April 14, 2008

The Honorable Nancy C. Pellett
Chairman of the Board
Farm Credit Administration
McLean, Virginia  22102

Dear Chairman Pellett:

Enclosed is the semiannual report on the activities of the Farm Credit Administration’s (FCA or Agency) Office of Inspector General (OIG) for the period October 1, 2007 through March 31, 2008. This is the thirty-eighth report since the establishment of the OIG on January 22, 1989.

I am submitting this report in accordance with the Inspector General Act of 1978, as amended (IG Act). Section 5(b) of the IG Act requires that you send this report to the appropriate Congressional committees and subcommittees within 30 days after the date of this transmittal, accompanied by management’s report on the status of audit and/or inspection action items.

During this reporting period, the remaining agreed-upon action from the audit entitled Committees Established by the FCA Board issued in January 2007 was closed by the OIG. We closed the action item upon being notified that you feel the committees are operating satisfactorily and will no longer seek the OIG’s concurrence that management has sufficiently complied with the agreed-upon action. A further discussion of this is on page 6 of this report. Three agreed-upon actions were closed and three agreed-upon actions remain open from the inspection report entitled FCA’s Enforcement Program issued in July 2007.

I look forward to a continuing positive relationship between the OIG and your office, which I view as a partnership, striving to strengthen FCA operations.

Respectfully,

Carl A. Clinefelter
Inspector General

Enclosure
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EXECUTIVE SUMMARY

This Semiannual Report to the Congress summarizes the activities and accomplishments of the Farm Credit Administration's (FCA or Agency) Office of Inspector General (OIG) for the period October 1, 2007 through March 31, 2008. The OIG’s efforts were directed toward operational and audit planning and performing audits, inspections, and evaluations of FCA programs and operations; conducting investigations, as necessary; independently and confidentially surveying Farm Credit System (FCS or System) institutions regarding the effectiveness of the Agency’s examiners and examination function; and providing objective, independent reporting and counsel to the Agency Chairman on FCA programs and operations.

During this reporting period, the OIG volunteered for a peer review of our investigative function. It was conducted by the Office of Inspector General of the Securities and Exchange Commission. Their review determined our investigative function was in compliance with the President’s Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) guidelines. See page 9 for details.

Also during this period, the independent financial audit of FCA for 2007 was concluded and two OIG initiated performance audits remained ongoing. No investigations were initiated.

The OIG maintains five positions: the Inspector General (IG), a General Counsel, a Senior Auditor, a Senior Information Technology (IT) Auditor, and an Administrative Assistant. Appendix E and Appendix F display the organizational structure of FCA and the OIG, respectively.

BACKGROUND

Farm Credit Administration

FCA is an independent Federal agency of the United States government responsible for the regulation and examination of FCS institutions chartered under the Farm Credit Act of 1971, as amended (Farm Credit Act). FCA is also a “designated Federal entity” within the meaning of the Inspector General Act of 1978, as amended (IG Act).

As a non-appropriated agency, FCA funds its expenses primarily through assessments to the institutions it regulates. The Agency’s fiscal year (FY) 2008 budget is $47,284,404. Assessments by FCA to FCS institutions for FY 2008
totaled $42,550,000, with other sources of funding totaling $4,734,404. The OIG’s FY 2008 budget is $1,017,558.

At the end of this semiannual reporting period, FCA had 251 employees, about half of which are examiners located in five field offices. At the end of the prior semiannual reporting period, the Agency had 258 employees.

Farm Credit System

The System is a lender to a single industry, agriculture, and is therefore vulnerable to economic swings in that industry. Nevertheless, the FCS remains sound in all material respects. Earnings and capital levels have continued to strengthen and asset quality remains high.

However, there continue to be many issues facing agriculture and rural America today that have and will likely continue to raise the question of whether there should be modifications to the Farm Credit Act in order to enable the System to better serve agricultural and rural economies of the future.

MANAGEMENT CHALLENGES

Farm Credit Administration

Whether or not there are modifications to the Farm Credit Act, the Agency should anticipate that the System will continue to seek broad regulatory interpretations. However, as a financial regulator, FCA must continue to maintain a flexible and responsive, yet independent and objective, regulatory environment for the System, geared to continually ensuring the FCS fulfills its public policy purpose. The Agency’s regulatory attention must also address other issues in the System such as scope of lending excesses and risks associated with exposure to new enterprises, such as alternative fuel production. Key to this for FCA is effective examination and regulation of System institutions by maintaining a properly staffed and resourced Agency.

Agency Governance

The Farm Credit Act provides for a full-time three-member board to govern the Agency. FCA Board members are appointed by the President and confirmed by the Senate. The FCA Board has rules of operation that are a foundation for trust and shared expectations among its members, and intended to enable the FCA Board to engage in professional policy debate and set a sound course for the Agency.
However, a small full-time FCA Board presents a challenge in defining the roles and responsibilities of its members relative to the governance of the Agency. Periodic changes in the chairmanship and composition of the FCA Board also present both challenges and opportunities to the FCA Board’s governance of the Agency. This has been and will likely continue to be a challenge for the Agency’s Chairman.

**Strategic Planning**

The FCA Board adopted the Strategic Plan for Fiscal Years 2004-2009, in December 2003. The Agency is required to revise its strategic plan at least every three years.

In 2005, the FCA Board established a Strategic Planning Committee (SPC), comprised of Agency staff, to facilitate FCA Board input to the development of the strategic plan and to the planning process. The SPC has initiated strategic planning discussions between the FCA Board and management group and most recently posted on the Agency’s website a draft strategic plan for comment. Leadership of the SPC has indicated that a final draft strategic plan is expected to be provided to the FCA Board for consideration for approval in April 2008.

**Human Capital**

In March 2001, the OIG recommended that FCA develop a human capital plan and FCA management agreed. Chairman Pellett assumed the chairmanship in May 2004. In 2006, a 5-year strategic human capital plan was completed.

FCA’s challenge is to continue to implement the human capital plan to ensure a workforce that enables the Agency to effectively regulate a constantly evolving FCS. In meeting this challenge, the Agency should continue to:

- address the attrition of seasoned staff by recruiting, training, and implementing succession planning, and by capturing, preserving, and transferring knowledge from departing employees; and
- address the ongoing viability of the examination staff, a critical component of the Agency’s regulatory capability, by ensuring continuity in the examination workforce, appropriate examiner skills, and ongoing credibility with System institutions. This will continue to necessitate careful examiner recruiting and training, maintaining a rigorous commissioning program, and organizing to promote effective work processes and the efficient utilization of the examiner workforce.
Financial Management

Timely, accurate, and useful financial information is essential for:

- making day-to-day decisions;
- managing the Agency’s operations more effectively;
- supporting results-oriented management approaches; and
- ensuring accountability on an ongoing basis.

In April 2006, FCA outsourced the travel, financial management, and procurement functions to the Department of the Treasury’s Bureau of the Public Debt (BPD). Subsequent to the outsourcing, management determined that timely and efficient service in procurement was not occurring, and management brought procurement back within the Agency. To ensure the ongoing effectiveness of this outsourcing, the Agency will need to continually assess the cost-effectiveness of this outsourcing and BPD’s performance in providing timely service, useful financial reporting, and improved efficiencies to the Agency.

Leveraging Technology

Information technology (IT) is a key element in management’s efforts to continually improve Agency performance. In this regard, the Agency is in the process of a major infrastructure transition designed to promote efficient work processes and provide staff with enhanced communication and collaboration tools. The ongoing challenge is to stay abreast of emerging technologies and maintain an effective IT infrastructure that provides FCA staff with IT tools and skills to operate in an efficient, effective, and secure manner. In addition, the Agency must ensure that it maintains technical staff with the current skills and knowledge to implement and maintain its infrastructure, and initiatives in this regard are underway.

AUDIT AND INSPECTION REPORTS ISSUED

The OIG conducts all audits in accordance with Government Auditing Standards issued by the Comptroller General of the United States for audits of Federal organizations, programs, activities, and functions. Inspections are in accordance with PCIE Quality Standards for Inspections. Copies of most OIG reports are available on the FCA OIG web site www.fca.gov/home/inspector.html, or by contacting the OIG at (703) 883-4030, or by TTY at (703) 883-4359, or by e-mail at ig_information@fca.gov.
Independent Financial Audit for FY 2007

The Accountability of Tax Dollars Act of 2002 extended to FCA and certain other agencies a requirement to submit to the Congress and the Office of Management and Budget (OMB) an audited financial statement each fiscal year. Also, the President’s Management Agenda states agencies must continue to improve their financial performance by improving timeliness, enhancing usefulness, and ensuring reliability by obtaining and sustaining a clean audit opinion.

In continuing to assist the Agency in meeting these requirements, the OIG contracted with the BPD for Brown & Company CPAs, PLLC (Brown & Co.) to perform the audit of FCA’s financial statements for FY 2007. The audit delivered an unqualified opinion and was issued November 5, 2007, meeting OMB’s reporting guideline.


The OIG contracted with Harper, Rains, Knight & Company, P.A. (HRK) to perform an independent review of the Agency’s information security program’s compliance with FISMA for FY 2007. The evaluation was performed using guidelines established by FISMA, OMB Circular A-130, Government Accountability Office’s Federal Information System Controls Audit Manual, and the National Institute of Standards and Technology. HRK found no exceptions during the evaluation of FCA’s compliance with FISMA.

AUDITS AND INSPECTIONS IN PROGRESS

Independent Financial Audit and FISMA Review for FY 2008

The OIG was notified by the BPD in February 2008 that it had awarded the contract to provide financial audit services to the FCA for 2008 to Brown & Co. The FISMA review for FY 2008 will be performed by the OIG’s Senior Information Technology Auditor versus by an outside contractor.

Efficiencies Realized Through Outsourcing

An audit to determine whether the outsourcing of financial services to BPD improved Agency operations and reduced costs was completed. An exit conference was held with management on March 27, 2008. While the audit report is not yet final, the
audit determined that the outsourcing was positive in improving efficiencies and effectiveness in Agency financial management services.

**IT Infrastructure Project Management**

An audit is underway to determine if FCA is using sound project management practices to minimize risks associated with making significant changes to the IT infrastructure. We will evaluate the effectiveness of project management and determine if the process complies with agency policy and best practices.

**STATUS OF UNIMPLEMENTED RECOMMENDATIONS**

At the beginning of the reporting period, there was one unimplemented agreed-upon action from an audit. This item was closed without OIG concurrence. Also, at the beginning of the reporting period, there were six agreed-upon actions from an inspection. Three of these were closed during this period and three remain open. At the end of the period, three agreed-upon actions remain open.

**Audits and Inspections**

The following table summarizes the status of action items from audits and inspections.

<table>
<thead>
<tr>
<th>Audit and Inspection Agreed-Upon Actions and Recommendations</th>
<th>Audit Report</th>
<th>Open during this 6-month period</th>
<th>Final Management Actions during this period</th>
<th>Open on 04/01/2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Committees Established by the FCA Board</td>
<td>1/26/07</td>
<td>1</td>
<td>1</td>
<td>0</td>
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<tr>
<td>FCA's Enforcement Program</td>
<td>7/31/07</td>
<td>6</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7</strong></td>
<td><strong>4</strong></td>
<td><strong>3</strong></td>
<td><strong>3</strong></td>
</tr>
</tbody>
</table>

An audit report on Committees Established by the FCA Board was issued in January 2007. Management agreed with the report’s two recommendations and they were converted to agreed-upon actions. During this reporting period, the OIG closed the remaining open agreed-upon action A-1 (The Chief Executive Officer should formally document the mission, authorities, responsibilities, performance expectations and duration of the Regulation and Policy Development, Risk, and Strategic Planning Committee.) from the audit. Even though management had originally agreed to this
action item in January 2007 and submitted documentation to the OIG on two occasions to close the action item, the OIG on both occasions indicated to management that the submissions were not adequate. On February 15, 2008, the FCA Board Chairman notified the OIG that in management’s view the committees are operating satisfactorily and OIG’s concurrence that management has sufficiently complied with this action item will no longer be pursued.

This is a significant management decision with which the IG is in disagreement and is being reported here in accordance with Section 5(a)(12) of the IG Act.

An inspection report on FCA’s Enforcement Program was issued on July 31, 2007. Management agreed with the report’s six recommendations and they were converted to agreed-upon actions. Three agreed-upon actions were closed and three remain open. However, management has partially complied with one of the three open action items.

**INVESTIGATIONS**

OIG Hotline calls and e-mails dealing with borrower complaints concerning FCS institutions and other FCS issues were referred to the FCA office or other Federal agency responsible for reviewing such matters.

No investigations are currently open.

**LEGISLATION AND REGULATIONS**

In the furtherance of the OIG’s mandate to review existing and proposed legislation and regulations, the IG or Counsel to the IG attends joint briefings of the Board on regulations at the proposed and final stages. The following were reviewed by Counsel to the IG:

**Legislation**

1) S. 2324 – Inspector General Reform Act of 2007

2) H.R. 928 – Improving Government Accountability Act

3) S. 2488 – Openness Promotes Effectiveness in our National Government Act of 2007 or The Open Government Act

4) H.R. 2764 – (Public Law 110-161) Consolidated Appropriations Act of 2008 [Sec. 746] (See Other Activities below for details.)

6) S. 2583 – Improper Payments Elimination and Recovery Act of 2008

7) Executive Order: Protecting American Taxpayers from Government Spending on Wasteful Earmarks

Advanced Notice of Proposed Rulemaking

8) FCA Capital Adequacy

9) Farmer Mac Risk-Based Capital Stress Test Version 3.0

Final Rule

10) Annual Report to Shareholders

11) Disclosure to Investors in Systemwide and Bank Consolidated Debt Obligations of FCS

Briefings

12) Rural Community Investments

13) Spring 2008 Unified Agenda

OTHER ACTIVITIES

Compliance – Consolidated Appropriations Act of 2008

Section 746 of this statute requires that:

a) Each executive department and agency shall establish and maintain on the homepage of its website, an obvious, direct link to the website of its respective Inspector General, and

b) Each Office of the Inspector General shall:

1) post on its website any public report or audit issued within one day of its release;

2) provide a service on its website to allow an individual to request automatic receipt of information relating to any public report or audit
or portion of that report or audit and which permits electronic
transmittal of the information, or notice of the availability of the
information without further request; and

3) establish and maintain a direct link on its website for individuals to
anonymously report waste, fraud and abuse.

FCA and the OIG are in compliance with these requirements.

Peer Review of OIG Investigative Function

The OIG volunteered for a quality assessment review of our investigative operations. The Securities and Exchange Commission's Office of Inspector General conducted the review in December 2007 for the year ended September 30, 2007. Their review determined that “…the system of internal safeguards and management procedures for the investigation function of the FCA OIG for the year ended September 30, 2007, are in full compliance with the quality standards established by the PCIE/ECIE. These safeguards and procedures provide reasonable assurance of conforming to professional standards in the conduct of investigations.”

OIG Observations Issued

The OIG utilizes Observations to provide feedback to management on issues that come to our attention while performing other OIG work. OIG Observation Number 08-01 was issued on January 30, 2008 relating to possibly reducing the outbreak of pandemic flu situations in the work place through the placement of hand sanitizers around the building as has been done in other Federal buildings.

Survey of Farm Credit System Institutions

The OIG administers an ongoing survey of the regulated institutions of the FCS. The survey measures the quality and consistency of the Agency’s examination function. During this 6-month period, we sent surveys to the Audit Committee Chairman and CEO of 35 FCS institutions. The OIG issues a quarterly report to the Chief Examiner and to the Chairman and a summary report at the end of each fiscal year on the responses to surveys.

Staff Participation in Activities of the Professional Community

OIG staff members are encouraged to take part in organizations that contribute to the mission of the Inspector General community, as well as their individual professional development. Most staff are actively involved in one or more professional organizations, as well as ad hoc activities of the PCIE/ECIE.
The IG continues to attend monthly meetings of all Inspectors General from the ECIE, meet monthly with Inspectors General from the other Federal financial regulatory agencies, participate as a member of the PCIE’s Inspection and Evaluation Committee, and is part of a PCIE/ECIE work group that meets regularly to plan for the transition within the Inspectors General community if the pending legislation addressing the Inspectors General community becomes law.

The IG General Counsel meets at least monthly with counsels to the IGs. Counsel also attends Directors of Investigations meetings and participates with the IG on the legislation implementation planning work group.

The OIG Senior Auditor and Senior IT Auditor attend Federal Audit Executive Committee meetings and conferences. The Senior IT Auditor also attends local Information Security and Control Association (ISACA) meetings and Federal information security and audit meetings.

Staff Participation in Agency Organizations

Staff is active on several Agency workgroups and task forces. During this reporting period, the OIG was represented on the Administrative Burden Reduction Workgroup, Combined Federal Campaign, Infrastructure Review Pilot Work Group, and the FCA Employees’ Council.

Staff Development

OIG employees continually seek ways to improve skills and become knowledgeable in inspector general community initiatives.
This annex is provided in accordance with the National Defense Authorization Act for FY 2008.

This referenced statute requires all Inspectors General appointed under the IG Act to add an annex to their semiannual reports as follows:

1) listing all contract audit reports issued during the reporting period containing significant audit findings;

2) briefly describing the significant audit findings in the report; and

3) specifying the amounts of costs identified in the report as unsupported, questioned, or disallowed.

Significant audit findings are defined as unsupported, questioned, or disallowed costs in excess of $10,000,000, or other findings that the Inspector General determines to be significant. It defines contracts as a contract, an order placed under a task or delivery order contract, or a subcontract.

No contract audit reports meeting these criteria were issued on behalf of the OIG during this reporting period.
## APPENDIX A – INDEX OF REPORTING REQUIREMENTS

<table>
<thead>
<tr>
<th>INSPECTOR GENERAL ACT CITATION AND REQUIREMENT</th>
<th>PAGE</th>
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<tr>
<td>Section 4(a) (2) Review of Legislation and Regulations</td>
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<tr>
<td>Section 5(a)(1) Significant Problems, Abuses, and Deficiencies</td>
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<td>Section 5(a)(2) Recommendations for Corrective Action</td>
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<tr>
<td>Section 5(a) (3) Prior Recommendations Not Yet Implemented</td>
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<td>Section 5(a)(4) Matters Referred to Prosecutive Authorities</td>
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<td>Section 5(a)(5) Summary of Instances Where Information Was Unreasonably Refused or Not Provided</td>
<td>none</td>
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<td>Section 5(a) (6) List of OIG Audit/Inspection Reports Issued During the Period</td>
<td>4-5</td>
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<tr>
<td>Section 5(a) (7) Summary of Significant Reports Issued During the Period</td>
<td>4-5</td>
</tr>
<tr>
<td>Section 5(a) (8) Statistical Table on Management Decisions with Questioned Costs</td>
<td>13</td>
</tr>
<tr>
<td>Section 5(a) (9) Statistical Table on Management Decisions on Recommendations that Funds be put to Better Use</td>
<td>14</td>
</tr>
<tr>
<td>Section 5(a) (10) Summary of Each Audit Over Six Months Old for Which No Management Decision Has Been Made</td>
<td>none</td>
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<tr>
<td>Section 5(a)(11) Significant Revised Management Decisions</td>
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<tr>
<td>Section 5(a)(12) Significant Management Decisions with Which the Inspector General Disagreed</td>
<td>6</td>
</tr>
<tr>
<td>Section 5(a) (13) Compliance of Agency Financial Management System</td>
<td>5</td>
</tr>
</tbody>
</table>
### APPENDIX B

#### Audit / Inspection Reports Issued

<table>
<thead>
<tr>
<th>Title of Report</th>
<th>Number of Agreed Upon Actions/Recommendations</th>
<th>Questioned Costs</th>
<th>Recommendations That Funds Be Put to Better Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
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<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

### APPENDIX C

#### Reports with Questioned Costs

<table>
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<tr>
<th></th>
<th>Number</th>
<th>Dollar Value</th>
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<tbody>
<tr>
<td></td>
<td>Reports</td>
<td>Recommendations</td>
</tr>
<tr>
<td>A. For which no management decision has been made by the commencement of the reporting period</td>
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<td>0</td>
</tr>
<tr>
<td>B. Which were issued during the reporting period</td>
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<td>0</td>
</tr>
<tr>
<td>Subtotals (A+B)</td>
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<td>0</td>
</tr>
<tr>
<td>C. For which a management decision was made during the reporting period</td>
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<td>0</td>
</tr>
<tr>
<td>(i) dollar value of disallowed costs</td>
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<td>0</td>
</tr>
<tr>
<td>(ii) dollar value of costs not disallowed</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>D. For which no management decision has been made by the end of the reporting period</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>E. For which no management decision was made within six months of issuance</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
### Reports with Recommendations that Funds be Put to Better Use

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of Reports</th>
<th>Number of Recommendations</th>
<th>Dollar Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. For which no management decision has been made by the commencement of the reporting period</td>
<td>0</td>
<td>0</td>
<td>$ 0</td>
</tr>
<tr>
<td>B. Which were issued during the reporting period</td>
<td>0</td>
<td>0</td>
<td>$ 0</td>
</tr>
<tr>
<td><strong>Subtotals (A + B)</strong></td>
<td>0</td>
<td>0</td>
<td>$ 0</td>
</tr>
<tr>
<td>C. For which a management decision was made during the reporting period</td>
<td>0</td>
<td>0</td>
<td>$ 0</td>
</tr>
<tr>
<td>(i) Dollar value of recommendations that were agreed to by management</td>
<td>0</td>
<td>0</td>
<td>$ 0</td>
</tr>
<tr>
<td>--based on proposed management action</td>
<td>0</td>
<td>0</td>
<td>$ 0</td>
</tr>
<tr>
<td>--based on proposed legislative action</td>
<td>0</td>
<td>0</td>
<td>$ 0</td>
</tr>
<tr>
<td>(ii) Dollar value of recommendations that were not agreed to by management</td>
<td>0</td>
<td>0</td>
<td>$ 0</td>
</tr>
<tr>
<td>D. For which no management decision has been made by the end of the reporting period</td>
<td>0</td>
<td>0</td>
<td>$ 0</td>
</tr>
<tr>
<td>E. For which no management decision was made within six months of issuance</td>
<td>0</td>
<td>0</td>
<td>$ 0</td>
</tr>
</tbody>
</table>
APPENDIX E – FCA Organizational Chart

Farm Credit Administration
Organizational Structure
Nancy C. Pellett 1-08-07

Farm Credit Administration Board
Nancy C. Pellett, Chairman
Leland A. Stron, Member
Dallas Tonsager, Member

Secretary to the Board
Roland E. Smith

Office of the Chairman and CEO
Nancy C. Pellett

Office of the Inspector General
Carl A. Cimino

Office of Congressional and Public Affairs
Martha E. Schobor

Office of Secondary Market Oversight
S. Robert Coleman

Office of the Chief of Staff
Keith Hellman

Office of Management Services
Stephen G. Smith

Office of Examination
Thomas G. McKenzie

Office of Regulatory Policy
Andrew D. Jacob

"Office of the General Counsel"
Charles R. Rawls

* Maintains a confidential advisory relationship with each of the Board members.
** Reports to the Board for policy and to the CEO for administration.
APPENDIX F – Office of Inspector General Organizational Chart

Inspector General
Carl A. Clinefelter

Counsel to IG
Elizabeth M. Dean

Senior Auditor
Veronica G. McCain

Senior IT Auditor
Tammy F. Rapp

Administrative Assistant
Debra M. Miller
REPORT
Fraud    |    Waste    |    Abuse    |    Mismanagement

FARM CREDIT ADMINISTRATION
OFFICE OF INSPECTOR GENERAL

- Phone: Toll Free (800) 437-7322; (703) 883-4316
- Fax:      (703) 883-4059
- E-mail:    fca-ig-hotline@rcn.com
- Mail:      Farm Credit Administration
             Office of Inspector General
             1501 Farm Credit Drive
             McLean, VA  22102-5090