
<td></td>
<td>Less: Earned revenue</td>
<td>(405,721)</td>
<td>(4,975,737)</td>
<td>(369,980)</td>
<td>(12,330,995)</td>
<td>(18,082,433)</td>
</tr>
<tr>
<td></td>
<td>Net program cost</td>
<td>20,248</td>
<td>248,319</td>
<td>48,941</td>
<td>614,150</td>
<td>931,658</td>
</tr>
<tr>
<td><strong>Safety and soundness</strong></td>
<td>Gross costs</td>
<td>36,805,731</td>
<td>607,834</td>
<td>1,502,976</td>
<td>19,503,990</td>
<td>58,420,531</td>
</tr>
<tr>
<td></td>
<td>Less: Earned revenue</td>
<td>(35,038,185)</td>
<td>(577,690)</td>
<td>(1,335,685)</td>
<td>(18,584,090)</td>
<td>(55,535,650)</td>
</tr>
<tr>
<td></td>
<td>Net program cost</td>
<td>1,767,546</td>
<td>30,144</td>
<td>167,291</td>
<td>919,900</td>
<td>2,884,881</td>
</tr>
<tr>
<td><strong>Other activity</strong></td>
<td>Gross costs</td>
<td>181,268</td>
<td>86,778</td>
<td>535</td>
<td>512,830</td>
<td>781,411</td>
</tr>
<tr>
<td></td>
<td>Less: Earned revenue</td>
<td>(117,107)</td>
<td>(56,063)</td>
<td>(347)</td>
<td>(331,314)</td>
<td>(504,831)</td>
</tr>
<tr>
<td></td>
<td>Net program cost</td>
<td>64,161</td>
<td>30,715</td>
<td>188</td>
<td>181,516</td>
<td>276,580</td>
</tr>
<tr>
<td><strong>Net cost of operations</strong></td>
<td></td>
<td>$1,851,955</td>
<td>$309,178</td>
<td>$216,420</td>
<td>$1,715,566</td>
<td>$4,093,119</td>
</tr>
</tbody>
</table>

#### For the year ended Sept. 30, 2019

<table>
<thead>
<tr>
<th>Agency programs</th>
<th>Program costs</th>
<th>Office of Examination</th>
<th>Office of Regulatory Policy</th>
<th>Office of Secondary Market Oversight</th>
<th>Other offices</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public mission</strong></td>
<td>Gross costs</td>
<td>$755,454</td>
<td>$5,668,326</td>
<td>$564,309</td>
<td>$13,484,091</td>
<td>$20,472,180</td>
</tr>
<tr>
<td></td>
<td>Less: Earned revenue</td>
<td>(698,625)</td>
<td>(5,243,131)</td>
<td>(422,580)</td>
<td>(12,469,341)</td>
<td>(18,833,677)</td>
</tr>
<tr>
<td></td>
<td>Net program cost</td>
<td>56,829</td>
<td>425,195</td>
<td>141,729</td>
<td>1,014,750</td>
<td>1,638,503</td>
</tr>
<tr>
<td><strong>Safety and soundness</strong></td>
<td>Gross costs</td>
<td>38,989,922</td>
<td>1,257,124</td>
<td>1,519,556</td>
<td>17,674,614</td>
<td>59,441,216</td>
</tr>
<tr>
<td></td>
<td>Less: Earned revenue</td>
<td>(36,004,004)</td>
<td>(1,157,338)</td>
<td>(1,131,808)</td>
<td>(16,378,879)</td>
<td>(54,672,029)</td>
</tr>
<tr>
<td></td>
<td>Net program cost</td>
<td>2,985,918</td>
<td>99,786</td>
<td>387,748</td>
<td>1,295,735</td>
<td>4,769,187</td>
</tr>
<tr>
<td><strong>Other activity</strong></td>
<td>Gross costs</td>
<td>311,999</td>
<td>122,189</td>
<td>2,047</td>
<td>569,272</td>
<td>1,005,507</td>
</tr>
<tr>
<td></td>
<td>Less: Earned revenue</td>
<td>(207,358)</td>
<td>(81,208)</td>
<td>(1,361)</td>
<td>(378,346)</td>
<td>(668,273)</td>
</tr>
<tr>
<td></td>
<td>Net program cost</td>
<td>104,641</td>
<td>40,981</td>
<td>686</td>
<td>190,926</td>
<td>337,234</td>
</tr>
<tr>
<td><strong>Net cost of operations</strong></td>
<td></td>
<td>$3,147,388</td>
<td>$565,962</td>
<td>$530,163</td>
<td>$2,501,411</td>
<td>$6,744,924</td>
</tr>
</tbody>
</table>
Note 9. Inter-entity costs

Federal employee benefits

<table>
<thead>
<tr>
<th>Benefit description</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imputed pension costs</td>
<td>$251,324</td>
<td>$1,445,263</td>
</tr>
<tr>
<td>Other imputed retirement benefits</td>
<td>2,184,589</td>
<td>2,027,535</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,435,913</strong></td>
<td><strong>$3,472,798</strong></td>
</tr>
</tbody>
</table>

We report the amount of our pension expense and other retirement benefits in accordance with SFFAS No. 5, Accounting for Liabilities of the Federal Government. These expenses are treated as an imputed expense, which is recognized when amounts remitted to OPM are less than the full cost to the government. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

**Pension expenses** — Our employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which we make contributions according to plan requirements. CSRS and FERS are multiemployer plans. We do not maintain or report information about the assets of the plan, nor do we report actuarial data for accumulated plan benefits. The reporting of such amounts is the responsibility of OPM.

**Other retirement benefit expenses** — We also recognize an expense for the cost of providing health benefits and life insurance to our employees after they retire. OPM provides the factors used to calculate these costs.

Rent

<table>
<thead>
<tr>
<th>FCA office description</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leased field offices</td>
<td>$1,308,035</td>
<td>$1,380,013</td>
</tr>
<tr>
<td>FCA headquarters</td>
<td>2,341,965</td>
<td>2,269,987</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,650,000</strong></td>
<td><strong>$3,650,000</strong></td>
</tr>
</tbody>
</table>

In accordance with the Farm Credit Act, we occupy buildings owned and leased by the Farm Credit System Building Association (FCSBA). Our administrative headquarters building and land are in McLean, Virginia. In addition, the FCSBA leases office space for field offices on our behalf at various locations throughout the United States. Rent is provided at no cost to us. Our imputed rent expense is an estimate based on the FCSBA’s estimated budget for 2020. In accordance with SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, the rent expense and the associated imputed revenue are recorded as a nonmonetary transaction.
Note 10. Undelivered orders at the end of the period

As of Sept. 30, 2020, budgetary resources obligated for undelivered orders were as follows:

<table>
<thead>
<tr>
<th>Type of undelivered orders</th>
<th>Federal</th>
<th>Nonfederal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid undelivered orders</td>
<td>$2,396</td>
<td>$214,822</td>
<td>$217,218</td>
</tr>
<tr>
<td>Unpaid undelivered orders</td>
<td>371,847</td>
<td>5,359,200</td>
<td>5,731,047</td>
</tr>
<tr>
<td>Total undelivered orders</td>
<td><strong>$374,243</strong></td>
<td><strong>$5,574,022</strong></td>
<td><strong>$5,948,265</strong></td>
</tr>
</tbody>
</table>

As of Sept. 30, 2019, budgetary resources obligated for undelivered orders were as follows:

<table>
<thead>
<tr>
<th>Type of undelivered orders</th>
<th>Federal</th>
<th>Nonfederal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid undelivered orders</td>
<td>0</td>
<td>$289,945</td>
<td>$289,945</td>
</tr>
<tr>
<td>Unpaid undelivered orders</td>
<td>468,338</td>
<td>4,877,209</td>
<td>5,345,547</td>
</tr>
<tr>
<td>Total undelivered orders</td>
<td><strong>$468,338</strong></td>
<td><strong>$5,167,154</strong></td>
<td><strong>$5,635,492</strong></td>
</tr>
</tbody>
</table>

Note 11. Explanation of differences between the Statement of Budgetary Resources and the budget of the U.S. government

SFFAS 7 requires the reporting of material differences between amounts reported in the Statement of Budgetary Resources and the actual amounts reported in the Budget of the United States Government.

There are no material differences between the amounts reported in the FY 2019 Statement of Budgetary Resources and the FY 2019 actual amounts reported in the FY 2021 Budget of the United States Government. The FY 2022 Budget of the United States is not yet available to compare the FY 2020 actual amounts to the FY 2020 Statement of Budgetary Resources. The budget is expected to be available in February 2021 at [https://www.whitehouse.gov/omb/budget/](https://www.whitehouse.gov/omb/budget/).

Note 12. Incidental custodial collections

Our custodial collections include receipts to cover the costs of fulfilling Freedom of Information Act requests; they also include other receipts, such as interest and penalties. During the fiscal year, we include these collections in the Fund Balance with Treasury. However, since these collections are immaterial to the financial statements and incidental to our mission, we do not provide a Statement of Custodial Activity. Custodial collections totaled $199 for the period ended Sept. 30, 2020, and $215 for Sept. 30, 2019. The funds collected in FY 2020 were transferred to the Department of the Treasury at the end of FY 2020.

Note 13. Reconciliation of net cost to net outlays

As prescribed by SFFAS 53, Budget and Accrual Reconciliation, this note explains the relationship between our net outlays on a budgetary basis and the net cost of operations during the reporting period. It is a reconciliation between budgetary and financial accounting information.

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash. Because financial accounting is intended
to provide a picture of the government’s financial operations and financial position, it presents information on an accrual basis. The accrual basis includes information about costs arising from consuming assets and incurring liabilities. The analyses in the tables below illustrate this reconciliation by listing the key differences between net cost and net outlays.

For the year ended Sept. 30, 2020

<table>
<thead>
<tr>
<th>Reconciling items</th>
<th>Intragovernmental</th>
<th>With the public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Operating Cost</td>
<td>$19,645,808</td>
<td>$(15,552,689)</td>
<td>$4,093,119</td>
</tr>
</tbody>
</table>

Components of net operating cost that are not part of budgetary outlays

<table>
<thead>
<tr>
<th></th>
<th>Intragovernmental</th>
<th>With the public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant, and equipment depreciation</td>
<td>0</td>
<td>(537,382)</td>
<td>(537,382)</td>
</tr>
</tbody>
</table>

Increase/(decrease) in assets

<table>
<thead>
<tr>
<th></th>
<th>Intragovernmental</th>
<th>With the public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>34,696</td>
<td>(137,202)</td>
<td>(102,506)</td>
</tr>
<tr>
<td>Other assets</td>
<td>2,396</td>
<td>(75,123)</td>
<td>(72,727)</td>
</tr>
<tr>
<td>Investments</td>
<td>31,306</td>
<td>0</td>
<td>31,306</td>
</tr>
</tbody>
</table>

(Increase)/decrease in liabilities not affecting budgetary outlays

<table>
<thead>
<tr>
<th></th>
<th>Intragovernmental</th>
<th>With the public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>(94,763)</td>
<td>341,724</td>
<td>246,961</td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>(140,788)</td>
<td>(582,516)</td>
<td>(723,304)</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>0</td>
<td>(647,597)</td>
<td>(647,597)</td>
</tr>
</tbody>
</table>

Other financing sources

<table>
<thead>
<tr>
<th></th>
<th>Intragovernmental</th>
<th>With the public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal employee retirement benefit costs</td>
<td>(2,435,913)</td>
<td>0</td>
<td>(2,435,913)</td>
</tr>
<tr>
<td>Other imputed finance</td>
<td>(3,650,000)</td>
<td>0</td>
<td>(3,650,000)</td>
</tr>
</tbody>
</table>

Total components of net operating cost that are not part of budgetary outlays

<table>
<thead>
<tr>
<th></th>
<th>Intragovernmental</th>
<th>With the public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(6,253,066)</td>
<td>(1,638,096)</td>
<td>(7,891,162)</td>
<td></td>
</tr>
</tbody>
</table>

Components of budgetary outlays that are not part of net operating cost

<table>
<thead>
<tr>
<th></th>
<th>Intragovernmental</th>
<th>With the public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of capital assets</td>
<td>0</td>
<td>1,167,368</td>
<td>1,167,368</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Total components of budgetary outlays that are not part of net operating cost

<table>
<thead>
<tr>
<th></th>
<th>Intragovernmental</th>
<th>With the public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>1,167,368</td>
<td>1,167,368</td>
<td></td>
</tr>
</tbody>
</table>

Net outlays (calculated total)

<table>
<thead>
<tr>
<th></th>
<th>Intragovernmental</th>
<th>With the public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$13,392,742</td>
<td>$(16,023,417)</td>
<td>$(2,630,675)</td>
<td></td>
</tr>
</tbody>
</table>

Related amounts on the Statement of Budgetary Resources

<table>
<thead>
<tr>
<th></th>
<th>Intragovernmental</th>
<th>With the public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outlays, gross</td>
<td></td>
<td>(2,630,675)</td>
<td></td>
</tr>
<tr>
<td>Outlays, net</td>
<td></td>
<td></td>
<td>$(2,630,675)</td>
</tr>
</tbody>
</table>
For the year ended Sept. 30, 2019

<table>
<thead>
<tr>
<th>Reconciling items</th>
<th>Intragovernmental</th>
<th>With the public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Operating Cost</strong></td>
<td>$19,573,348</td>
<td>$(12,828,424)</td>
<td>$6,744,924</td>
</tr>
<tr>
<td><strong>Components of net operating cost that are not part of budgetary outlays</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant, and equipment depreciation</td>
<td>0</td>
<td>(498,528)</td>
<td>(498,528)</td>
</tr>
<tr>
<td><strong>Increase/(decrease) in assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>1,953</td>
<td>65,933</td>
<td>67,886</td>
</tr>
<tr>
<td>Other assets</td>
<td>0</td>
<td>22,238</td>
<td>22,238</td>
</tr>
<tr>
<td>Investments</td>
<td>109,710</td>
<td>0</td>
<td>109,710</td>
</tr>
<tr>
<td><strong>(Increase)/decrease in liabilities not affecting budgetary outlays</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>11,566</td>
<td>584,051</td>
<td>595,617</td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>(67,542)</td>
<td>(430,533)</td>
<td>(498,075)</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>(23)</td>
<td>250,066</td>
<td>250,043</td>
</tr>
<tr>
<td><strong>Other financing sources</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal employee retirement benefit costs</td>
<td>(3,472,798)</td>
<td>0</td>
<td>(3,472,798)</td>
</tr>
<tr>
<td>Other imputed finance</td>
<td>(3,650,000)</td>
<td>0</td>
<td>(3,650,000)</td>
</tr>
<tr>
<td><strong>Total components of net operating cost that are not part of budgetary outlays</strong></td>
<td>(7,067,134)</td>
<td>(6,773)</td>
<td>(7,073,907)</td>
</tr>
<tr>
<td><strong>Components of budgetary outlays that are not part of net operating cost</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of capital assets</td>
<td>0</td>
<td>64,273</td>
<td>64,273</td>
</tr>
<tr>
<td>Other</td>
<td>238</td>
<td>(238)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total components of budgetary outlays that are not part of net operating cost</strong></td>
<td>238</td>
<td>64,035</td>
<td>64,273</td>
</tr>
<tr>
<td><strong>Net outlays (calculated total)</strong></td>
<td>$12,506,452</td>
<td>$(12,771,162)</td>
<td>$(264,710)</td>
</tr>
<tr>
<td><strong>Related amounts on the Statement of Budgetary Resources</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outlays, gross</td>
<td></td>
<td></td>
<td>(264,710)</td>
</tr>
<tr>
<td>Outlays, net</td>
<td></td>
<td></td>
<td>$(264,710)</td>
</tr>
</tbody>
</table>

**Note 14. COVID-19 activity**

We did not use any significant amount of our budgetary resources to prevent, prepare for, or respond to COVID-19. We also did not receive any budgetary resources under any of the COVID-19 supplemental appropriations or other acts.
Other Information

This section includes the following additional reporting required by the Office of Management and Budget:

- A summary of the management challenges identified by our inspector general, which includes a description of each challenge along with an assessment of the agency’s actions to address those challenges

- Our response to the inspector general’s assessment

- A summary of our financial statement audit and management assurances

- Our actions to address Payment Integrity Act requirements

- An update on our annual adjustment on civil monetary penalties
Letter from Inspector General on FCA’s Management Challenges

October 9, 2020

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

Dear Chairman Smith and Board Member Hall:

As part of the Farm Credit Administration’s (FCA or Agency) annual Performance and Accountability Report, the Reports Consolidation Act of 2000 requires Inspectors General to provide a summary perspective on the most serious management and performance challenges facing the Agency. We solicited the FCA Board and management for thoughts on this issue and identified the following top five management challenges:

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

This year we incorporated challenges posed by the COVID-19 pandemic into each of the above challenges, as appropriate.

We appreciate the continued, ongoing support of Agency leadership. We will continue to work with you in addressing these and other challenges faced by the Agency in achieving FCA’s mission. If you have any questions, please call me at (703) 883-4234.

Wendy R. Laguarda
Inspector General
Management Challenges

Farm Credit Administration
Office of Inspector General
October 9, 2020
MANAGEMENT CHALLENGES

As part of the Farm Credit Administration’s (FCA or Agency) annual Performance and Accountability Report, the Reports Consolidation Act of 2000 requires Inspectors General to provide a summary perspective on the most serious management and performance challenges facing the Agency. These challenges reflect ongoing vulnerabilities identified by the Office of Inspector General (OIG) over recent years as well as new and emerging issues that the FCA faces. The chart below summarizes the top management challenges. The pages following the chart provide more depth regarding each challenge and the Agency’s progress in addressing them.

<table>
<thead>
<tr>
<th>Examination and Supervision Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identifying and addressing risks in the Farm Credit System through effective examination and supervision to ensure it remains safe and sound.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Information Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leveraging investments in information technology while maintaining a secure environment and mobile workforce.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Data Quality and Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtaining consistent and quality data vital to the Farm Credit Administration’s mission.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Human Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintaining a safe, well-trained, and sustainable workforce while facing challenges in retirement eligibilities, workforce retention, and diversity.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Secondary Market Oversight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providing effective and impartial oversight of the Federal Agricultural Mortgage Corporation through the Farm Credit Administration’s Office of Secondary Market Oversight.</td>
</tr>
</tbody>
</table>
CHALLENGE ONE: EXAMINATION AND SUPERVISION PROGRAM

A significant challenge for FCA lies in identifying and addressing risks in the Farm Credit System (FCS or System) through effective examination and supervision to ensure the System remains safe and sound.

Although the System remains financially sound, it continues to be impacted by changing risk conditions. This year, the COVID-19 pandemic has had a swift and substantial impact on the global economy. Disruptions to employees, markets, transportation, and other factors have yielded significant volatility and uncertainty, creating new and increased risks in the System. In addition to the pandemic, this year has brought significant natural disasters, which increase stress to borrowers in affected areas. These unprecedented challenges require FCS institutions to be increasingly proactive and responsive to risks in the System. Working with borrowers and adapting to increasing risks, while maintaining financial capacity, will further increase the complexity of the System.

FCA’s examination and supervision program will face new challenges to align with evolving threats, risks, and conditions. As a result of the COVID-19 pandemic, FCA directed most of its workforce to telework, suspended onsite examinations, and restricted business travel and in-person training. Within this new environment, FCA will need to continue its risk-based approach to oversight of the System. The Agency will require more sophisticated risk evaluation techniques to align with emerging risk factors and identify and deter consequences with the greatest potential impact. Effective oversight will require using new technologies and developing new skill sets within the Agency to adapt to challenges, such as the challenges the System faces with the London Interbank Offered Rate (LIBOR) phase out. The control environment must also adapt to address increasing expectations associated with internal controls.

More serious or persistent weaknesses require additional oversight activities. FCA must respond and intervene, when necessary, to protect the System. Effective examination and supervision require prompt identification of unacceptable risks. Both internal and external factors can cause significant changes in condition in a short period of time. Corrective actions and follow-up are critical to preventing the escalation of issues that impact safety and soundness. The Agency must be agile to monitor and prevent such conditions to protect the System.

Agency Progress

FCA continuously works to address the challenges of its examination and supervision roles and responsibilities. The Office of Examination (OE) has issued Informational Memoranda (IM) with guidance for institutions.

The Agency issued an IM titled, Guidance for System Institutions Affected by the COVID-19 Pandemic (May 4, 2020), which addressed working with borrowers; meeting capital and liquidity requirements; complying with financial reporting requirements; and managing operational and other issues. The guidance also included supplements addressing troubled debt restructurings; 2020 annual meeting and election activities; flood insurance requirements; consumer financial protection; regulatory capital requirements for Paycheck Protection Program (PPP) loans and PPP loans pledged to the PPP Liquidity Facility; and electronic delivery of borrower rights notices. OE issued an IM on the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) requirements that may impact institutions, CARES Act Requirements and COVID-19 Related Compliance Guidance from the Consumer Financial Protection Bureau (May 14, 2020). The Office of Regulatory Policy issued an IM, Guidance on the Paycheck Protection Program for Small Businesses Affected by the COVID-19 Pandemic (July 14, 2020) with guidance on the PPP, which authorized forgivable loans to small businesses to support payroll and certain other needs during the COVID-19 pandemic.
On January 9, 2020, the Agency issued a Bookletter, *Interest Rate Risk Management*, to provide clarification and guidance to System institutions on an effective interest rate risk management framework.

Each year, OE identifies National Oversight Plan risk topics that are emphasized in ongoing examinations and oversight activities. OE identified three risk topics for fiscal year 2020: risk identification in stressed industries and institutions’ lending controls; board governance over internal controls, with a focus on the internal audit program; and cybersecurity and emerging information technology-related threats.

**Relevant OIG Work**

FCA’s OIG completed an audit on FCA’s criminal referral process. The objective of the audit was to determine whether FCA’s criminal referral and follow-up process is effective and efficient. FCA established regulations on criminal referral requirements and had processes in place to enable examination staff to access criminal referral information. However, we identified opportunities to improve the overall effectiveness and efficiency of collecting, storing, and analyzing criminal referrals. We made seven recommendations to the Agency to improve the criminal referral process. In response to our recommendations the Agency agreed to:

- Update policies and procedures;
- Complete a Privacy Impact Assessment and update the System of Records Notice for criminal referrals;
- Review and update processes for criminal referral reviews;
- Minimize the storage and visibility of Personally Identifiable Information in criminal referrals;
- Determine whether additional resources are needed to educate the System on criminal referral activities and trends;
- Add potential loss and insider information fields to the criminal referral listing; and
- Evaluate and identify ways to enhance the capture of criminal referral data and the presentation of related statistics.

The OIG also plans to address other challenges faced by the examination and supervision program, including a review of the Agency’s examination staff scheduling and rotation, OE recruiting, and the similar entity lending oversight process.

**CHALLENGE TWO: INFORMATION TECHNOLOGY**

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

Cybersecurity threats and vulnerabilities present significant challenges across the federal government. These challenges require an IT security program that is responsive, agile, and forward-looking. The prevalence of cybersecurity threats and risks have been highlighted by security incidents and data breaches across the public and private sectors. Because FCA relies on various IT systems, security challenges can directly impact the Agency’s ability to achieve its mission. As such, FCA must continuously identify and respond to complex IT risks to effectively manage this challenge area.

Given the current COVID-19 pandemic and national emergency, FCA has its staff working remotely full-time. While the FCA staff is telework-ready and has responded to the challenge of transition, additional resources are required from the IT staff to support the telework environment. Further, working remotely exposes potential vulnerabilities that may go beyond the Agency’s control. The new working environment adds a new layer to the Agency’s IT services given the resources and support needed for a secure environment while...
keeping the health and safety of FCA staff the upmost priority.

It is imperative that FCA has the necessary tools and staff to operate efficiently and effectively. At the same time, the Agency must be prudent and responsible with its spending. To stay current and address the Agency’s IT requirements, FCA needs well-trained personnel that can successfully maintain IT systems and integrate new tools to improve operations. This challenge becomes increasingly difficult as new IT requirements are developed and implemented across federal systems.

**Agency Progress**

FCA continues to invest in various IT tools to increase efficiency and effectiveness. In addition, FCA’s information security program continues to mature as it continuously identifies areas to strengthen and improve security. FCA has also updated several important policies and procedures to document new processes and overall responsibilities. Updates include the IT Security and Privacy Policy, the Information Security Continuous Monitoring Strategy, and multiple office directives on items such as privacy and security. OIT also continues to work on developing the privacy program.

Over the last few years, the Office of Information Technology (OIT) has also supplemented its staff. FCA hired a privacy officer to address privacy requirements, including compliance with the Privacy Act. Several other positions within OIT have been filled, including a new Enterprise Data Management Team Lead, Information Security Specialists, and other IT Specialists.

**Relevant OIG Work**

The OIG performs an annual evaluation of FCA’s compliance with the Federal Information Security Modernization Act of 2014. Looking ahead, the OIG will continue to focus on OIT operations and implementation of IT systems.

**CHALLENGE THREE: DATA QUALITY AND ANALYSIS**

A significant management challenge for FCA exists in the collection and use of data.

Obtaining timely, consistent, and quality data is vital to FCA’s mission of ensuring that the System remains a dependable source of credit for agriculture and rural America. Such data allows FCA to better monitor the System’s condition and identify current and emerging risks, including the impacts of the COVID-19 pandemic. In doing so, FCA enhances the development of a risk-based examination agenda and the promulgation of evidence-based regulations, policies, and guidance.

Collecting useful data from the System is no simple task, as varying practices and technical capabilities among its 70-plus institutions can result in inconsistencies that inhibit robust data analysis. In imposing reporting requirements, the Agency must consider the resulting burdens to System institutions while ensuring that data is collected and maintained in a mannercomplying with legal requirements and that sensitive information is safeguarded against unauthorized access or use. By identifying the gaps and critical data necessary to efficiently and effectively perform its mission, the Agency can better ensure the safety and soundness of the System.

**Agency Progress**

The Agency’s Strategic Plan recognizes and underscores the importance of effective data analysis to oversight
FCA Performance and Accountability Report — 2020

In November 2019, in recognition of the importance of data analytics and with a view to the requirements of the Foundations for Evidence-Based Policymaking Act of 2018 (Evidence Act), the FCA Board established a new Office of Data Analytics and Economics (ODAE) to be headed by the Agency’s Chief Data Officer. The ODAE will, among other things, serve as a steward for Agency data and provide information to support objective, evidence-based decisionmaking Agency-wide.

In further implementation of the Evidence Act, FCA created the Data Advisory Group as a forum for addressing data management standards, priorities, policies, and practices. Headed by the Chief Data Officer and composed of various Agency leaders, the Data Advisory Group is tasked with leading implementation of Agency-wide processes and standards, and with addressing common issues affecting FCA data programs and resources. The Agency has also formed a Data Users’ Group to focus on the technical implementation and management of core Agency datasets.

In the interest of improving its data analytics, FCA has made investments in related IT and continues to develop and implement analytical and examination tools that will enhance its ability to perform systematic risk and data analysis. FCA also continues to work with the System to prioritize the most critical data fields for the overall improvement of data quality and consistency.

### Relevant OIG Work

Recent OIG reviews relevant to this subject include a 2019 audit on the Agency’s implementation of stress testing guidance and use of data and analytical and examination tools; a 2016 audit on FCA’s oversight of young, beginning, and small farmer and rancher programs; and a 2016 audit on FCA’s risk project. Going forward, the OIG will continue monitoring the Agency’s progress in obtaining and analyzing data.

### CHALLENGE FOUR: HUMAN CAPITAL

A significant management challenge for FCA is maintaining a safe, well-trained, sustainable workforce while facing challenges in retirement eligibilities, succession planning and training, and diversity.

Employees are FCA’s most valuable asset and the safety and well-being of FCA’s workforce is brought to the forefront during the COVID-19 pandemic. The Agency’s success depends greatly on its ability to recruit, retain, and develop a capable workforce, and keep its workforce safe during challenging times such as the current pandemic. Because FCA is a relatively small agency with nationwide responsibilities, changes in the workforce—such as the retirement of management and senior employees—must be accounted and planned for to avoid undue disruption to Agency functions.

The need for succession and human capital planning was highlighted in the past year by the retirement of multiple senior Agency leaders. Planning ensures that institutional knowledge and experience are passed on, and the Agency is less dependent on specific individuals.

Workforce training and developing takes a significant investment of resources, but the use of several tools can ensure that FCA maintains a vital, experienced staff. For example, data analytics can help the Agency identify training gaps. Job sharing, rotational details, and micro-assignment opportunities can be used to promote career development. Mentoring programs can prepare employees for management positions.

Diversity is another important aspect of human capital. A diverse staff brings different perspectives to problem-solving, enriching the Agency’s ability to regulate and supervise the System. The Agency must continually assess
and deploy strategies to reach its goals for diversity and inclusion. It can do this by using various tools that identify and reduce potential barriers to diversity and inclusion, enhance outreach, evaluate the Agency's recruitment data, and heighten awareness through programs that support diversity and inclusion.

**Agency Progress**

FCA mandated telework for most of its workforce on March 16, 2020, and quickly pivoted to accomplishing its mission through the use of technology and telework protocols. FCA’s Emergency Response Team, composed of the FCA Board and senior managers, meets regularly and continually monitors COVID-19 case trends, local school status, and government status at the Federal, state and local levels for its McLean, Virginia headquarters and four field offices in various parts of the United States. The Agency implemented several programs to promote employee safety and wellness during the pandemic, including a weather and safety leave program and an annual leave payout and restoration program. The Office of Agency Services created pulse surveys to gauge employee feedback on a variety of issues, including the Agency’s response to the COVID-19 pandemic.

FCA developed a strategic framework to safely return its employees to the workplace, including continuing maximum telework flexibility for employees who are members, or are caring for dependents who are members, of a high-risk population, or who have childcare or transportation needs; conducting contactless temperature checks at all office locations; ensuring that employees wear a face covering and practice social distancing while in the office; and continuing building cleaning services and ensuring there are sufficient supplies (including hand soap and sanitizer) to support reopening FCA offices.

The Agency’s Strategic Plan evidences a commitment to maintaining a diverse and capable workforce. Strategic objectives address maintaining a skilled, motivated workforce; ensuring adequate succession planning and knowledge transfer; and encouraging an engaged, diverse, and ethical workforce. FCA measures its success towards human capital goals based on employee outreach efforts and the results of the annual employee satisfaction surveys. The Agency also provides benefits and employee programs to attract and maintain a talented diverse workforce, including a Student Loan Repayment Program. FCA’s learning office also provides numerous online and in-person training resources to support technical skills, work/life balance, and managerial competencies.

**Relevant OIG Work**

The OIG has performed several reviews that have touched upon the subject of human capital in recent years, including an inspection of FCA’s implementation efforts for its 2017-2018 Fairness and Inclusiveness Assessment and an audit concerning the effectiveness of FCA’s process of obtaining background investigations for contractor personnel. Other reviews include a benchmarking evaluation comparing the structure and organization of FCA’s Office of Examination with comparable offices of other financial regulatory agencies, an inspection of FCA’s travel compensation program, and an audit of the Agency’s human capital planning. OIG plans to conduct an evaluation of the effectiveness of Agency programs in response to the COVID-19 pandemic.

**CHALLENGE FIVE: SECONDARY MARKET OVERSIGHT**

A significant management challenge for FCA is to ensure that it effectively and impartially regulates the Federal Agricultural Mortgage Corporation (Farmer Mac) through the Office of Secondary Market Oversight (OSMO).

Farmer Mac is a stockholder-owned, federally-chartered corporation. Farmer Mac was established by the federal government in 1988 to provide a secondary market for credit by increasing access to, and reducing
the cost of capital to American agriculture and rural communities. Although Farmer Mac is part of the FCS, its secondary market mission is unique among FCS institutions. Farmer Mac’s customer base includes commercial and community banks, insurance companies, non-bank lenders, agricultural funds, rural utilities, and other FCS institutions.

OSMO examines, regulates, and supervises the activities of Farmer Mac to ensure its safety and soundness and the accomplishment of its public policy purpose as authorized by Congress. OSMO also ensures that Farmer Mac complies with applicable laws and regulations, and it manages FCA’s enforcement activities with respect to Farmer Mac. Under the Farm Credit Act of 1971, as amended (Act), the OSMO Director reports directly to the FCA Board rather than the Chief Operating Officer. The Act also provides that the supervision of the powers, functions, and duties of Farmer Mac is performed, to the extent practicable, by personnel who are not responsible for the supervision of the banks and associations of the FCS. To fulfill its duties, OSMO uses examiners who also examine FCS banks and associations. Therefore, OSMO is challenged to ensure that it fulfills the oversight role free of conflicts of interest or undue influence from those also responsible for the supervision and regulation of the FCS banks and associations.

OSMO conducts the oversight and examination activities with a relatively small staff (4 employees with additional rotational staff), while balancing resources sourced from FCA’s OE, which is responsible for supervision of FCS banks and associations. OSMO staff must have the necessary knowledge, skills, and training to understand the unique and complex mission, secondary market activities, and business model and capitalization of Farmer Mac. Further, because Farmer Mac is a publicly-traded company, OSMO staff must understand the market forces and reputational risks that can potentially affect Farmer Mac’s safety and soundness. Other changing areas, such as the LIBOR phase out, will continue to increase the complexity of Farmer Mac. Advancements in data gathering, technology, and analytics that aid OSMO with risk measurement, management, and assessment, coupled with appropriate specialized training, can enhance FCA’s ability to oversee Farmer Mac as it grows in scale and complexity. This will be particularly important in an environment that may present more challenges to farmers, ranchers, rural communities and their lenders. As the complexity of Farmer Mac increases, OSMO will need to ensure it maintains appropriate readiness to evaluate safety and soundness. To achieve its mission, OSMO may require increased resources and technical skills, which will present additional challenges for the Agency.

Farmer Mac has experienced many changes in its organizational structure, which includes new members of its executive management team that result in disruptions in Farmer Mac operations. OSMO’s oversight role is made more difficult in ensuring the continued safety and soundness of Farmer Mac in the face of its large board representing diverse interests and the changes to its executive management.

In addition, the COVID-19 global pandemic provides an additional challenge to OSMO and Farmer Mac leadership given the needs of employees, safety concerns, and forward-looking business models. The pandemic presents an ever-changing environment that requires flexibility and agility in business. For OSMO, the COVID-19 pandemic increases the need for highly qualified examiners and analysts to maintain vigilant oversight during these unprecedented and volatile times.

**Agency Progress**

OSMO provides guidance and implements regulatory and other changes related to Farmer Mac. These changes are made in addition to OSMO’s supervision and safety and soundness reviews of Farmer Mac. All FCA employees, including OSMO staff, were able to quickly transition to full-time telework status in March 2020 in response to the COVID-19 pandemic.
In anticipation of resource needs during the 2021 and 2022 examination cycle, OSMO added rotational staff. OSMO reports that its consulting arrangements can also provide highly qualified resources needed during the pandemic.

The FCA Board adopted Policy Statement 35 in January 2020, which provides the general strategy and direction of OSMO for the examination, regulation, and supervision of Farmer Mac. Policy Statement 35 also established OSMO reporting requirements to the FCA Board, including an annual oversight and examination plan and any proposed or amended regulations. OSMO also issued an IM outlining the 2020 examination focus areas as: capital, asset quality, management, earnings, liquidity, and sensitivity to interest rate risk.

As a result of the COVID-19 pandemic and national emergency, OSMO created and issued guidance documents to Farmer Mac. On March 24, 2020, OSMO issued a memorandum that encouraged Farmer Mac to prudently work with its lending and servicing partners to provide flexibility and assistance to borrowers experiencing financial challenges due to COVID-19. OSMO also developed an IM that specifically addressed Farmer Mac’s position as a secondary market provider working with servicing partners to administer its Farm and Ranch portfolio.

In addition, OSMO enhanced its oversight of Farmer Mac through additional reporting requirements to ensure potential risks were monitored and identified. Since the COVID-19 outbreak was declared a national emergency, OSMO established daily reporting requirements for funding, liquidity, and investments and developed the weekly funding and market reports. Weekly reporting requirements of loan servicing actions related to COVID-19 were also established.

**Relevant OIG Work**

In 2018, the OIG completed an audit to assess staffing arrangements and the reporting process for OSMO. Our review included recommendations to improve OSMO’s processes and increase transparency. The OIG plans to review other aspects of OSMO in future years.
Management’s Response to Challenges Identified by FCA’s Inspector General

November 9, 2020

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

Dear Ms. Laguarda:

We concur with your assessment of the management challenges described in your Oct. 9 letter. We value your recommendations in addressing these challenges and appreciate your summary of our continuing progress.

As you noted in your letter, the COVID-19 pandemic added complexities to these challenges, but we continue to operate effectively and efficiently, and the Farm Credit System remains financially sound. We are focused on our continuity of operations during this ongoing health crisis to accomplish our agency mission while ensuring the safety of all employees.

During FY 2020, we held regular risk committee meetings to assess, coordinate, and lead the agency’s risk management efforts. Following the declaration of COVID-19 as a pandemic on March 11, 2020, our emergency response team has met more than a dozen times to review public health data and extend mandatory telework accordingly.

Throughout this fiscal year, we continued to enhance the quality of our data and data systems through our new Office of Data Analytics and Economics, which was created in November 2019. During the pandemic, this office has analyzed data regarding the impacts of COVID-19 on the farm economy and Farm Credit System. It has also provided our senior leadership team with the latest COVID-19 data at the national and regional levels.

The health and safety of our employees will continue to be our top priority, along with our mission to protect the safety and soundness of the Farm Credit System. Thank you for providing this analysis. We look forward to working with you in the year ahead.

Sincerely,

Glen R. Smith
Board Chairman and CEO
Summary of Financial Statement Audit and Management Assurances

FCA has no reported material weakness, and we are in conformance with the Federal Managers’ Financial Integrity Act (FMFIA).

Table 8. Summary of financial statement audit
Audit opinion: Unmodified
Restatement: No

<table>
<thead>
<tr>
<th>Material weaknesses</th>
<th>Beginning balance</th>
<th>New</th>
<th>Resolved</th>
<th>Consolidated</th>
<th>Ending balance</th>
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<tr>
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Table 9. Summary of management assurances

Effectiveness of internal control over financial reporting (FMFIA § 2)
Statement of assurance: Unmodified

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Effectiveness of internal control over operations (FMFIA § 2)
Statement of assurance: Unmodified

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Conformance with federal financial management system requirements (FMFIA § 4)
Statement of assurance: Federal systems conform

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<td>Total nonconformance</td>
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Compliance with Federal Financial Management Improvement Act (FFMIA § 803[a])
We are not required to report under this act.
Payment Integrity Information Act Reporting

Background

The Payment Integrity Information Act of 2019 repealed the following legislation while retaining and consolidating certain reporting requirements:

- Improper Payments Information Act of 2002
- Improper Payments Elimination and Recovery Act of 2010
- Improper Payments Elimination and Recovery Improvement Act of 2012
- Fraud Reduction and Data Analytics Act of 2015

The new Payment Integrity Information Act continues to require agencies to report annual improper payment estimates for OMB-designated high-priority programs and programs that are susceptible to significant improper payments. A program is high priority if it has $2 billion in estimated improper payments. A program is deemed susceptible to significant improper payments if its improper payments amount to more than $10 million and more than 1.5% of all payments made under that program, or if the program has more than $100 million in estimated improper payments.

Detailed information on improper payments for the U.S. government is available online at www.paymantaccuracy.gov. FCA data are not included on this website because we do not have any programs that were designated by OMB as high priority, and our risk assessments did not identify any programs or activities that were susceptible to significant improper payments. Thus, we are not required to perform any statistically valid estimates of improper payments or report on root cause identification, corrective actions, or reduction targets.

Risk assessments

In accordance with legislative requirements and OMB guidance, we conduct risk assessments at least once every three years to identify programs that may have a significant risk of improper payments. We perform our assessments on contract payments, purchase cards, travel cards, claims and vouchers, and payroll. Based on our last risk assessment for the period ended Sept. 30, 2017, we determined that our programs and activities are low risk and are not susceptible to significant improper payments. We will complete the next assessment during the first quarter of FY 2021 for the period ended Sept. 30, 2020.

Actions to recover improper payments

The Payment Integrity Information Act requires agencies to conduct payment recovery audits for each program and activity that expends $1 million or more annually if conducting the audits would be cost-effective.

We have determined that a recovery audit is not cost-effective for our agency because of the low risk for our programs. The benefits of any recovered amounts would not exceed the cost of a recovery audit program. As required by OMB A-123, Appendix C, we have notified both OMB and our inspector general of our determination that a recovery audit is not cost-effective for FCA. OMB concurred with our assessment.
The Department of the Treasury’s Bureau of the Fiscal Service, our service provider, has internal control procedures to ensure that payments are made properly. One such procedure is the post-payment audit in which the Bureau of the Fiscal Service reviews a random sample of 10% of invoices processed each month. In addition, the invoice approvers at our agency review payments before they are processed to ensure payments are appropriate. We also work closely with the Bureau of the Fiscal Service so that payroll and charge card payments are reviewed and monitored to ensure payments are complete, accurate, and timely. Additionally, we perform routine operational reviews and oversight to help identify improper payments.

For FY 2020, we identified improper payments amounting to $5,153, or 0.01% of total outlays for the year. The improper payments were a combination of travel and vendor overpayments. We have collected all overpayments.

**Actions taken to address auditor recovery recommendations**

On May 15, 2020, our inspector general published her annual report on whether FCA complied with reporting requirements for improper payments. The report concluded that we were in compliance and there were no recommendations.

**Do Not Pay initiative**

The U.S. Department of the Treasury’s Do Not Pay system is the legislatively mandated and OMB-designated source of centralized data and analytic services to help agencies verify eligibility and identify and prevent potential fraud, waste, and abuse associated with improper payments. We work closely with the Bureau of the Fiscal Service to ensure that all payments are proper and paid to valid vendors. The Bureau of the Fiscal Service continually monitors the vendor file in the financial system and cross-checks it against the various Do Not Pay databases. This process serves both the prepayment and the pre-award review requirement to ensure that only eligible recipients are paid. To date, we have not had any vendors with a match to the Do Not Pay databases.

**Fraud reduction report**

The Payment Integrity Information Act of 2019 requires agencies to use a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risk and improper payments. We maintain effective processes and internal control systems to detect and prevent potential fraud. Whether an act is in fact fraud is a determination made through the judicial or other adjudicative system and is beyond management’s professional responsibility for assessing the likelihood and impact of fraud risk.

In accordance with guidance from OMB Circular A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*, and the fraud risk principle in the Standards for Internal Control in the federal government published by the Government Accountability Office (GAO), we have implemented preventative and detective controls to identify and mitigate the risks of potential fraud and improper payments in the following areas:

- Employee payments (including payroll)
- Contract/vendor payments, purchase cards
- Travel charge cards

• Travel expense reimbursement
• Claims/vouchers
• Access, use, or release of sensitive agency data

We evaluate the design and operating effectiveness of our internal controls in accordance with our annual Management Control Plan. Additionally, we conduct a biennial assessment of our system of internal controls in accordance with the principles described in GAO’s Standards for Internal Control in the Federal Government.

Through our internal assessments, we monitor and evaluate financial and administrative controls to ensure that our offices are preventing, detecting, and responding to potential fraud. We assess whether appropriate segregations of duties are established to mitigate potential fraud. We also assess whether appropriate reconciliations and internal reviews are conducted to identify potential fraud and/or improper payments.

No instances of fraud in our programs have surfaced through management's internal identification and reporting mechanisms or from internal and external auditors.
Civil Monetary Penalty Adjustment for Inflation

Under the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, agencies must make annual inflation adjustments to civil monetary penalties and report on these adjustments. Table 10 below shows the adjustments FCA has made this year.

<table>
<thead>
<tr>
<th>Statutory authority</th>
<th>Reason for penalty</th>
<th>Year enacted</th>
<th>Latest year of adjustment (via statute or regulation)</th>
<th>Current penalty (dollar amount)</th>
<th>Location for penalty update details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 5.32(a) of the Farm Credit Act of 1971, as amended</td>
<td>Violation of a final order</td>
<td>1985</td>
<td>2020</td>
<td>$2,404</td>
<td>85 FR 6023</td>
</tr>
<tr>
<td>Section 5.32(a) of the Farm Credit Act of 1971, as amended</td>
<td>Violation of the act or regulation</td>
<td>1985</td>
<td>2020</td>
<td>$1,071</td>
<td>85 FR 6023</td>
</tr>
<tr>
<td>Section 102(f) of the Flood Disaster Protection Act of 1973</td>
<td>Pattern or practice of committing violations of the National Flood Insurance Program</td>
<td>1994</td>
<td>2020</td>
<td>$2,226</td>
<td>85 FR 6023</td>
</tr>
</tbody>
</table>
Additional Information

Copies of this report are available on the Farm Credit Administration’s website at www.fca.gov/about/reports-publications.

To request print copies of this report or earlier editions, please contact the Office of Congressional and Public Affairs at the email address or mailing address provided below. You may also call 703-883-4056 to request a copy.

We would like to hear from you! What did you think of our FY 2020 Performance and Accountability Report? Did we present information in a way you could use? How can we improve our report in the future? Any feedback you have time to provide would be most appreciated. Please email your comments to info-line@fca.gov.

Or send written comments to the following address:
Office of Congressional and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Thank you!

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.