April 21, 2010

The Honorable Leland A. Strom
Chairman of the Board
Farm Credit Administration
1501 Farm Credit Drive
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, 2009 through March 31, 2010. This is the forty-second 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.

During this reporting period, the OIG issued one audit report. 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 2009. The audit delivered an unqualified opinion and was issued November 4, 2009. Please refer to page 6 for further information.

Also, the OIG’s annual evaluation of the Agency’s compliance with the Federal Information Security Management Act (FISMA) was completed. This annual evaluation was conducted by the OIG’s Senior Information Technology Auditor and the report was issued November 18, 2009. There were no significant deficiencies in FCA’s information security program and the FISMA report did not contain any recommendations or agreed-upon actions. Please refer to page 7 for further information.

Additionally, one audit and two inspections were initiated. The audit is of FCA’s and the Office of Secondary Market Oversight’s regulation and policy development processes. The inspections are of the Agency’s compliance with the Government in the Sunshine Act and the Agency’s process for reviewing, tracking, and responding to complaints from borrowers of the Farm Credit System. All three remain ongoing. Please refer to page 7 for further information.
If you have any questions, please call me at 4241 or 4030. I look forward to continuing a positive relationship between the OIG and your office, which I view as a partnership, striving to strengthen FCA operations.

Respectfully,

[Signature]

Carl A. Clinefelter
Inspector General

Enclosure
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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, 2009 through March 31, 2010. The OIG’s efforts were directed toward implementing the OIG’s fiscal year (FY) 2010 strategic and operational plan and budget; 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 examination function and examiners; and providing objective, independent reporting and counsel to the Agency Chairman on FCA programs and operations.

During this reporting 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 FY 2009. The audit delivered an unqualified opinion and was issued November 4, 2009. See page 6 for further information.

Also, the OIG issued an evaluation report on the Agency’s compliance with the Federal Information Security Management Act (FISMA). The results of the evaluation revealed that FCA has an effective information security program that continues to mature. There were no significant deficiencies in FCA’s information security program and the FISMA report did not contain any recommendations or agreed-upon actions. This evaluation was conducted by the OIG’s Senior Information Technology (IT) Auditor. See page 7 for further information.

Also initiated during this period were one audit and two inspections. The audit is of FCA’s and the Office of Secondary Market Oversight’s regulation and policy development processes. One inspection is of the Agency’s compliance with the Government in the Sunshine Act. The other inspection is of the Agency’s process for reviewing, tracking, and responding to complaints from borrowers of the FCS. All three remain ongoing. See page 7 for further information.

Additionally, the OIG issued two quarterly reports and one FY summary report to the Chief Examiner and FCA Chairman on results of OIG surveys of System institutions regarding the examination function and the examiners. These reports were for the quarters ended September 30, 2009 and December 31, 2009. The FY summary report was for the FY ended September 30, 2009.
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**

The 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 2010 budget is $54,832,588. Assessments by FCA to FCS institutions for FY 2010 total $49,100,000, with other sources of funding totaling $5,732,588. The OIG’s FY 2010 budget is $1,088,219.

At the end of this reporting period, FCA had 274 employees, about half of which are examiners located in five field offices. At the end of the prior semiannual reporting period, the Agency also had 274 employees. While the total number of employees remained constant, the Office of Examination (OE) has been actively recruiting and hiring entry-level examiner trainees. Even though the OE has been hiring, normal Agencywide attrition accounts for the overall number of employees remaining constant.

**Farm Credit System**

The FCS is a Government-sponsored enterprise comprised of 5 Farm Credit banks and 88 lending associations in all 50 states and Puerto Rico that primarily make loans to agriculture. 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. 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.

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

**MANAGEMENT AND PERFORMANCE CHALLENGES**

As part of the Agency’s annual Performance and Accountability Report, the IG is required by law to provide a summary statement on the most serious management and performance challenges facing the Agency. These challenges fall into two general categories. First are the challenges related to the FCA’s mandate of ensuring a safe, sound, and dependable FCS as a source of credit and related services to agriculture. 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, adversity in several major commodity groups has caused deterioration in a number of FCS institutions. The Agency’s challenge is to continue to ensure the System’s ability to withstand such vulnerabilities and remain safe and sound in the long-term.

**Mission**

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

Agricultural Economic Downturn

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

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

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

Agency Governance

In early FY 2010, the FCA Board received two new members, filling out the FCA Board’s statutory three-person complement. One new member came on the FCA Board in October 2009 and the other in March 2010. This reemphasizes the need for the Chairman and Agency staff to ensure an environment in which new members may quickly learn their duties and responsibilities, and the mission and functioning of the Agency and the System. The Board member arriving in October 2009 received a newly implemented orientation program. The challenge for the Agency is to formalize and institutionalize an effective orientation and ongoing training program for FCA Board members. This should enable FCA Board members to readily become knowledgeable about Agency and System operations and issues, and be able to properly focus Agency resources through, for example, the strategic planning mechanism.
Strategic Planning

Since the adoption in May 2008 of the strategic plan for FYs 2008-2013, the FCA Board has a new Chairman and two new FCA Board Members. This change in Board leadership and the two new FCA Board Members provide an opportunity and a challenge to ensure the vision of the newly constituted FCA Board is timely incorporated into the next strategic plan.

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

Human Capital

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

Leveraging Technology

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

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

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 2009

The Accountability of Tax Dollars Act of 2002 extended to FCA and certain other agencies a requirement to submit to Congress and the Office of Management and Budget (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 2009. The audit resulted in an unqualified opinion and was issued November 4, 2009.

The evaluation of the Agency’s compliance with FISMA for FY 2009 was performed by the OIG’s Senior IT Auditor, using guidelines established by FISMA, OMB, and the National Institute of Standards and Technology. The report revealed no significant deficiencies and did not contain any recommendations or agreed-upon actions. The report was issued November 18, 2009.

AUDITS AND INSPECTIONS IN PROGRESS

Audit of FCA’s and OSMO’s Regulation and Policy Development Processes

The objective of the audit is to assess whether the regulation and policy development processes are operating efficiently and in compliance with applicable Federal requirements.

Inspection of FCA’s Adherence to the Government in the Sunshine Act

The inspection will assess whether FCA is in compliance with the letter and spirit of the Government in the Sunshine Act.

Inspection of FCS Borrower Complaint Processing

The objective of this inspection is to review FCA’s process for reviewing, tracking and responding to FCS borrowers’ complaints and identify whether improvements are needed.
STATUS OF UNIMPLEMENTED RECOMMENDATIONS

At the beginning of the reporting period, there were no open action items resulting from OIG audits, inspections, or evaluation reports. No action items were opened during the period.

<table>
<thead>
<tr>
<th>Audit, Inspection, and Evaluation Agreed-Upon Actions and Recommendations</th>
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<tbody>
<tr>
<td>Report</td>
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<tr>
<td>--------</td>
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<td>None</td>
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<tr>
<td><strong>Total</strong></td>
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</table>

OIG OBSERVATIONS ISSUED

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

Observation FY 2010-01

The OIG issued to the Chairman on October 27, 2009, Observation FY 2010-01, Review and Updating of all FCA Board Policies, suggesting that all FCA Board policies should be reviewed and updated, as appropriate, and that all policies contain a clause requiring review within a specified time period or by a date certain.

Observation FY 2010-02

The OIG issued to the Chairman on December 14, 2009, Observation FY 2010-02, Compensation and Job Grading, recommending opportunities to enhance the management and integrity of FCA’s pay program and grade structure.
Observation FY 2010-03

The OIG issued to the Chairman on March 24, 2010, Observation FY 2010-03, Inspector General’s Oversight of the FCSIC and FCA’s Prior Approval of Funding Corporation Debt Issuances, making suggestions regarding legislative initiatives.

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

Legislation


2) S. 1745: Non-Federal Employee Whistleblower Protection Act of 2009

3) S. 2991 or H.R. 2646: Government Accountability Office Improvement Act of 2009

4) S. 139 or S. 1490: The Data Breach and Personal Privacy and Security Acts of 2009
5) S. 372 or H.R. 1507: The Whistleblower Protection Enhancement Act of 2009


7) H.R. 885: Improved Financial and Commodity Markets Oversight and Accountability Act

8) H.R. 3795: Over the Counter Derivatives Markets Act of 2009


11) H.R. 4581: Fannie Mae and Freddie Mac Accountability and Transparency for Taxpayers Act of 2010

12) FCA Legislation Short List

Executive Orders

13) Executive Order 13520 (and implementing guidance), Reducing Improper Payments

Final Rules

14) Effective Interest Rates
15) Director Elections
16) Final Notice Responding to Regulatory Burden Solicitation
17) Unified Agenda

Proposed Rules

18) Farmer Mac Risk-Based Capital

Bookletters (BL)

19) Rural Housing Mortgage –Backed Securities (BL-061)

Briefings

20) Confronting Current and Future Challenges
OTHER ACTIVITIES

Quarterly 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. The OIG issues a quarterly report and a summary report on the surveys’ results at the end of each FY to the Chief Examiner and the Chairman.

During this 6-month period, we sent surveys to the Audit Committee Chairmen and Chief Executive Officers of 35 FCS institutions. Quarterly reports for the 3-month periods ended September 30 and December 31, 2009, were issued by the OIG to the Chief Examiner and the Chairman. A summary FY 2009 report as of September 30, 2009, was also issued.

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 (I&E) Committee.

The OIG General Counsel meets 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 Auditor participates as a member of the I&E Committee’s Roundtable. The Senior IT Auditor also attends local ISACA (formerly known as Information Security and Control Association) meetings and Federal information security and audit meetings. The Senior IT Auditor is a member of CIGIE’s administrative operations task force charged with developing a business, staffing, and financial plan as well as identifying and implementing the infrastructure needed to establish CIGIE operations.

The OIG Administrative Assistant handles the registration and ongoing interface with the Institute of Internal Auditors for the auditors in 21 Offices of Inspector General at designated Federal entities.
Staff Participation in Agency Organizations

OIG employees are active on Agency workgroups and task forces, as appropriate.

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 include 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.
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<td>Section 4(a)(2) Review of Legislation and Regulations</td>
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<td>Section 5(a)(7) Summary of Significant Reports Issued During the Period</td>
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<td>Section 5(a)(8) Statistical Table on Management Decisions with Questioned Costs</td>
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<td>Section 5(a)(9) Statistical Table on Management Decisions on Recommendations that Funds be put to Better Use</td>
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<td>Section 5(a)(10) Summary of Each Audit Over Six Months Old for Which No Management Decision Has Been Made</td>
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<td>Section 5(a)(11) Significant Revised Management Decisions</td>
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**FY 2008 NATIONAL DEFENSE AUTHORIZATION ACT CITATION AND REQUIREMENT**

| Section 845 Requires Information from OIG Contract Audit Reports | 12 |
### Audit, Inspection, and Evaluation Reports Issued

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<tr>
<th>Title of Report</th>
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### Reports with Questioned Costs

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<th>Dollar Value</th>
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<td>Reports</td>
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### APPENDIX D

#### Reports with Recommendations that Funds be Put to Better Use

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<th>Category</th>
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<tr>
<td>B. Which were issued during the reporting period</td>
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<tr>
<td>(i) dollar value of recommendations that were agreed to by management</td>
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<tr>
<td>--based on proposed legislative action</td>
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<td>$ 0</td>
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<tr>
<td>E. For which no management decision was made within six months of issuance</td>
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<td>0</td>
<td>$ 0</td>
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</tbody>
</table>
Organization
Farm Credit Administration

Chairman

Farm Credit Administration Board
Leland A. Strom, Chairman
Kenneth A. Speuman, Member
Jill Lang Thompson, Member

Secretary to the Board
Roland E. Smith

Office of the Chairman and CEO
Leland A. Strom

Office of Congressional and Public Affairs
Michael A. Stokke

Office of Inspector General
Carl A. Crineller

Office of Secondary Market Oversight
S. Robert Comman

Office of the Chief Operating Officer
William J. Hoffman

Office of Management Services
Stephen G. Smith

Office of Examination
Thomas G. McKenzie

Office of Regulatory Policy
Andrew D. Jacob

Office of General Counsel
Charles R. Rawls

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

Inspector General
Carl A. Clinefelter

Administrative Assistant
Debra M. Miller

Counsel to the IG
Elizabeth M. Dean

Senior Auditor
Veronica G. McCain

Senior IT Auditor
Tammy F. Rapp

September 4, 2008

Carl A. Clinefelter, Inspector General

Date
### APPENDIX G – Glossary of Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Agency</td>
<td>Farm Credit Administration</td>
</tr>
<tr>
<td>BPD</td>
<td>Bureau of the Public Debt</td>
</tr>
<tr>
<td>Brown &amp; Company</td>
<td>Brown &amp; Company CPAs, PLLC</td>
</tr>
<tr>
<td>CIGIE</td>
<td>Council of the Inspectors General on Integrity and Efficiency</td>
</tr>
<tr>
<td>DFE</td>
<td>Designated Federal Entity</td>
</tr>
<tr>
<td>E.O.</td>
<td>Executive Order</td>
</tr>
<tr>
<td>Farm Credit Act</td>
<td>Farm Credit Act of 1971, as amended</td>
</tr>
<tr>
<td>Farmer Mac</td>
<td>Federal Agricultural Mortgage Corporation</td>
</tr>
<tr>
<td>FCA</td>
<td>Farm Credit Administration</td>
</tr>
<tr>
<td>FCS</td>
<td>Farm Credit System</td>
</tr>
<tr>
<td>FISMA</td>
<td>Federal Information Security Management Act</td>
</tr>
<tr>
<td>FY</td>
<td>Fiscal Year</td>
</tr>
<tr>
<td>H.R.</td>
<td>House Resolution</td>
</tr>
<tr>
<td>IG</td>
<td>Inspector General</td>
</tr>
<tr>
<td>IG Act</td>
<td>Inspector General Act of 1978, as amended</td>
</tr>
<tr>
<td>I&amp;E</td>
<td>Inspection and Evaluation</td>
</tr>
<tr>
<td>ISACA</td>
<td>Information Security and Control Association</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>OE</td>
<td>Office of Examination</td>
</tr>
<tr>
<td>OIG</td>
<td>Office of Inspector General</td>
</tr>
<tr>
<td>OMB</td>
<td>Office of Management and Budget</td>
</tr>
<tr>
<td>PAR</td>
<td>Performance and Accountability Report</td>
</tr>
<tr>
<td>SPC</td>
<td>Strategic Planning Committee</td>
</tr>
<tr>
<td>System</td>
<td>Farm Credit System</td>
</tr>
</tbody>
</table>
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