

Office of Inspector General

Semiannual Report to the Congress

October 1, 2008
through
March 31, 2009

*Number 40
April 2009*



FARM • CREDIT • ADMINISTRATION



April 22, 2009

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

Dear Chairman Strom:

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, 2008 through March 31, 2009. This is the fortieth 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, inspection, and/or evaluation action items.

In an earlier reporting period, October 1, 2007 through March 31, 2008, the open agreed-upon action regarding establishing charters for the Strategic Planning, Risk, and Regulation and Policy Development committees was closed by the OIG. The closing of this open agreed-upon action was due to the OIG being notified by the former chairman that it was felt the committees were operating satisfactorily and the OIG's concurrence that management had sufficiently complied with the agreed-upon action would no longer be sought. After you were named chairman, I recommended that you revisit this audit report. In response, you initiated action to properly charter these committees. A charter for each committee was implemented during this reporting period, which ended March 31, 2009.

The audit report's other agreed-upon action was that minutes of the committees' meetings would be maintained in official Agency files. On September 18, 2008, the OIG initiated a follow-up activity regarding this agreed-upon action. We determined that the committees' minutes are satisfactory in content. However, the Strategic Planning Committee was not recording its minutes in an official Agency filing system. This was also corrected during this reporting period.

At the beginning of this reporting period there were three open agreed-upon actions resulting from the OIG's 2008 Federal Information Security Management Act evaluation. All three were successfully implemented by management and closed during this reporting period.

The OIG contracted with the Bureau of the Public Debt for Brown & Company CPAs, PLLC, to perform the audit of FCA's financial statements for fiscal year 2008. The audit delivered an unqualified opinion and was issued November 7, 2008, meeting the Office of Management and Budget's reporting guideline. Please refer to page 5 for further information on this audit report.

If you have any questions, please call me at extension 4241 or 4030. 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,

A handwritten signature in cursive script that reads "Carl A. Clinefelter".

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, 2008 through March 31, 2009. The OIG's efforts were directed toward operational and audit planning; 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 the period, the OIG issued one audit report. The OIG contracted with the Bureau of the Public Debt (BPD) for Brown and Company CPAs, PLLC (Brown & Co.) to perform the audit of FCA's financial statements for fiscal year (FY) 2008. The audit delivered an unqualified opinion and was issued November 7, 2008.

Also, the OIG initiated two audits and one inspection. One audit is of the certification and accreditation process of the Agency's information technology (IT) infrastructure. The other audit is of the Office of Examination's (OE) travel expense budgeting, usage, and controls. The inspection is of the Agency's use and control over travel and purchase cards.

Additionally, the OIG issued two quarterly reports on the surveys of System institutions regarding the examination function and the examiners. These reports were for the quarters ended September 30, 2008 and December 31, 2008.

The OIG maintains five positions: the Inspector General (IG), a General Counsel, a Senior Auditor, a Senior IT Auditor, and an Administrative Assistant. Appendix E and Appendix F reflect 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 FY 2009 budget is \$50,322,552. Assessments by FCA to FCS institutions for FY 2009 totaled \$45,100,000, with other sources of funding totaling \$5,222,552. The OIG’s FY 2009 budget is \$1,035,316.

At the end of this semiannual reporting period, FCA had 259 employees, about half of which are examiners located in five field offices. At the end of the prior semiannual reporting period, the Agency had 260 employees.

Farm Credit System

The FCS is a Government-sponsored enterprise comprised of 5 Farm Credit banks that provide funds to 92 associations in all 50 states and Puerto Rico to make loans to agriculture and rural America. The System raises funds by selling securities in the national and international money markets through its special purpose entity, the Federal Farm Credit Banks Funding Corporation (Funding Corporation). These securities are not guaranteed by the U.S. Government.

The Federal Agricultural Mortgage Corporation (Farmer Mac), also a part of the FCS, is chartered by the Federal government to provide a secondary market for agricultural mortgage loans. Farmer Mac is publicly traded and issues its own debt securities.

Including the Funding Corporation, there are four service corporations organized under the Farm Credit Act that provide services to FCS entities and eligible borrowers.

MANAGEMENT CHALLENGES

The OIG is required by statute to identify the most serious management and performance challenges and present them in the Agency’s Performance and Accountability Report. The OIG also presents them in its semiannual reports to the Congress. Except for external environmental challenges, they can be effectively addressed through concerted action by Agency management.

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. The Agency's **challenge** is to continue to ensure the System's ability to withstand this vulnerability through effective examination and regulatory activities. The Agency's regulatory attention must also address other vulnerabilities in the System. Among these are scope of lending excesses and risks associated with exposure to new enterprises, such as alternative fuel production and System institutions' "investments in rural America."

Farm Credit Administration

There continue to be issues facing agriculture and rural America today that raise the question of whether there should be modifications to the Farm Credit Act to enable the System to better serve agricultural and rural economies of the future. 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'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. Key to this for FCA is effective examination and regulation of System institutions by maintaining a properly staffed and resourced Agency.

The Next Possible Agricultural Economic Downturn

There are several factors in the general economy and agriculture today that may indicate future serious difficulties for agriculture and the FCS. For example,

- critical deterioration in the general economy, particularly in the financial and housing sectors, has resulted in massive losses to individuals and companies, and a severe upturn in unemployment;
- the System has been experiencing rapid growth for several years, which has had the effect of eroding the System's capital to assets ratio;
- agricultural land values, which may not be sustainable, are high;
- some agricultural sectors have and continue to experience stress; and
- there has been volatility in commodity prices and input costs.

While the OE reports that System institutions remain safe and sound, these factors have also led the OE to state that credit deterioration is likely and risks are rising.

Thus, a major **challenge** for the Agency is to ensure its ongoing ability to timely assess economic and operational conditions affecting the welfare of the System's borrowers and thus 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 risk assessment and examination program, including the continual assessment of the reliability of risk evaluation and examination findings, and the sufficiency of the Agency's supervision and enforcement processes.

Human Capital

In 2006, a five-year strategic human capital plan was completed. FCA's **challenge** is to continue to implement the human capital plan to ensure that FCA has the staff it needs to effectively regulate a constantly evolving FCS. In meeting this challenge, the Agency should continue to address the attrition of seasoned staff and ensure the viability of the examination staff, a critical component of the Agency's regulatory capability.

As the Agency moves further into the human capital plan's five-year cycle, the Agency must critically assess the implementation of the current plan and, as the current plan nears completion, establish a new five-year human capital plan based on current human capital experience and future perceived human resource needs.

Strategic Planning

In December 2003, the FCA Board adopted the Strategic Plan for Fiscal Years 2004–2009. The next Agency strategic plan was not adopted by the FCA Board until May 2008. In accordance with the Government Performance and Results Act of 1993 and Office of Management and Budget (OMB) Circular A-11, an updated and revised strategic plan is required within three years of submitting a prior strategic plan.

Since the adoption of the 2008-2013 strategic plan, the FCA Board has a new Chairman. This change in leadership and the likelihood of two new FCA Board Members prior to the next major updating of the strategic plan will provide an opportunity and a **challenge** to ensure the 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 strategic plan, presumably dated FY 2011-2016.

Leveraging Technology

Information technology is a key element in management's efforts to continually improve Agency performance. The Agency is in the process of a major infrastructure transition designed to promote efficient work processes and to provide staff with enhanced communication and collaboration tools. The **challenge** is to stay abreast of emerging technologies and to establish an 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 its technical staff has the skills and knowledge to implement and maintain its infrastructure, and initiatives in this regard are underway.

AUDIT, INSPECTION, AND EVALUATION 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 and evaluations are in accordance with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) 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 2008

The Accountability of Tax Dollars Act of 2002 extended to FCA and certain other agencies a requirement to submit to the Congress and the OMB an audited financial statement each fiscal year.

In continuing to assist the Agency in meeting these requirements, the OIG contracted with the BPD for Brown & Co. to perform the audit of FCA's financial statements for FY 2008. The audit delivered an unqualified opinion and was issued November 7, 2008, meeting OMB's reporting guideline.

SIGNIFICANT REVISED MANAGEMENT DECISIONS

In an earlier reporting period, October 1, 2007 through March 31, 2008, the open agreed-upon action regarding establishing charters for the Strategic Planning, Risk, and Regulation and Policy Development committees that resulted from the audit report entitled Committees Established by the FCA Board issued in January 2007 was closed by the OIG. The closing of this open agreed-upon action was due to the OIG being notified by the former chairman that it was felt the committees were operating satisfactorily and the OIG's concurrence that management had sufficiently complied with the agreed-upon action would no longer be sought. In our first monthly meeting on June 23, 2008, after you were named chairman, I recommended that you revisit this audit report. I indicated that without well constructed charters the three committees may not achieve their intended purposes. In response, you initiated action to properly charter these committees. A charter for each committee was implemented during this reporting period, which ended March 31, 2009.

OIG OBSERVATIONS ISSUED

The OIG issued to the Chairman during the period two OIG Observations. One was issued on March 11, 2009, and suggested to the Chairman that consideration be given to whether there are any additional Agency functions or processes that would benefit from more formalization through their establishment as additional committees to serve the FCA Board.

The other was issued March 12, 2009, and suggested policy and organizational changes to better position the Agency to address any downturn in the condition of FCS institutions.

OIG Observations are designed to be a quick mechanism to offer the Agency head suggestions on ways to strengthen Agency operations.

AUDITS AND INSPECTIONS IN PROGRESS

Certification and Accreditation (C&A) Audit

An audit was initiated on the C&A process of the Agency's IT infrastructure. The objective is to evaluate the quality of the C&A process and identify potential areas for improvement which can be applied to the next C&A process.

Office of Examination (OE) Travel Expense Audit

An audit was initiated of OE's travel expense budgeting, usage, and control. The objective is to determine whether the OE's travel funds are being managed economically and efficiently.

Travel and Purchase Card Inspection

An inspection was initiated of the Agency's use and control over travel and purchase cards. The objective is to review FCA employees' use of travel and purchase cards, the Agency's travel and purchase card administration controls, and Agency actions in response to recommendations made in the prior purchase card inspection.

STATUS OF UNIMPLEMENTED RECOMMENDATIONS

At the beginning of the reporting period, there were three open agreed-upon actions from the Federal Information Security Management Act (FISMA) evaluation issued September 29, 2008. The actions were closed during this reporting period.

Audits, Inspections, and Evaluations

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

Audit, Inspection, and Evaluation Agreed-Upon Actions and Recommendations				
Audit Report	Issued	Open during this 6-month period	Final Management Actions during this period	Open on 4/01/2009
FISMA	9/29/08	3	3	0
Total		3	3	0

INVESTIGATIONS

No hotline calls were received alleging impropriety that would fall within the purview of the OIG.

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 were opened during the reporting period.

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 FCA Board on regulations at the proposed and final stages. The following were reviewed by Counsel to the IG:

Legislation

- 1) House Resolution (H.R.) 928 – The Inspector General Reform Act of 2008, signed into law in October 14, 2008, amending various authorities of the Inspectors General.
- 2) H.R. 1424 – Emergency Economic Stabilization Act, signed into law on October 3, 2008.
- 3) H.R. 923 – Emmett Till Unsolved Civil Rights Crime Act, signed into law on October 7, 2008– permits OIG employees to participate with National Center for Missing and Exploited Children.
- 4) H.R. 478 – Federal Agency Performance Review and Efficiency Act– would amend IG Act to mandate OIG conduct annual performance review of all Agency programs.
- 5) H.R. 1– American Recovery and Reinvestment Act of 2009, signed into law on January 26, 2009. Stimulus to national economy.
- 6) H.R. 885 – Improved Financial and Commodity Markets Oversight and Accountability Act – would make the IGs of the Securities and Exchange Commission, Federal Reserve Board, Commodity Futures Trading Commission, Pension Benefit Guaranty Corporation, and the National Credit Union Administration – Presidential appointees requiring Senate confirmation.
- 7) H.R. 1105 – Omnibus Appropriations Act of 2009, signed into law on February 23, 2009, reiterates requirements for IG websites.

Proposed Rules

- 8) Disclosure and Accounting Requirements
- 9) Director Elections and Voting Rules

Final Rules

- 10) Adjusting Civil Money Penalties for Inflation

Executive Orders (E.O.)

- 11) Facilitation of a Presidential Transition
- 12) E.O. 13490 – requires an ethics pledge and limitations on appointees to accept gifts.
- 13) Freedom of Information Act Memorandum – encouraging discretionary disclosures of information.

Briefings

- 14) Market Emergency Standby Resolution
- 15) Revised Guidelines on Submission of Proposals to Merge or Consolidate Associations

OTHER ACTIVITIES

Survey of Farm Credit System Institutions

The OIG administers an ongoing survey of FCS institutions regarding the quality and consistency of the Agency's examination function and examiners. During this 6-month period, we sent surveys to the Audit Committee Chairmen and Chief Executive Officers of 19 FCS institutions. Quarterly reports for the 3-month periods ended September 30 and December 31, 2008, were issued by the OIG to the Chief Examiner and the Chairman.

The OIG issues a quarterly report and a summary report at the end of each fiscal year to the Chief Examiner and the Chairman on the surveys' results.

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 Inspectors General community, as well as their individual professional development. Most staff members are actively involved in one or more professional organizations, as well as ad hoc activities of the CIGIE.

The IG serves as the Vice Chairperson of CIGIE, helps chair the monthly meetings of all Inspectors General comprising CIGIE, meets monthly with the Inspectors General from the other Federal financial regulatory agencies, and participates as a member of the CIGIE's Inspection and Evaluation Committee.

The OIG General Counsel meets at least monthly with counsels to the other Inspectors General. Counsel also attends Directors of Investigations meetings.

The OIG Senior Auditor and Senior IT Auditor attend Federal Audit Executive Committee meetings and conferences. The Senior IT Auditor also attends local ISACA (formerly known as Information Security and Control Association) 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 and the Combined Federal Campaign.

Staff Development

OIG employees continually seek ways to improve skills and become knowledgeable in the initiatives of the community of Inspectors General. Audit and legal staff must meet continuing education requirements. Individual development plans are used to identify long- and short-term career goals along with specific training and developmental needs. These plans are geared to enhance individual skills in the performance of official duties and meet the criteria needed to achieve OIG performance goals and objectives.

ANNEX

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

INSPECTOR GENERAL ACT CITATION AND REQUIREMENT	PAGE
Section 4(a)(2) Review of Legislation and Regulations	8-9
Section 5(a)(1) Significant Problems, Abuses, and Deficiencies	none
Section 5(a)(2) Recommendations for Corrective Action.....	5-7
Section 5(a)(3) Prior Recommendations Not Yet Implemented.....	7
Section 5(a)(4) Matters Referred to Prosecutive Authorities.....	none
Section 5(a)(5) Summary of Instances Where Information..... Was Unreasonably Refused or Not Provided	none
Section 5(a)(6) List of OIG Audit/Inspection Reports Issued During the Period	5
Section 5(a)(7) Summary of Significant Reports Issued During the Period	5
Section 5(a)(8) Statistical Table on Management Decisions	14
with Questioned Costs	
Section 5(a)(9) Statistical Table on Management Decisions on	15
Recommendations that Funds be put to Better Use	
Section 5(a)(10) Summary of Each Audit Over Six Months Old for	none
Which No Management Decision Has Been Made	
Section 5(a)(11) Significant Revised Management Decisions	6
Section 5(a)(12) Significant Management Decisions with Which.....	none
the Inspector General Disagreed	
Section 5(a)(13) Compliance of Agency Financial Management System	5

APPENDIX B

Audit, Inspection, and Evaluation Reports Issued			
Title of Report	Number of Agreed Upon Actions/ Recommendations	Questioned Costs	Recommendations That Funds Be Put to Better Use
Financial Audit for FY 2008	0	\$ 0	\$ 0
<i>Total</i>	<i>0</i>	<i>\$ 0</i>	<i>\$ 0</i>

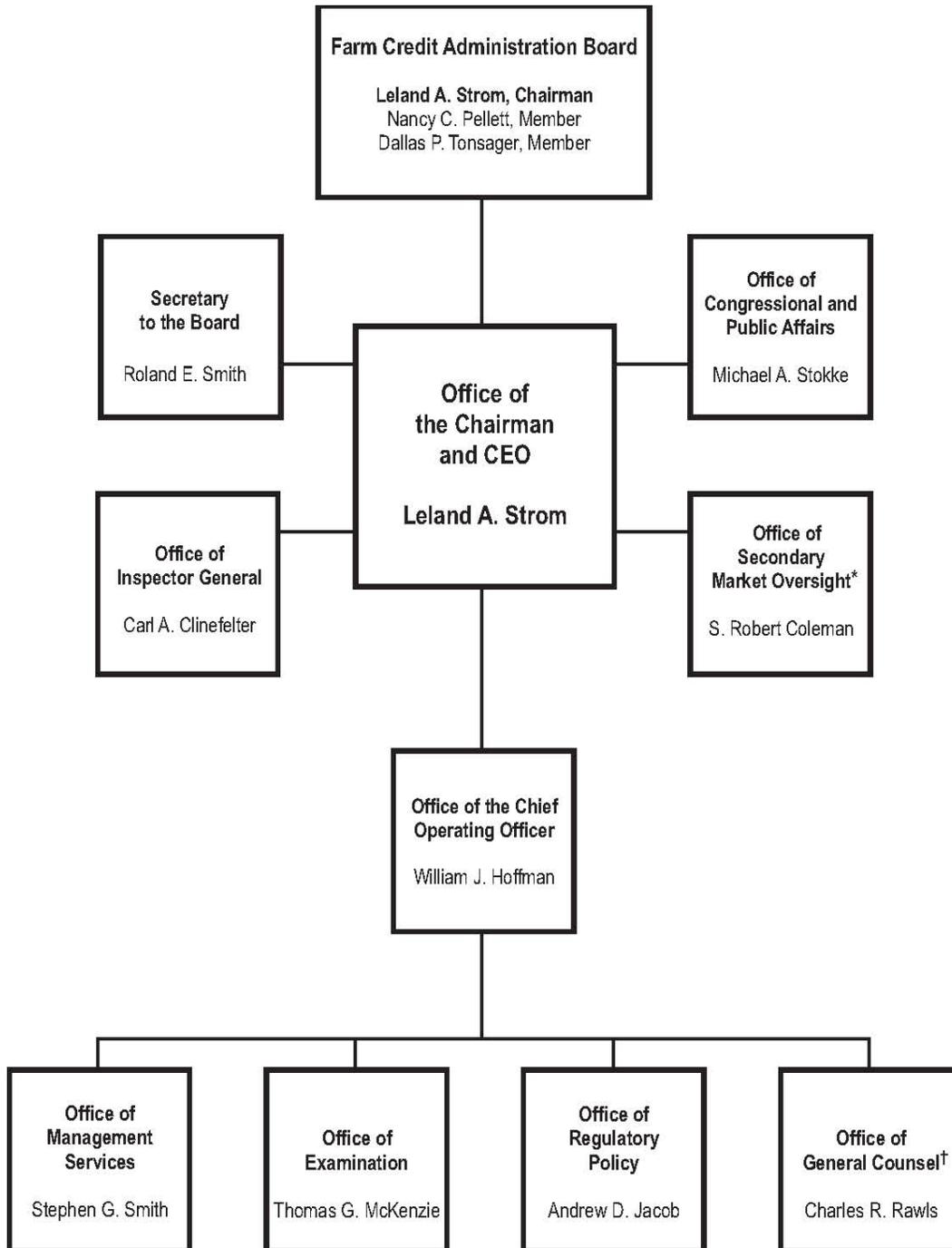
APPENDIX C

Reports with Questioned Costs				
	Number		Dollar Value	
	Reports	Recom- mendations	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period	0	0	\$ 0	\$ 0
B. Which were issued during the reporting period	0	0	\$ 0	\$ 0
<i>Subtotals (A+B)</i>	0	0	\$ 0	\$ 0
C. For which a management decision was made during the reporting period	0	0	\$ 0	\$ 0
(i) dollar value of disallowed costs	0	0	\$ 0	\$ 0
(ii) dollar value of costs not disallowed	0	0	\$ 0	\$ 0
D. For which no management decision has been made by the end of the reporting period	0	0	\$ 0	\$ 0
E. For which no management decision was made within six months of issuance	0	0	\$ 0	\$ 0

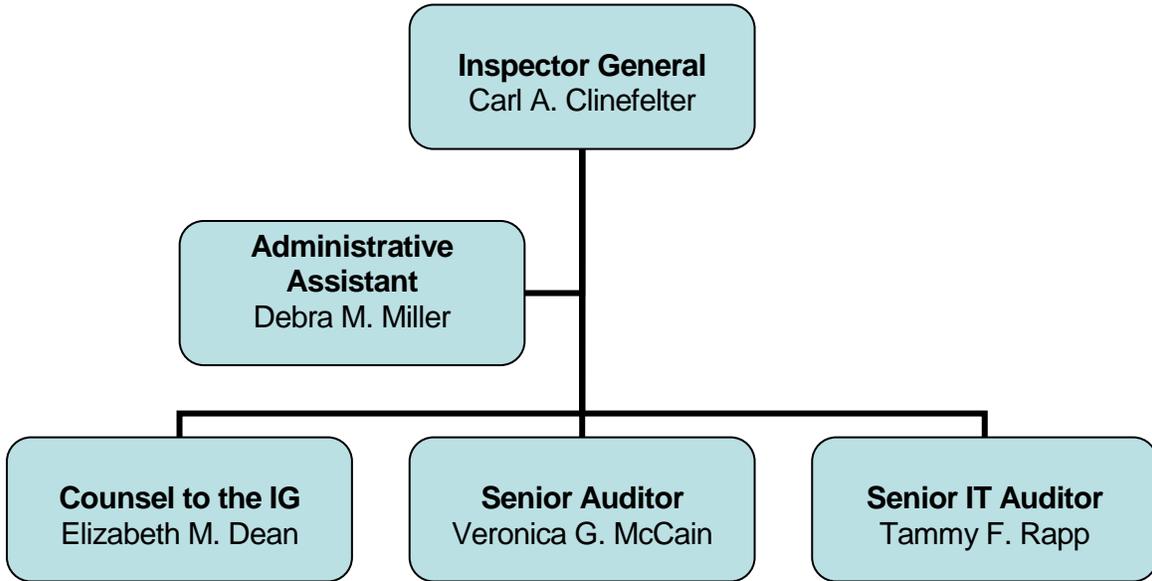
APPENDIX D

Reports with Recommendations that Funds be Put to Better Use			
	Number of Reports	Number of Recommendations	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period	0	0	\$ 0
B. Which were issued during the reporting period	0	0	\$ 0
<i>Subtotals (A + B)</i>	0	0	\$ 0
C. For which a management decision was made during the reporting period	0	0	\$ 0
(i) dollar value of recommendations that were agreed to by management	0	0	\$ 0
--based on proposed management action	0	0	\$ 0
--based on proposed legislative action	0	0	\$ 0
(ii) dollar value of recommendations that were not agreed to by management	0	0	\$ 0
D. For which no management decision has been made by the end of the reporting period	0	0	\$ 0
E. For which no management decision was made within six months of issuance	0	0	\$ 0

APPENDIX E – FCA ORGANIZATIONAL CHART



APPENDIX F – Office of Inspector General Organizational Chart



Carl A. Clinefelter

Carl A. Clinefelter, Inspector General

September 4, 2008
Date

APPENDIX G – Glossry of Terms

Agency	– Farm Credit Administration
BPD	– Bureau of the Public Debt
Brown & Company	– Brown & Company CPAs, PLLC
C&A	– Certification and Accreditation
CIGIE	– Council of the Inspectors General on Integrity and Efficiency
E.O.	– Executive Order
Farm Credit Act	– Farm Credit Act of 1971, as amended
Farmer Mac	– Federal Agricultural Mortgage Corporation
FCA	– Farm Credit Administration
FCS	– Farm Credit System
FISMA	– Federal Information Security Management Act
Funding Corporation	– Federal Farm Credit Banks Funding Corporation
FY	– Fiscal Year
H.R.	– House Resolution
IG	– Inspector General
IG Act	– Inspector General Act of 1978, as amended
ISACA	– Information Security and Control Association
IT	– Information Technology
OE	– Office of Examination
OIG	– Office of Inspector General
OMB	– Office of Management and Budget
SPC	– Strategic Planning Committee
System	– Farm Credit System

R E P O R T

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
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