Office of Inspector General

Audit of FCA’s Financial Statements
Fiscal Year 2009

November 2009
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For the financial statements and related notes to each fiscal year's financial audit report, refer to FCA’s Performance and Accountability Report (PAR) for that year. The PARs can be found at www.fca.gov/reports/performance_reports.html.
November 4, 2009

The Honorable Leland A. Strom
Chairman of the Board
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Chairman Strom:

This letter transmits the report on the audit of the Farm Credit Administration’s (FCA or Agency) financial statements, internal control over financial reporting, and compliance with certain laws and regulations for the fiscal year (FY) ended September 30, 2009. The Office of Inspector General (OIG) contracted with the U.S. Department of Treasury’s Bureau of the Public Debt (BPD) for Brown & Company CPAs, PLLC (Brown & Co.), an independent accounting firm, to perform the audit.

Brown & Co. issued an unqualified opinion on the Agency’s financial statements. They opined that FCA’s principal financial statements present fairly, in all material respects, the financial position of the Agency as of the FYs ended September 30, 2009 and 2008, in conformity with generally accepted accounting principles. Brown & Co. issued two other reports. Its report on internal control noted no matters considered to be material weaknesses. Brown & Co.’s report on compliance with laws and regulations relating to the Agency’s determination of financial statement amounts cited no instances of noncompliance. In the OIG’s opinion, Brown & Co.’s work provides a reasonable basis on which to render its opinion and we concur with their reports.

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

- reviewed Brown & Co.’s approach to and planning of the audit;
- evaluated the qualifications and independence of the auditors;
- monitored the progress of the audit;
- examined work papers; and
- reviewed the audit reports.
Management and Performance Challenges

As part of the Agency’s annual Performance and Accountability Report, the Inspector General is required by law to provide a summary statement on the most serious management and performance challenges facing the Agency. These challenges fall into two general categories. First are the challenges related to the FCA’s mandate of ensuring a safe, sound, and dependable Farm Credit System (FCS or System) as a source of credit and related services to agriculture and rural America. Some of these challenges may be influenced by events that are outside the control of the Agency. Second, but no less important, are the challenges related to Agency operations.

Farm Credit System

Safety and Soundness

The System is a lender to a single industry, agriculture, and is therefore vulnerable to the economic volatility and risks in that industry. While the FCS remains generally safe and sound, recent adversity in several major commodity groups has caused deterioration in a number of FCS institutions. The Agency’s challenge is to continue to ensure the System’s ability to withstand such vulnerabilities in the long-term, and remain safe and sound.

Mission

Further, the environment facing agriculture, rural America, and the institutions of the FCS is ever-changing, presenting new opportunities and altering historical perspectives on System operations. FCA’s challenge is to continue to maintain an independent and objective, yet flexible and responsive, regulatory environment for the System, geared to continually ensuring the FCS fulfills its public policy purpose.

Farm Credit Administration

Agricultural Economic Downturn

There are many factors in agriculture today that have caused deterioration in a number of FCS institutions and may cause increased stress for FCS institutions. For example,

- the System has experienced rapid growth for several years, which has had the effect of eroding the System’s capital to assets ratio;
- large shared assets among many System institutions are experiencing serious difficulty;
- several major commodity groups are experiencing extreme stress;
- asset quality at many associations and several Farm Credit banks has deteriorated; and
- land values, which may not be sustainable, are high.

Thus, a challenge for the Agency is to ensure its ongoing ability to timely assess economic and operational conditions affecting the welfare of System institutions, and to take preemptive or remedial actions to ensure the ongoing safety and soundness of the System. The first line of preparedness for the Agency in accomplishing this is an effective examination and risk assessment program.
Aligned with this is the **challenge** for the Agency to effectively and timely utilize its enforcement authorities. When significant deterioration in a System institution(s) is first evident, the Agency should expeditiously consider implementing appropriate rehabilitative enforcement measures.

**Agency Governance**

In early FY 2010, the FCA Board will likely receive two new members, filling out the FCA Board’s statutory three-person complement. Two new members at virtually the same time imposes on the Chairman and Agency staff the need to ensure an environment in which new members may quickly learn their duties and responsibilities, and the mission and functioning of the Agency and the System. In recognizing this need, the Agency has taken initial steps toward an orientation and training program. However, the **challenge** for the Agency is to formalize and institutionalize an effective orientation and ongoing training program for FCA Board members. This should enable FCA Board members to readily become knowledgeable about Agency and System operations and issues, and be able to properly focus Agency resources through, for example, the strategic planning mechanism.

**Strategic Planning**

Since the adoption of the FYs 2008-2013 strategic plan in May 2008, the FCA Board has a new Chairman. This change in leadership and the probability of two new FCA Board Members in FY 2010 will provide an opportunity and a **challenge** to ensure the new FCA Board’s vision is timely incorporated into the next strategic plan.

In 2005, the FCA Board established a Strategic Planning Committee (SPC) composed of Agency staff to facilitate FCA Board input into the plan and the planning process. The SPC should ensure the updating and issuance by the FCA Board of the next 6-year strategic plan in FY 2011 covering FYs 2011-2016.

**Human Capital**

In 2006, a 5-year strategic human capital plan was completed spanning FYs 2007-2011. The Agency has adopted a strategy of annually updating the plan, resulting in a moving 5-year plan. The plan is comprehensive and, because of the ongoing updating, reflective of current human capital issues facing the Agency. For example, in addressing the attrition of seasoned staff, the Agency has been actively recruiting and hiring at both the entry- and midcareer-levels, particularly as it pertains to ensuring the ongoing capability of examination staff. FCA’s **challenge** is to continue to emphasize, implement, and update the human capital plan to ensure FCA has the staff it needs to effectively regulate a constantly evolving FCS, as managing human capital is an ever-present and evolving necessity. This is particularly important as it applies to the training and commissioning program for newly hired entry- and midcareer-level examination staff.

**Leveraging Technology**

The Agency’s ability to leverage investments in new technologies is a key element in management’s efforts to continually improve Agency performance by increasing the efficiency and effectiveness of operations. The Agency has an active information resource management planning process that identifies, reviews, and prioritizes new information technology (IT) initiatives that will improve Agency operations. Over the past couple of years, the Agency made
significant investments in new technologies and began implementing several tools that improve communication, collaboration, and efficiency of operations. FCA’s **challenge** is to take full advantage of the new capabilities the IT infrastructure provides. The successful implementation of new technologies will provide FCA staff with the IT tools and skills that will enable the Agency to:

- improve the quality and availability of data without creating an undue burden on the FCS;
- streamline business processes and enhance communication and collaboration to improve the effectiveness of how FCA interacts with the FCS, the public, and business partners;
- build business intelligence that will provide decision makers with timely management information;
- develop an electronic recordkeeping and knowledge management capability that effectively manages electronic data, documents, and reports; and
- protect FCA information systems and data from increasing external and internal threats.

Respectfully,

[Signature]
Carl A. Clinefelter
Inspector General
Farm Credit Administration
The Board and Office of Inspector General

We have audited the accompanying balance sheet of the Farm Credit Administration (FCA) as of September 30, 2009 and 2008, and the related statements of net cost, changes in net position, and budgetary resources, for the years then ended (collectively referred to as the financial statements). These financial statements are the responsibility of FCA’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FCA as of September 30, 2009 and 2008 and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with U.S. Government Auditing Standards and OMB Bulletin No. 07-04, we have also issued a report dated November 4, 2009 on our consideration of the FCA internal control over financial reporting and its compliance with provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The FCA’s Management’s Discussion & Analysis contains a wide range of information, some of which is not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with FCA officials. Based on this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance.

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

Largo, Maryland
November 4, 2009
INDEPENDENT AUDITOR’S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Farm Credit Administration
The Board and Office of Inspector General

We have audited the financial statements of the Farm Credit Administration (FCA) as of and for the year ended September 30, 2009 and have issued our report thereon dated November 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements.

In planning and performing our audit, we considered the FCA’s internal control over financial reporting by obtaining an understanding of the FCA’s internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04. The objective of our audit was not to provide an opinion on internal control and therefore, we do not express an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, a significant deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be significant deficiencies or material weaknesses as defined above.

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

Largo, Maryland
November 4, 2009
INDEPENDENT AUDITOR’S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS

Farm Credit Administration
The Board and Office of Inspector General

We have audited the financial statements of the Farm Credit Administration (FCA) as of and for the year ended September 30, 2009, and have issued our report thereon dated November 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements.

The management of the FCA is responsible for complying with laws and regulations applicable to the FCA. As part of obtaining reasonable assurance about whether the FCA’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the FCA.

The results of our tests of compliance disclosed no reportable instances of noncompliance with other laws and regulations discussed in the preceding paragraph that are required to be reported under U.S. Government Auditing Standards or OMB Bulletin No. 07-04.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion. However, we noted no noncompliance with laws and regulations, which could have a direct and material effect on the determination of financial statement amounts.

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

Largo, Maryland
November 4, 2009
FARM CREDIT ADMINISTRATION
OFFICE OF INSPECTOR GENERAL

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