April 20, 2012

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 FCA Board Members Spearman and Long Thompson:

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, 2011 through March 31, 2012. This is the forty-sixth 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 the FCA Board 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 the annual financial 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 2011. The audit delivered an unqualified opinion and was issued November 7, 2011. Please refer to page 3 for further information.

Also, the OIG’s annual evaluation of the Agency’s compliance with the Federal Information Security Management Act was completed. This annual evaluation was conducted by the OIG’s Senior Information Technology Auditor and the report was issued November 15, 2011. There were no action items as a result of this evaluation. Please refer to page 3 for further information.

On November 17, 2011, the OIG issued a final report on an audit of the Agency’s contracting activities. The audit resulted in seven recommendations that were agreed to by Agency management and implemented before the final audit report was issued. Please refer to page 3 for further information.
The one open action item at the beginning of this period from the inspection of the Agency’s borrower complaint handling process was closed during this period. Please refer to page 4 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 the FCA Board, which I view as a partnership striving to strengthen FCA operations.

Respectfully,

[Signature]

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, 2011 through March 31, 2012. The OIG’s efforts were directed toward implementing the OIG’s fiscal year (FY) 2012 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 FCA Board on FCA programs and operations.

During this reporting period, the OIG issued two audit reports and one evaluation 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 2011. The audit delivered an unqualified opinion and was issued November 7, 2011. See page 3 for further information.

The audit of the FCA’s contracting activities was issued on November 17, 2011. There were seven recommendations that were made by the OIG and implemented by management before the final audit report was issued. See page 3 for further information.

Also, the OIG issued an evaluation report on the Agency’s compliance with the Federal Information Security Management Act (FISMA). There were no recommendations as a result of this evaluation. This evaluation was conducted by the OIG’s Senior Information Technology (IT) Auditor. See page 3 for further information.

Additionally, the OIG issued two quarterly reports and one FY summary report to the Chief Examiner and FCA Board on results of OIG surveys of System institutions regarding the examination function and the examiners. These reports were for the quarters ended September 30 and December 31, 2011. The FY summary report was for the FY ended September 30, 2011. In coordination with the Office of Examination, the survey was updated and revised beginning in FY 2012.

The OIG maintains five positions: the Inspector General (IG), a Deputy Inspector General (DIG) and Counsel, a Senior Auditor, a Senior IT Auditor, and an Administrative Assistant. Appendix G and Appendix H 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). The 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 2012 budget is $60,812,899. Assessments by FCA to FCS institutions for FY 2012 were $54,100,000 with other sources of funding totaling $6,712,899. The OIG’s FY 2012 budget is $1,144,346.

At the end of this reporting period, FCA had 285 employees, about half of which are examiners located in five field offices. At the end of the prior semiannual reporting period, the Agency had 288 employees.

Farm Credit System

The FCS is a Government-sponsored enterprise comprised of 4 Farm Credit banks and 84 lending associations, as of March 31, 2012, 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.
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 conducted 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 OIG web site at 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.

FCA’s Contracting Activities

The audit’s objective was to determine whether the FCA’s contracting environment is efficient and effective in acquiring products and services that provide the best value to FCA. There were seven recommendations by the OIG noted and implemented by management before the final audit report was issued on November 17, 2011.

FY 2011 Independent Financial Statement Audit of FCA

The Accountability of Tax Dollars Act of 2002 required FCA and certain other agencies 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 2011. The audit resulted in an unqualified opinion and was issued November 7, 2011.

FY 2011 Federal Information Security Management Act Evaluation

The evaluation of the Agency’s compliance with FISMA for FY 2011 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 was issued November 15, 2011.
**AUDIT, INSPECTION, AND EVALUATIONS IN PROGRESS**

Planning is underway to announce one OIG audit and one OIG survey.

**STATUS OF UNIMPLEMENTED RECOMMENDATIONS**

At the beginning of the reporting period, there was one open action item resulting from the OIG inspection on FCA’s Borrower Complaint Processing.

<table>
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<th>Audit, Inspection, and Evaluation Agreed-Upon Actions and Recommendations</th>
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<tr>
<td>Borrower Complaint Processing</td>
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<td><strong>Total</strong></td>
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</table>

The one open agreed-upon action from this inspection was closed on March 21, 2012. It was administrative in nature.

**OIG OBSERVATION ISSUED**

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

**Observation FY 2012-01**

The OIG issued to the Chairman and Board Members on October 27, 2011, Observation FY 2012-01, entitled, The Need for Independent Objective Oversight of the Farm Credit System Insurance Corporation by a Statutorily Designated Inspector General.
INVESTIGATIONS

Three investigations were opened during this reporting period. Two were unsubstantiated and closed. One is being preliminarily reviewed.

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

LEGISLATION AND REGULATIONS

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

Legislation

1) S. 241, The Non-Federal Whistleblower Protection Act
2) S. 300, Purchase and Travel Card Controls
3) S. 652, The American Infrastructure and Finance Authority
4) S. 801, Information Technology Investment Management Act of 2011
5) S. 991 / H.R. 1949, Clean-Up Act
6) S. 1222 / H.R. 2146, Digital Accountability and Transparency Act of 2011 or DATA Act
7) S. 1549/H.R. 12, American Jobs Act
8) S. 1280, Kate Puzy Peace Corp Volunteer Protection Act
9) S. 2105, The Cybersecurity Act of 2012
10) H.R. 514, FISA Sunset Extension Act of 2011 (Extends Patriot Act)
12) H.R. 3371, High Performance Federal Building Act
13) H.R. 3360, Contingency Operations and Interagency Enhancements

Proposed Rule

14) Disclosure to Investors
15) Liquidity and Funding

Notice of Proposed Rulemaking

16) Farmer Mac Investments and Liquidity Management

Informational Memorandum

17) Maximum Bank Director Compensation for 2012

18) Notice of Draft Second Amended and Restated Market Access Agreement; Request for Comments

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, at the end of each FY, a summary report on the surveys’ results to the Chief Examiner and the FCA Board.

During this 6-month period, the OIG sent surveys to the Audit Committee Chairmen and Chief Executive Officers of 28 FCS institutions. Quarterly reports for the 3-month periods ended September 30 and December 31, 2011, were issued by the OIG to the Chief Examiner and the FCA Board. A summary FY 2011 report as of September 30, 2011, was also issued. In coordination with OE, the survey was updated and revised for issuance in FY 2012.

Staff Participation in Activities Within the Inspector General 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 activities within the CIGIE.

The IG serves as the Vice Chairperson of CIGIE, is a member of CIGIE’s Executive Council, helps chair the monthly meetings of all Inspectors General comprising CIGIE, and participates as a member of the CIGIE’s Inspection and Evaluation (I&E) Committee.

The OIG DIG and Counsel meets monthly with counsels to the other Inspectors General. Counsel also attends DIG and 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 is actively involved in the IT Subcommittee of the Federal Audit Executive Committee and attends local ISACA (formerly known as Information Security and Control Association) meetings.

**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>Statistical Table on Management Decisions with Questioned Costs</td>
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### FY 2008 NATIONAL DEFENSE AUTHORIZATION ACT CITATION AND REQUIREMENT

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### Reports with Questioned Costs

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## Appendix D

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

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<td>(i) dollar value of recommendations that were agreed to by management</td>
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<tr>
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<td>$ 0</td>
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<td>--based on proposed legislative action</td>
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## Peer Reviews Conducted of this Office

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## Peer Reviews Conducted by this Office

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<tr>
<td>Office of Inspector General</td>
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</tbody>
</table>
FCA Organizational Chart

Farm Credit Administration Board
Leland A. Strom, Chairman
Kenneth A. Spearman, Member
Jill Long Thompson, Member

Office of the Chairman and CEO
Leland A. Strom

Office of Inspector General¹
Carl A. Clinefelter

Office of Congressional and Public Affairs
Michael A. Stokke²

Office of Secondary Market Oversight³
Laurie A. Rea

Secretary to the Board
Dale L. Aultman

Equal Employment and Inclusion Director
Thais Mootz

Designated Agency Ethics Official
Wendy R. Laguarda

Special Advisor YBS & Local Food Systems
Mark Johansen

Office of the Chief Operating Officer
William J. Hoffman

Office of Management Services
Stephen G. Smith

Office of Examination
S. Robert Coleman

Office of Regulatory Policy
Gary K. Van Meter

Office of General Counsel⁴
Charles R. Rawls

¹ The Dodd-Frank Wall Street and Consumer Protection Act, Public Law 111-203, amended the Inspector General Act, 5 U.S.C. App 3, changing the meaning of “head of the designated Federal entity.” The effect is that the Inspector General now reports to the FCA Board. Prior to the amendment, the FCA Chairman was the “head of the designated Federal entity” under the IG Act and the IG reported to the Chairman.

² Serves as Executive Assistant to the Chairman.

³ Reports to the Board for policy and to the CEO for administration.

⁴ Maintains a confidential advisory relationship with each of the Board members.
Glossary of Terms

Agency – Farm Credit Administration
BPD – Bureau of the Public Debt
Brown & Co. – Brown & Company CPAs, PLLC
CIGIE – Council of the Inspectors General on Integrity and Efficiency
DIG – Deputy Inspector General
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
FY – Fiscal Year
H.R. – House Resolution
IG – Inspector General
IG Act – Inspector General Act of 1978, as amended
I&E – Inspection and Evaluation
ISACA – Information Security and Control Association
IT – Information Technology
OE – Office of Examination
OIG – Office of Inspector General
OMB – Office of Management and Budget
System – Farm Credit System
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