

Office of Inspector General

Audit of FCA's Financial Statements Fiscal Year 2010



November 2010

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



November 8, 2010

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

Dear Chairman Strom and Board Members Spearman and Long Thompson:

This letter transmits the reports on the audit of the Farm Credit Administration's (FCA's or Agency's) financial statements, internal control over financial reporting, and compliance with certain laws and regulations for the fiscal year (FY) ended September 30, 2010. 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. It opined that FCA's principal financial statements present fairly, in all material respects, the financial position of the Agency as of the fiscal years ended September 30, 2010 and 2009, 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 its reports. All three reports from Brown & Co. are dated November 8, 2010.

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." 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 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, although very recently this deterioration seems to have stabilized. The Agency's **challenge** is to continue to ensure the System's ability to withstand such vulnerabilities in the long term and to 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 that the FCS fulfills its public policy purpose.

Farm Credit Administration

Agricultural Economic Downturn

Several factors have caused deterioration in a number of FCS institutions in recent years. This deterioration and the effect these factors have on the ongoing condition of the FCS continue to warrant the careful attention of FCA. Some of these factors are

- inadequate oversight and management by institution boards and management teams, respectively;
- price volatility in several major commodity groups, such as feed grains;
- volatility in livestock operations as a result of swings in feed prices;
- continued risk concentrations in large shared assets among many FCS institutions; and
- escalated land values that may not be sustainable.

Thus, a **challenge** for the Agency is to continue to assess in a timely manner economic and operational conditions affecting the welfare of System institutions, and to take prompt preemptive or remedial actions to ensure their ongoing safety and soundness.

Strategic Planning

In accordance with the Government Performance and Results Act, the FCA Board issued in May 2008 a revised six-year strategic plan for FYs 2008–2013. Since that issuance, the FCA Board has acquired a new Chairman and two new FCA Board Members. The Agency's Strategic Planning Committee is currently working with the FCA Board and senior staff to ensure the issuance by the FCA Board of a revised six-year strategic plan covering FYs 2011–2016. The **challenge** for the Agency is to ensure that the current FCA Board's vision and leadership are incorporated into the revised strategic plan and that the plan is issued in a timely manner.

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 to improve Agency operations. Over the past few years, the Agency made significant investments in new technologies and began implementing several tools to 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 build business intelligence to provide decision makers with timely management information;
- develop electronic recordkeeping and knowledge management capability for capturing, maintaining, and sharing institutional knowledge; and
- protect FCA information systems and data from increasing external and internal threats.

Respectfully,



Carl A. Clinefelter
Inspector General



BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

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, 2010 and 2009, 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 audits 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, 2010 and 2009 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 reports dated November 8, 2010 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.

Brown & Company

Largo, Maryland
November 8, 2010

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CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

**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, 2010 and have issued our report thereon dated November 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 a material weakness or significant deficiency. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, a material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency in internal control, 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. 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 a material weakness 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.

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**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, 2010, and have issued our report thereon dated November 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 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.

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R E P O R T

Fraud | Waste | Abuse | Mismanagement



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