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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, 2011

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, 2011. The Office of Inspector General (OIG) contracted with the U.S. Department of the 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 FYs ended September 30, 2011 and 2010, 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 opinions and we concur with its reports. All three reports from Brown & Co. are dated November 7, 2011.

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 management and performance challenges facing the Agency. The challenges identified fall into two general categories. First is the challenge related to FCA’s mandate of ensuring a safe, sound, and dependable Farm Credit System (FCS or System) as a source of credit and related services to agriculture and rural America, even though some factors affecting this challenge may be influenced by events that are outside the control of the Agency. Second, but no less important, is the challenge related to the Agency remaining an independent, objective, and effective regulator of the FCS.

Farm Credit System

Safety and Soundness

The System is a lender to a single industry – agriculture – and is therefore vulnerable to 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 overall environment facing agriculture, rural America, and the FCS is ever-changing, presenting new opportunities and altering historical perspectives on System operations. FCA’s challenge in this environment is to continue to ensure the FCS fulfills its public policy purpose of providing constructive credit to farmers, ranchers, rural residents, agricultural and rural utility cooperatives, and other eligible borrowers.

Farm Credit Administration

System Oversight

Even though farm income on the whole remains strong, 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. As represented by FCA’s Office of Examination (OE), some of these factors are

- inadequate oversight and management by some institution boards and management teams, respectively;
- severe weather conditions ranging from extreme heat in the Midwest, to drought in Texas and other southern states, to flooding along the Mississippi and other rivers;
- stress in livestock and dairy operations as a result of high feed prices;
- stress in the poultry, forestry, and nursery sectors; and
- escalated land values that may not be sustainable.
Other factors that may affect agriculture and FCS institutions negatively are potential demand issues for agricultural products should the global economy continue to decline and should there be reductions in farm program payments.

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

**Staffing**

The Agency has a comprehensive 5-year Human Capital Plan covering FYs 2012-2016. Recent recruitment initiatives for all levels within the Agency have utilized broad search criteria, and focused on obtaining the best skill-sets and achieving diversity in FCA's workforce.

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

- projections indicate that one-third of the Agency workforce is eligible to retire during the next five years;
- the loss of employees during this period will challenge the Agency to retain historical knowledge and perspectives on the programs, practices, and mission of the FCS as well as that of the FCA; and
- the evolution of FCA, agriculture and rural America, the FCS, and the financial services industry means FCA will need to continue to attract and maintain an experienced and qualified professional staff to meet the anticipated growth and complexity of the FCS and its environment.

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

**Organization**

Although the Agency’s statutory mission has remained constant, other factors affect the Agency’s operations and organization. A major factor is the recurring turnover in the FCA Board’s composition and Chairmanship. Additionally, since the most recent substantive FCA reorganization some 6 years ago, the heads of several offices have changed, FCS’s banks and associations have continued merging, geographic territories of merged institutions have changed, FCS institutions’ products and the examination thereof have become more complex, and one conditionally approved merged bank will likely exceed $100 billion in total assets in the foreseeable future.
These and other factors bear on FCA’s organizational structure, particularly that of the OE, as it is the largest FCA unit and potentially most affected by changes in the FCS. For example, an OE organizational consideration could be the number and location of its examination field offices, in addition to its ongoing overall structure.

Given that change affecting the FCS and FCA is ongoing as described above, and that the most recent changes to FCA’s organization occurred several years ago, a challenge to the FCA Board and senior management is to periodically reassess FCA’s organizational structure to ensure it remains optimal in relation to all relevant factors.

**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. The Agency’s challenge is to maximize the use of new IT investments that will increase Agency efficiency and effectiveness. 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;
- improve communication with stakeholders; and
- protect FCA information systems and data from ever-increasing external and internal threats.

Respectfully,

Carl A. Clinefelter
Inspector General
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, 2011 and 2010 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; 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, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2011 and 2010 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, as amended, we have also issued our reports dated November 7, 2011 on our consideration of the FCA internal control over financial reporting and its compliance with certain 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.

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis (MD&A) be presented to supplement the basic financial statements. The MD&A, although not a part of the basic financial statements, is required by OMB Circular A-136, Financial Reporting Requirements, as revised. As such, it is considered to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.
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 7, 2011
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, 2011 and have issued our report thereon dated November 7, 2011. 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, as amended.

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, as amended. 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, as amended, 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.

Largo, Maryland
November 7, 2011
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, 2011 and have issued our report thereon dated November 7, 2011. 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*, as amended.

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, as amended. 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 with laws and regulations 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, as amended.

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 7, 2011