FY 2022

Performance and Accountability Report

Farm Credit Administration

Regulator of the Farm Credit System

Mission

The Farm Credit Administration ensures that Farm Credit System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

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List of acronyms appearing in report

CAMELS	capital, assets, management, earnings, liquidity, and sensitivity
CEO	chief executive officer
COO	chief operating officer
COVID-19	coronavirus disease 2019
CSRS	Civil Service Retirement System
DATA	Digital Accountability and Transparency Act
EEO	Equal Employment Opportunity
Farmer Mac	Federal Agricultural Mortgage Corporation
FCA	Farm Credit Administration
FCS	Farm Credit System
FCSIC	Farm Credit System Insurance Corporation
FCSBA	Farm Credit System Building Association
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FIRS	Financial Institution Rating System
FY	fiscal year
GAAP	generally accepted accounting principles
GAO	Government Accountability Office
GSE	government-sponsored enterprise
IM	informational memorandum
IT	information technology
Libor	London Interbank Offered Rate
NCB	National Consumer Cooperative Bank
OE	Office of Examination
ODAE	Office of Data Analytics and Economics
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	U.S. Office of Management and Budget
OPM	U.S. Office of Personnel Management
OSMO	Office of Secondary Market Oversight
SFFAS	Statements of Federal Financial Accounting Standards
USDA	United States Department of Agriculture
YBS	young, beginning, and small (farmers and ranchers)

Statement of Board Chairman and CEO

November 8, 2022

As board chairman and CEO of the Farm Credit Administration, I invite you to review our Performance and Accountability Report for Fiscal Year 2022. Unless otherwise indicated, the report covers our activities from Oct. 1, 2021, to Sept. 30, 2022.

In FY 2022, we once again achieved the goals outlined in our strategic plan and met or exceeded almost all performance targets. In addition, our financial statements received an unmodified opinion from an independent auditor. Based on the results of our internal evaluations, I can assure you that the financial and performance information in this report is complete and reliable. We also did not identify any material weaknesses in our internal controls.

FCA is the arm's length regulator of the Farm Credit System (System) and the Federal Agricultural Mortgage Corporation (Farmer Mac). Our mission is to ensure that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

The System holds around 45% of the nation's total farm business debt, so it plays a vital role in the health of the nation's agricultural economy. Farmer Mac, which provides a secondary market for agricultural real estate mortgages and rural cooperative loans, enhances the ability of lenders to offer competitive financing to rural borrowers and farmland investors.

Both the System and Farmer Mac are well capitalized and remain financially safe and sound. Together, the Farm Credit System banks and associations held $456 billion in assets as of June 30, 2022, up around 12% from the year before. Farmer Mac had assets of $25.9 billion as of that date, up 6.7% from the year before.

Over the past fiscal year, we worked to protect the financial soundness of the System and Farmer Mac and to ensure that they continue to fulfill their missions to serve agriculture and rural America. Here are some of the ways we accomplished these goals during the reporting period from July 1, 2021, to June 30, 2022:

- Prepared 51 formal reports of examination, 49 interim activity letters, and 72 letters regarding FIRS (Financial Institutions Rating System) ratings for System institutions and Farmer Mac.
- Responded to 19 inquiries and complaints from System borrowers and loan applicants.
- Issued guidance to the System on FCA's expectations regarding sound business practices in the governance and management of wholesale funding arrangements and related processes.
- Issued a final rule governing the standards of conduct for System institutions.
- Issued a final rule governing the implementation of the current expected credit losses model in determining the allowance for loan losses.

- Issued a final rule to clarify numerous provisions of the tier 1/tier 2 capital framework and issued guidance to the System that incorporated those clarifications.
- Issued a proposed rule governing the appointment of the Farm Credit System Insurance Corporation as conservator and receiver of distressed System institutions.
- Issued a proposed rule to increase service by the System's direct-lender associations to young, beginning, and small farmers and ranchers in their respective territories.
- Continued to study the loan syndication market.

FCA had a good year in FY 2022 in many respects, not the least of which was its high ranking on the list of Best Places to Work in the Federal Government. According to the results of the Federal Employee Viewpoint Survey conducted by the Office of Personnel Management, FCA placed sixth on the list of best places to work among small federal agencies.

Having recently joined the FCA board and been designated its chairman and CEO, I look forward to working closely with my fellow board members, senior leaders, and agency staff to build on these successes.

Vincent G. Logan
Board Chairman and CEO

Management's Discussion and Analysis

This section provides an overview of the Farm Credit Administration and our mission. It highlights information on FCA's performance, financial results, systems and controls, compliance with laws and regulations, and an assessment of future challenges and plans.

FCA at a Glance

The Farm Credit Administration is an independent agency in the executive branch of the U.S. government. We are responsible for regulating and supervising the Farm Credit System (its banks, associations, and related entities) and the Federal Agricultural Mortgage Corporation (Farmer Mac).

The System is a nationwide network of borrower-owned financial institutions that provide credit to farmers, ranchers, residents of rural communities, agricultural and rural utility cooperatives, and other eligible borrowers.

FCA is responsible for ensuring that the System remains a dependable source of credit for agriculture and rural America. We do this in two ways:

- We ensure that System institutions, including Farmer Mac, operate safely and soundly and comply with applicable laws and regulations.
- We issue policies and regulations governing how System institutions conduct their business and interact with borrowers.

History highlights

1909: The Country Life Commission studies rural progress in the United States.

1912 and 1913: National commissions study European agricultural credit.

1916: Congress creates the Farm Credit System, establishing 12 federal land banks.

1923: Twelve federal intermediate credit banks are added to System.

1933: FCA is created; production credit associations and one central bank and 12 regional banks for cooperatives are added to System.

1934: FCA becomes responsible for chartering, examining, and supervising all federal credit unions.

1939: FCA becomes part of USDA.

1953: FCA becomes independent agency again.

1968: The System repays government capital.

1971: Congress passes Farm Credit Act of 1971, from which FCA derives its current powers and authorities.

1980: The Farm Credit Act Amendments of 1980 allows System lenders to provide credit and other financial services to additional types of borrowers. They also require federal land banks and production credit associations to develop lending programs for young, beginning, and small farmers and ranchers.

1985: FCA becomes arm's length regulator with enforcement powers.

1987: The System is authorized to receive $4 billion in federal assistance but uses only $1.3 billion.

1988: The Farm Credit System Insurance Corporation and Farmer Mac are established.

1996: Congress passes Farm Credit System Reform Act granting Farmer Mac authority to buy and pool loans.

2005: The System repays all federal financial assistance with interest.

2017: FCA capital rule ensures that System institutions hold sufficient regulatory capital.

2018: Congress passes Agriculture Improvement Act of 2018, which enhances FCA's enforcement powers.

FCA history

An executive order by President Franklin D. Roosevelt in 1933 placed all existing agricultural credit organizations under the supervision of a new agency, the Farm Credit Administration. FCA was independent until 1939, when it became part of the U.S. Department of Agriculture (USDA), but became an independent agency again under the Farm Credit Act of 1953. This act created a federal Farm Credit Board with 13 members (one from each of the 12 farm credit districts and one appointed by the secretary of agriculture) to develop policy for FCA. Farmer-borrowers now had a voice at the national level.

FCA also played a pivotal role in the federal credit union movement when, in 1934, it was given responsibility for chartering, examining, and supervising all federal credit unions. Before this oversight was turned over to the Federal Deposit Insurance Corporation in 1942, FCA had chartered more than 4,000 credit unions and examined them annually.

FCA derives its current powers and authorities from the Farm Credit Act of 1971, as amended (12 U.S.C. 2001–2279cc). This act gave the banks and associations more flexibility in lending to production agriculture and authorized lending to commercial fishermen and rural homeowners. In 1980, the law was amended to encourage lending to young, beginning, and small farmers. The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee FCA and the Farm Credit System.

For a complete history, see the timeline from 1909 to the present on the FCA website (https://www.fca.gov/about/historical-highlights-of-fca-and-the-fcs).

FCA funding and governance

FCA does not receive a federal appropriation. We maintain a revolving fund financed primarily by assessments from the institutions we regulate. Other sources of income for the revolving fund are interest earned on investments with the U.S. Treasury and reimbursements for services we provide to federal agencies and others.

FCA's policy, regulatory agenda, and supervisory and examination activities are established by a full-time, three-person board whose members are appointed by the president of the United States with the advice and consent of the Senate.

Board members serve a six-year term and may remain on the board until a successor is appointed. The president designates one member as chairman of the board, who serves in that capacity until the end of his or her own term. The chairman also serves as our chief executive officer.

FCSIC

FCA board members also serve as the board of directors for the Farm Credit System Insurance Corporation (FCSIC), which is a separate independent agency. FCSIC was established by the Agricultural Credit Act of 1987 in the wake of the agricultural credit crisis of the 1980s. The purpose of FCSIC is to protect investors in Systemwide debt securities by insuring the timely payment of principal and interest on certain System notes, bonds, and other obligations purchased by investors. FCSIC does so by maintaining the Farm Credit Insurance Fund, a reserve that represents the equity of FCSIC.

FCA offices

Our headquarters and one field office are in McLean, Virginia. We also have field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

As of Sept. 30, 2022, FCA had 319 employees. These employees work in the following offices, with the majority serving in the Office of Examination.

The **FCA board** manages, administers, and establishes policies for FCA. The board approves the policies, regulations, charters, and examination and enforcement activities that ensure a strong Farm Credit System (FCS). The board also provides for the examination and supervision of the FCS, including Farmer Mac, and oversees the activities of the FCS Building Association, which acquires, manages, and maintains FCA headquarters and field office facilities. Vincent G. Logan is the board chairman.

The **chairman of the FCA board** serves as the chief executive officer (CEO). The CEO enforces the rules, regulations, and orders of the FCA board. He or she directs the implementation of policies and regulations adopted by the FCA board. The Office of the Chief Executive Officer plans, organizes, directs, coordinates, and controls our day-to-day operations and leads the agency's efforts to achieve and manage a diverse workforce. Vincent G. Logan is the CEO.

The **chief operating officer (COO)** has broad responsibility for planning, directing, and controlling the operations of the Offices of Agency Services, Examination, Regulatory Policy, Data Analytics and Economics, Information Technology, Chief Financial Officer, and General Counsel in accordance with the operating philosophy and policies of the FCA board. He or she supervises and provides policy direction to the executive staff responsible for managing these offices. The COO oversees and coordinates the development and implementation of the agencywide strategic, operating, and budget plans and activities. The COO also coordinates the resolution of internal policy, personnel, and program issues with agency executive leadership and the FCA board.

The **Office of Agency Services** manages and delivers human capital, operational, and workforce development services for the agency. It also facilitates the agency's strategic planning efforts. The office consists of three service delivery teams: Human Resources Division, Operations Division, and Learning and Organizational Change Team. Services provided include strategic human capital management, recruiting, workforce planning, succession management, staffing and placement, job evaluation, compensation and benefits, payroll administration, performance management, awards, employee relations, employee training and development, property management, personnel security, continuity of operations and emergency preparedness, supply services, and mail service.

The **Office of the Chief Financial Officer** supports FCA's operations by providing financial management policy advice and reporting the agency's financial results. The office manages the agency's compliance with federal financial management requirements. It also reports on the accuracy and propriety of transactions, the extent to which assets are accounted for and safeguarded, and the adequacy of internal controls to detect and prevent material financial misstatements. It oversees the agency's budget; the investments committee; FCS assessments; and the agency's purchasing, credit card, and travel/relocation programs. It also facilitates the agency's risk management and internal control efforts to help ensure operational and fiscal effectiveness and efficiency.

The **Office of Congressional and Public Affairs** serves as the agency's principal point of contact for Congress, the media, other government agencies, FCS institutions, employees, System borrowers, and the public. The office develops and monitors legislation pertinent to FCA and the FCS, serves as the agency's congressional liaison, facilitates intergovernmental relations, and prepares testimony for the chairman and other board members. It also provides information to external audiences through news releases, fact sheets, reports, videos, and other publications. The office cultivates relationships with media representatives who report on matters related to agriculture and rural credit, and it manages the content of the FCA website and social media channels. It also organizes special meetings, briefings for international visitors, and field hearings.

The **Office of Data Analytics and Economics** evaluates strategic risks to the System and agency using data, analytics, economic trends, and other risk factors. Its staff members serve as stewards for agency data and provide information to the board and management for objective, evidence-based decision-making across FCA. The office facilitates an agencywide strategy for analytics and collaborates on business intelligence tools and the development of models to meet the strategic needs of the agency.

The **Office of Equal Employment Opportunity and Inclusion** manages and directs the diversity, inclusion, and equal employment opportunity (EEO) program for FCA and FCSIC. The office serves as the chief liaison with the Equal Employment Opportunity Commission and the Office of

Personnel Management on all EEO, diversity, and inclusion issues. The office provides counsel and leadership to agency management to carry out its continuing policy and program of nondiscrimination, affirmative action, and diversity.

The Office of Examination is responsible for examining and supervising each FCS institution in accordance with the Farm Credit Act and applicable regulations. The office develops oversight plans; conducts examinations; monitors the System's condition and current and emerging risks to the System; and develops supervisory strategies to ensure that the FCS operates in a safe and sound manner, complies with the law and regulations, and fulfills its public policy purpose. For more information about the role of the Office of Examination, go to www.fca.gov/bank-oversight/guidance and click board policy statements to read our "Examination Philosophy" (FCA-PS-53).

The **Office of General Counsel** provides the FCA board and staff with legal counsel as well as guidance on the Farm Credit Act and general corporate, personnel, ethics, and administrative matters. The office supports the agency's development and promulgation of regulations, enforcement of applicable laws and regulations, and implementation of conservatorships and receiverships. It represents and advises the agency on civil litigation. It also serves as the liaison to the Federal Register, administers the agency's ethics program, and handles Freedom of Information Act requests.

The **Office of Information Technology** supports the information, solutions, and IT infrastructure that empower FCA to fulfill its mission. It is a respected partner in fulfilling FCA's mission through innovative solutions. The office is responsible for protecting agency technology assets, planning and controlling information technology investments, leading change to improve the efficiency and effectiveness of agency operations, and maintaining compliance with IT regulatory mandates. It is responsible for continuing to leverage FCA's investment in technology by collaborating across agency offices to identify and re-engineer business applications, data systems, and processes.

The **Office of Inspector General** provides independent and objective oversight of agency programs and operations through audits, inspections, evaluations, investigations, and the review of proposed legislation and regulations. The office promotes economy and efficiency within FCA and seeks to prevent and detect fraud, waste, abuse, and mismanagement in the agency's programs and operations.

The **Office of Regulatory Policy** manages policy and regulation development activities, at the direction of the FCA board, to ensure the safety and soundness of the FCS and support the System's mission. Policy and regulation development activities include the analysis of policy and strategic risks to the System on the basis of economic trends and other risk factors. The office also evaluates all regulatory and statutory prior approvals for System institutions on behalf of the FCA board, including chartering and other corporate approvals as well as funding approvals.

The **Office of Secondary Market Oversight** provides for the examination, regulation, and supervision of Farmer Mac to ensure its safety and soundness and the accomplishment of its public policy purpose as authorized by Congress. It also ensures that Farmer Mac complies with applicable laws and regulations, and it manages FCA's enforcement activities with respect to Farmer Mac.

The **designated agency ethics official** is designated by the FCA chairman to administer the provisions of title I of the Ethics in Government Act of 1978, as amended, to coordinate and manage FCA's ethics program and to provide liaison to the Office of Government Ethics with regard to all aspects of FCA's ethics program.

The **secretary to the board** serves as the parliamentarian for the board and keeps permanent and complete records of the acts and proceedings of the board. He or she ensures that the board complies with statutory, regulatory, and internal operation reporting requirements. The secretary to the board also serves as secretary to the Farm Credit System Insurance Corporation board. In addition, he or she serves as the Sunshine Act official for the FCA board.

Figure 1: FCA organizational chart as of October 2022

For an accessible version of this chart, go to www.fca.gov/about/fca-organizational-chart

FCA Board

Vincent G. Logan
Chairman

Jeffery S. Hall
Member

Glen R. Smith
Member

Office of the Board Chairman and Chief Executive Officer
Vincent G. Logan

Office of Inspector General
Wendy R. Laguarda

Office of the Chief Operating Officer
S. Robert Coleman

Office of Congressional and Public Affairs
Michael A. Stokke

Office of Equal Employment Opportunity and Inclusion
Thais Burlew

Office of Secondary Market Oversight *
Laurie A. Rea

Designated Agency Ethics Official
Jane Virga

Secretary to the Board
Ashley Waldron

Office of Agency Services
Vonda Bell

Office of the Chief Financial Officer
Sandi Walters

Office of Data Analytics and Economics
Jeremy D'Antoni

Office of Examination
Mike Duffy

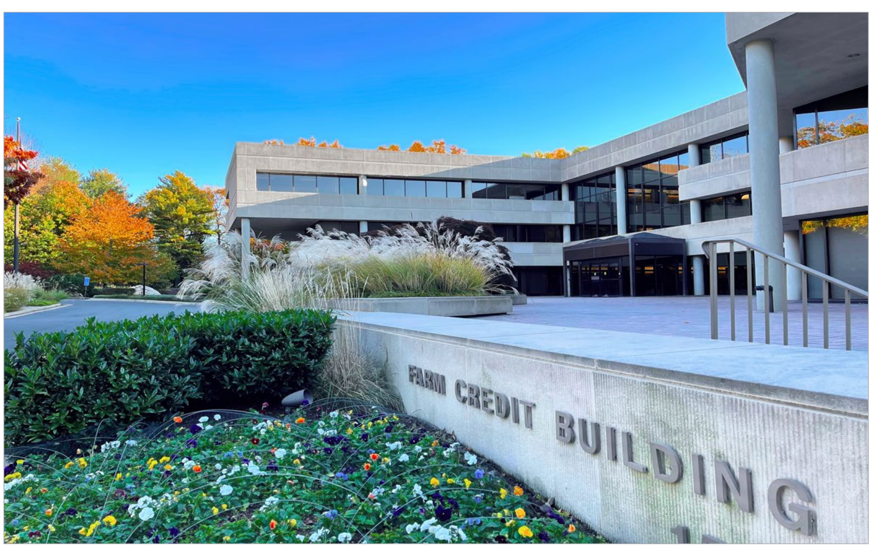
Office of General Counsel
Clark Ogilvie †

Office of Information Technology
Jerald Golley

Office of Regulatory Policy
Kevin Kramp

* Reports to the board for policy and to the CEO for administration.

† Maintains a confidential advisory relationship with each of the board members.



The headquarters of the Farm Credit Administration, located in McLean, Virginia.
Sherrell Carr, Farm Credit Administration

Highlights of FCA's Performance Goals and Results

FCA's mission is to ensure that Farm Credit System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

In our Strategic Plan for Fiscal Years 2018–2023, we identified three goals we must meet to fulfill our mission. For each goal, we identified strategies and actions to achieve the goal, as well as a set of performance measures to monitor our progress in meeting the goal.

Our performance report (page 27) shows that we met the goals identified in our strategic plan and met or exceeded most of the performance measures for which there are data to measure performance. The following is a summary analysis of our performance in reaching our goals.

Goal 1 highlights

Public mission: Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.

There are nine strategies and six performance measures established for goal 1 in the strategic plan (see table 9a). The six performance measures are as follows:

1. Percentage of FCS institutions providing products and services that serve creditworthy and eligible persons and perform outreach to enhance diversity and inclusion. (Target: ≥90%)
2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans. (Target: Yes)
3. Percentage of direct-lender institutions with satisfactory consumer and borrower rights compliance. (Target: ≥90%)
4. Percentage of direct-lender institutions with young, beginning, and small (YBS) programs for farmers and ranchers that are in compliance with YBS regulations. (Target: ≥90%)
5. Whether the majority of objectives listed in the preamble of each final rule were met on the two-year anniversary of the rule's effective or implementation date. (Target: Yes)
6. Percentage of pre–rulemaking projects and proposed rules on which FCA requested input from persons outside of FCA. (Target: 100%)

We achieved or exceeded our targets for all six measures associated with goal 1.

Goal 2 highlights

Safety and soundness: Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the System and Farmer Mac.

There are six strategies and six performance measures for goal 2 (see table 9b). The performance measures are as follows:

1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2. See box on next page for explanation of CAMELS. (Target: ≥90%)
2. Percentage of requirements in supervisory agreements with which FCS institutions have at

least substantially complied within 18 months of execution of the agreements. (Target: ≥80%)

3. Percentage of institutions complying with regulatory capital ratio requirements. (Target: ≥80%)
4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed. (Target: Yes)
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans. (Target: 100%)
6. Whether five or more reports and dashboards were created that use data collected from the Farm Credit System to assess risk in the System. (Target: Yes)

We achieved or exceeded the targets for four of the six measures associated with goal 2. During this reporting period, performance measure 2 was not applicable because we did not have any supervisory agreements in place with FCS institutions. For performance measure 5, we did not achieve our target of 100% because one of the institutions

The CAMELS rating system is based on an evaluation of six critical elements of a System institution's operations. Its purpose is to provide an accurate and consistent assessment of an institution's capital, asset quality, management, earnings, liquidity, and sensitivity to interest rate risk. Examiners assign a numeric rating between 1 and 5 to each of these components.

Capital—Capital is evaluated and rated based on the quantity and quality of capital, risks that could threaten capital, the ability to capitalize asset growth, and the management of capital. System institutions are expected to maintain capital commensurate with the nature and extent of risks to the institution and the ability of management to identify, measure, monitor, and control these risks.

Asset Quality—Asset quality is evaluated and rated based on the credit risk in loans, investments, other real estate owned, and other assets. Management's ability to identify, measure, monitor, and control credit risk is also reflected here. This evaluation also considers the adequacy of the allowance for credit losses.

Management—Management is evaluated and rated based on the effectiveness of the board and management at identifying, measuring, monitoring, and controlling the risks of the institution's activities; ensuring that the institution operates in a safe, sound, and efficient manner and complies with applicable laws and regulations; and serving its public mission.

Earnings—Earnings are evaluated and rated based on the quantity, quality, and sustainability of the institution's earnings. This evaluation considers the adequacy of earnings in relation to the institution's various risk exposures, earnings strategies, operating efficiency, and the adequacy of earnings to fund capital needs.

Liquidity—Liquidity is evaluated and rated based on the institution's ability to fund operations and meet debt obligations and cashflow requirements without incurring unacceptable losses or materially affecting the institution's daily operations and financial condition.

Sensitivity—Sensitivity is evaluated and rated based on the degree to which changes in interest rates can adversely affect the institution's earnings and capital. This evaluation addresses asset-liability management practices, hedges, strategies for managing interest rate risk, and risk measurement processes.

we regulate did not have an adequate corrective action plan to resolve weaknesses we identified in its internal control program. The institution is now developing a more effective corrective action plan.

Goal 3 highlights

Workforce management: Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.

There are four strategies and two performance measures for goal 3 (see table 9c). The performance measures are as follows:

1. Whether, as part of its recruiting efforts for entry-level examiners, FCA has ensured that at least 25% of its outreach efforts target applicants with a disability or who are members of a minority group. (Target: 25%)
2. Whether we have maintained or improved our score from last year in the annual employee satisfaction survey. (Target: ≥82%)

We achieved or exceeded the targets for both of the measures associated with goal 3.

Resources to achieve our strategic goals

The performance goals, as outlined in the strategic plan, provide a framework for the development of the annual budget request and the performance measures and targets. We formulate and execute our budget by allocating resources according to the agency goals. We assess and measure our overall effectiveness in fulfilling our mission through the resulting analysis of the performance measures.

When we formulate and execute our budget, we allocate dollars as follows:

- Goal 1 — Public mission
- Goal 2 — Safety and soundness
- Goal 3 — Other activity

Goals 1 and 2 above align with the goals as noted in the performance report. Goal 3, however, differs between the performance report and the performance budget and execution. Costs for the workforce management goal in the strategic plan are an inherent part of our ability to fulfill our primary agency goals of public mission and safety and soundness. In the performance budget and in our execution of the budget, we use the other activity goal to track reimbursable activity separate from other agency primary mission costs. Table 1 displays the proportion of our budget allocated to each goal and the proportion of the costs associated with each goal.

The percentage of costs related to our safety and soundness goal were lower than budgeted partly because of the reduced travel expenses we continued to see in the early part of the fiscal year. For specifics on the agency resources expended in support of our agency goals, please refer to the program costs and revenues section on page 18.

For more information about our performance results, see the performance results tables on pages 42–48. For governmentwide performance reporting results, please refer to www.performance.gov.

Table 1. FY 2022 performance budget versus program costs

Agency programs	Percentage of total performance budget	Percentage of total program costs
Public mission	22.5%	26.0%
Safety and soundness	75.6%	73.3%
Other activity	1.9%	0.7%
Total	100.0%	100.0%

Analyses and Highlights of FCA's Financial Statements

Financial Highlights

Financial operation of FCA

We pay for planned administrative expenses from a revolving fund, which is funded primarily by assessments received from Farm Credit System institutions, including the Federal Agricultural Mortgage Corporation (Farmer Mac) and the System's service corporations.

We calculate the assessments using a formula established by FCA regulation. The FCA board approves our budget, and Congress usually imposes a limitation on the dollar amount of obligations that we may incur in a given fiscal year.

In addition to assessments, we receive funds from two other sources:

- **Reimbursable services:** We are reimbursed for the cost of examining the National Consumer Cooperative Bank and for performing services for the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture (USDA).
- **Interest earned:** We earn interest on investments with the U.S. Department of the Treasury. We use interest earned on investments to build and maintain an agency reserve. The reserve ensures that we can effectively and efficiently respond to unexpected, unbudgeted expenses without needing to increase assessments.

Table 2 outlines key financial measures for FYs 2022 and 2021. The following sections provide additional detail on these financial data. Our financial statements are provided on pages 57–74.

Table 2. Summarized financial data

Key measure	FY 2022	FY 2021
Total assets	$48,403,650	$42,314,408
Total liabilities	$22,456,719	$19,641,236
Net position	$25,946,931	$22,673,172
Total budgetary resources	$110,059,470	$99,582,445
Net outlays	$(6,862,733)	$(1,186,586)
Net cost of operations	$3,240,792	$6,631,531

Table 3. Composition of assets

Assets	FY 2022	FY 2021	Percentage change
Fund balance with Treasury	$4,511,469	$896,793	403.1%
Investments	42,459,398	39,610,612	7.2%
Accounts receivable and prepayments	327,263	319,379	2.5%
Property and equipment	1,105,520	1,487,624	(25.7%)
Total	**$48,403,650**	**$42,314,408**	**14.4%**

FCA's assets, liabilities, and net position

As shown in table 3, our total assets (the resources we own) for FY 2022 are composed of the following:

- Fund balance with Treasury (9.3%)
- Investments (87.7%)
- Accounts receivable and prepayments (0.7%)
- Property and equipment (2.3%)

During FY 2022, total assets increased by $6,089,242, or 14.4%, from amounts reported in FY 2021.

As of Sept. 30, 2022, the agency held $4,511,469 in cash (fund balance with Treasury). While we invest all excess cash in U.S. Treasury securities, the timing of when cash is collected affects the ending balance. The increase in our cash balance from 2021 to 2022 was due to a higher influx of funds collected after the cutoff time for investing on Sept. 30, 2022. Cash collected after the investment cutoff for the day remains as an available cash balance and is invested the following day. The collections on Sept. 30 were prepaid assessments (that is, assessments due on Oct. 1 but received on or before Sept. 30) from several FCS institutions.

Our investment portfolio, which accounts for the largest portion of our total assets, increased by $2,848,786 in FY 2022. The primary factor for this increase is the increase in assessments this fiscal year relative to FY 2021. During FY 2022, we purchased $15,718,052 in U.S. Treasury securities, using an investment strategy that enables us both to maintain a steady cash flow for agency operations and earn interest to build the agency reserve.

We hold the reserve funds in contingency to address specific, onetime, unforeseen events without increasing assessments at a time that may be financially difficult for System institutions. Our policy is to maintain a reserve balance that covers approximately two months of operating expenses. Section 5.15 of the Farm Credit Act of 1971, as amended, (12 U.S.C. 2250) allows FCA to maintain a necessary reserve. The interest reserve makes up roughly 34.6% of our total investment portfolio. The remaining balance in the investment portfolio is comprised of our funded leave liability, prepaid assessments, agency obligations, and carryover funds from prior years.

Our liabilities, as shown in table 4, consist of the following general categories:

- Accounts payable (6.2%)
- Payroll and benefits (37.3%)
- Employer contributions and taxes payable (7.2%)
- Workers' compensation (7.1%)
- Deferred revenue (42.2%)

Like total assets, our total liabilities (what we owe to the public and other government agencies) increased. Driven primarily by the increase in deferred revenue and accounts payable, overall

Table 4. Composition of liabilities

Liabilities	FY 2022	FY 2021	Percentage change
Accounts payable	$1,400,517	$956,848	46.4%
Accrued liabilities (payroll and benefits)	8,375,421	9,141,457	(8.4%)
Employer contributions and taxes payable	1,611,932	1,503,037	7.2%
Workers' compensation (funded and unfunded)	1,594,022	1,565,542	1.8%
Deferred revenue	9,474,827	6,474,352	46.3%
Total liabilities	**$22,456,719**	**$19,641,236**	**14.3%**

liabilities increased by $2,815,483, or 14.3%, from 2021 to 2022.

Deferred revenue—assessments received from FCS institutions that are not due until Oct. 1—increased by $3,000,475 relative to 2021. With the FY 2023 assessments increasing by $2.6 million overall, we expected to see some increase in the dollar amount of prepaid assessments. At the beginning of each fiscal year, we reclassify any prepaid assessments as revenue earned in October of the new year.

Our accounts payable increased by $443,669 this year. As of Sept. 30, 2022, we had a higher amount in liabilities for services received but not paid (invoice accruals) relative to 2021. The timing of when vendors submit invoices for payment impacts the number of accruals that must be recorded at year-end. Another component impacting our year-end accounts payable balance included FCA's focus on simplified acquisition processing during FY 2022. This process involved using purchase cards for acquisition of low-dollar-value items when appropriate. Since the purchase card payment transactions were not available in the financial system as of Sept. 30, we recorded an expense accrual for the September purchase card activity. Lastly, with the easing of COVID restrictions, we saw increased travel for agency staff. There was a lot of travel in September that was not vouchered as of Sept. 30 and had to be accrued—these travel expense accruals were much higher in 2022 relative to 2021.

Accrued liabilities decreased by $766,036 from Sept. 30, 2021, to Sept. 30, 2022. This decrease is primarily due to a decrease in the funded leave liability accrual. With the easing of COVID-19 restrictions, staff used more leave (vacation time) in 2022; as a result, leave balances were lower at fiscal year-end 2022.

Our net position, which represents the cumulative results of operations since the agency began, increased by $3,273,759, or 14.4%, during FY 2022. The net position increased primarily because of the decrease in the net cost of operations (see the Program costs and revenues section). For a breakdown of the net position, see the statement of changes in net position on page 60.

FCA's status of funds

Our budget represents our plan for achieving our mission and strategic goals while operating as effectively and efficiently as possible. Table 5 shows our board-approved budget amounts for FYs 2022 and 2021. The overall FY 2022 budget increased by 4.9% over the 2021 budget.

In FY 2022, we continued to carry out our mission, program goals, and objectives within the available budget. Our board-approved budget for FY 2022 was approximately $84.8 million, and the congressional limitation on our spending was $84.2 million. The FY 2021 congressional limitation was $80.4 million. The congressional limitation is the spending limit imposed by Congress on the nonreimbursable activity portion of our budget for the year. It limits the amount of assessments that we may use to pay for administrative expenses. The limitation includes assessment amounts for the current year as well as assessment carryover from prior years.

Table 5. Agency budget

Budget funding sources	FY 2022	FY 2021	Difference
Assessments (current year)*	$82,700,000	$79,800,000	$2,900,000
Assessments (carryover from prior years)	1,500,000	600,000	900,000
Reimbursable activity	610,000	470,000	140,000
Total	**$84,810,000**	**$80,870,000**	**$3,940,000**

* Assessments were reduced by $3.5 million in FY 2021.

The assessment funds we used in 2022 amounted to 97.1% of our congressional limitation in 2022 (see table 6).

As table 7 shows, the agency used $5,165,420 more in 2022 than in 2021. Dollarwise, the largest increases were evenly split across personnel compensation and benefits, travel and transportation, and contractual services, with each increasing over $1 million.

The largest increase in the three categories noted above was in personnel compensation and benefits, which increased by $1,614,156. This increase is the result of a combination of increases in staff and planned salary increases and promotions. Personnel compensation and benefits continue to account for the most significant use of funds at FCA, representing approximately 85.0% of the total funds used in 2022.

With the easing of COVID-19 restrictions, we saw a large increase in travel expenditures during FY 2022. As a result, funds used for travel in FY 2022 increased by $1,045,825 from FY 2021. Funds used for travel remain well below pre-pandemic amounts. We expect to see continued increases in travel in FY 2023.

Dollars expended for contractual services increased by 24.0% over last year and represented approximately 9.0% of the total funds used in 2022. We increased our contractual services spending to meet agency needs for security, data analytics, and training.

Program costs and revenues

This section describes our program costs and revenues for the fiscal years ended Sept. 30, 2022, and Sept. 30, 2021. Please read this section in conjunction with the statements of net cost. Because this section focuses on the cost of operations, some of the data provided here may differ from data

Table 6. Funds used based on congressional limitation

Funds used category	2022 Funds used	Congressional limitation	Percentage used
Assessment funds used*	$81,731,269	$84,200,000	97.1%

* Includes amounts used from current year assessed amounts and assessment carryover amounts used to fund the budget.

Table 7. Funds used by major budget category

Budget category	FY 2022	FY 2021	Percentage change
Personnel compensation and benefits	$69,787,360	$68,173,204	2.4%
Travel and transportation	1,227,308	181,483	576.3%
Contractual services	7,408,731	5,974,237	24.0%
Property and equipment	1,047,012	497,791	110.3%
Other	2,616,212	2,094,488	24.9%
Total*	**$82,086,623**	**$76,921,203**	**6.7%**

* The total funds used include reimbursable activity that is not subject to the congressional limitation.

provided in sections of this report that are based on budgetary accounting.

Another difference that arises when we assess our program costs relative to our performance goals and measures is with goal 3, which relates to workforce management. Costs to address workforce management are intrinsic to our main goals of public mission and safety and soundness and are captured as part of those goals. For purposes of the performance budget and costs, goal 3 is related to our reimbursable activity. We track these costs separately from the mission costs noted in goals 1 and 2.

We achieve our strategic goals and manage our costs with sound business planning and effective resource management. The net cost of our programs totaled $3,240,792 for the 12 months ended Sept. 30, 2022, compared with $6,631,531 for the same period the previous year. While both revenue and expenses increased this past year, the rate of increase in revenue outpaced expenses, resulting in a net cost decrease of $3,390,739 from 2021.

The total cost of our programs for FY 2022 is $86,523,580, compared with $83,667,255 for FY 2021. This represents an increase of $2,856,326, or 3.4%, from 2021. Figure 2 shows the breakdown of FY 2022 gross costs for each of our goals. Most of our costs support our mission and program goals. The increase in total costs is primarily due to increases in staff and employee compensation.

Employee salaries and benefits represent our greatest overall cost. For 2022, employee compensation totaled $72,661,004, or 84.0%, of total cost. Increases in staff, performance-based salary increases, employee benefits, career ladder promotions, and higher leave liability expenses all contributed to the cost increase in 2022. We recruit and train staff to fill vacancies in accordance with our employment and diversity strategies to meet operational challenges and evolving risks in the FCS, including Farmer Mac. We periodically perform compensation studies to comply with the Financial Institution Reform, Recovery, and Enforcement Act of 1989, which requires us to keep our salaries and benefits comparable with the salaries and benefits of other federal financial institution regulators. Keeping compensation competitive helps us continue to fulfill our mission to provide the FCS, including Farmer Mac, with effective regulation and oversight.

Figure 2. Percentage of FY 2022 gross costs by agency goal

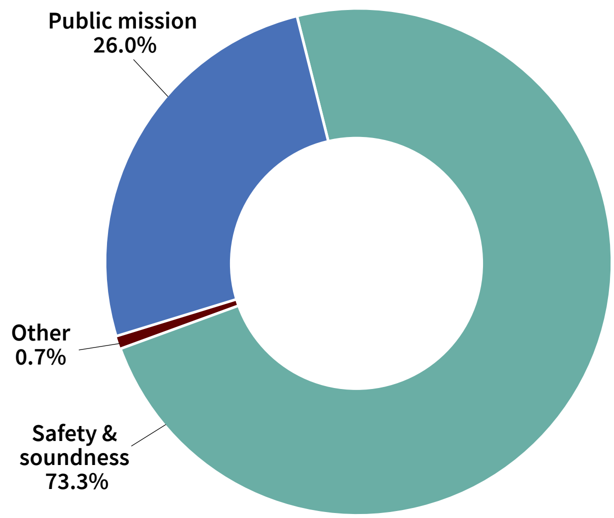


Figure 3 shows the breakdown of FY 2022 gross revenue allocated to each of our goals. Earned revenue for 2022 totaled $83,282,788, up $6,247,064, or 8.1%, from 2021. Earned revenue increased in 2021 primarily because of increases in institution assessments.

Figure 4 shows the breakdown of our three sources of revenue — assessments, interest on investments, and reimbursable activity. As one would expect, most of our revenue is derived from assessments (99.3%). Those revenues are used to fulfill our primary goals of carrying out our public mission and ensuring the safety and soundness of the System.

Public mission program

We invest significant resources in our policymaking, regulatory, and corporate activity functions to ensure that the FCS, including Farmer Mac, fulfills its public mission as mandated by Congress. During FY 2022, we continued to ensure the safe and sound flow of funds to U.S. agriculture and rural areas by providing regulation, policy, and guidance for the FCS and Farmer Mac.

Figure 3. Percentage of FY 2022 gross revenue by agency goal

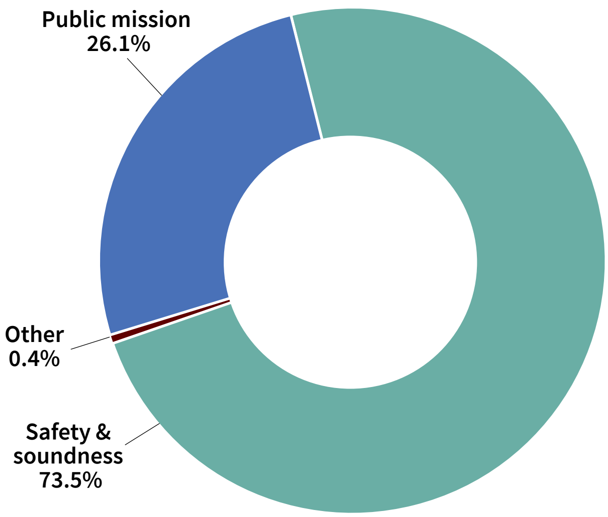
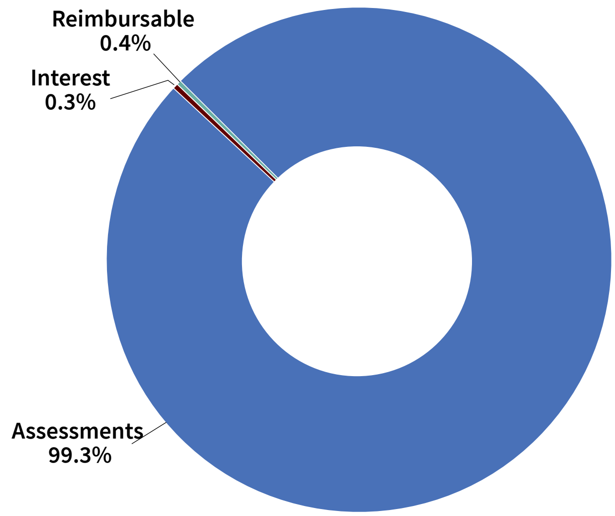


Figure 4. FY 2022 sources of revenue



Costs for our public mission program include the review of borrower complaints. In accordance with the Farm Credit Act, we also review and approve FCS institutions' mergers to enable institutions to structure themselves to best serve their customers.

For the fiscal year ended Sept. 30, 2022, the program cost for our public mission was $22,481,168, representing an increase of $2,271,889, or 11.2%, from the same period the previous year. The increase is primarily due to increases in staff and related salaries and benefits costs. The cost for the public mission program represents 26.0% of our total costs for 2022.

Safety and soundness program

Costs associated with the agency's examination and supervision activities make up the largest portion of our expenditures at the program level. Like the public mission program, the cost of the safety and soundness program increased and for the same reasons—increases in staff and related compensation costs.

We invest heavily in the recruitment and training of examination staff through our Examiner Commissioning Program. These recruiting and training efforts are necessary to meet human resource needs and to offset the impact of unplanned employee attrition and the large number of retirements expected within the next few years. These actions have enabled us to maintain our level of supervision of the FCS while we dealt with the lingering effects of the pandemic in the early part of the fiscal year. During FY 2022, we met our goals and performance targets to ensure the safety and soundness of the System.

Program cost for the examination and supervision of the FCS and Farmer Mac increased $797,189 to $63,424,321. Safety and soundness represents 73.3% of our total costs in 2022.

Other activity

"Other activity" includes examining and overseeing the National Consumer Cooperative Bank and performing reimbursable services for USDA and the Farm Credit System Insurance Corporation. Costs associated with this category decreased by $212,753 from 2021 to $618,091. The costs for providing reimbursable services remain relatively low compared with the total costs for our public mission and safety and soundness goals. Other activity represented approximately 0.7% of our total costs in 2022.

Earned revenue for other activity totaled $322,832 for 2022, compared with $467,605 for 2021, which represents a decrease of $144,773. This decrease is due to a lesser amount of reimbursable services provided this year.

Limitations of financial statements

As required by 31 U.S.C. 3515(b), we have prepared the principal financial statements to report the financial position and results of our operations. We have prepared these statements from our books and records in accordance with U.S. generally accepted accounting principles for federal entities and the formats prescribed by the Office of Management and Budget. Reports used to monitor and control budgetary resources are prepared from the same records.

As you read these statements, please keep in mind that they are for a component of the U.S. government.

Forward-looking analysis

In FY 2023, we will continue to fulfill our congressional mission: to ensure that Farm Credit System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

As we stated in an October 3, 2022, informational memorandum about our National Oversight Plan, we will focus on the following areas when conducting examinations of System institutions in FY 2023:

- Risk management practices in an uncertain environment
- Phaseout of the London Interbank Offered Rate
- Current expected credit losses implementation
- Young, beginning, and small farmer and rancher programs
- Standards of conduct
- Small, low-risk associations

On the regulatory front, we plan to issue several notices of proposed rulemakings and to finalize some previously proposed rules, including the proposed rule on cyber risk management. The fall regulatory projects plan, which will soon be available on the FCA website, provides a detailed list of the projects we expect to work on in FY 2023.

In addition to overseeing the System, we will continue to monitor the general and farm economy for risks that may threaten System institutions and their borrowers. Current risks include tight labor markets, rising inflation, high farm input costs, and drought. We will continue to monitor the economy for these risks and others and to share our findings with the institutions we regulate.

FCA also addresses climate change in its day-to-day operations. Vonda Bell, our chief human capital officer and director of the Office of Agency Services, serves as our agency's sustainability officer. She ensures that the agency has a comprehensive approach to identifying and mitigating environmental impacts.

Analysis of FCA's Systems, Controls, and Legal Compliance

Strategy for FCA's financial management system

We partner with the Department of the Treasury's Bureau of the Fiscal Service to provide FCA with several financial management services. This shared-services approach helps us maximize efficiency while maintaining a high standard of financial management and accountability.

This partnership gives us access to core financial systems without our having to maintain the necessary technical and systems architectures. Our partnership with the Fiscal Service has also improved our data reliability, which helps us comply with a May 2015 memorandum from the Office of Management and Budget on increasing the transparency of federal spending by making federal spending data accessible, searchable, and reliable (OMB-15-12).

Through our partnership with the Fiscal Service, we use Oracle Federal Financials as our financial system of record. Oracle Federal Financials is a commercial, off-the-shelf software package, which is certified under the Joint Financial Management Improvement Program to meet federal government accounting requirements. This web-based software integrates our key activities, such as e-payroll, e-travel, purchase card activity, and federal investments.

Although we perform all procurement activities in house, we partner with the Fiscal Service for procurement system services and support. The procurement system is fully integrated with Oracle Federal Financials. This integration enables us to check our funds in real time and to commit and obligate funds as transactions are approved.

By working with the Fiscal Service, we comply with the OMB Financial Management Line of Business initiative, which encourages agencies to improve the cost, quality, and performance of financial management systems by using shared services.

Collaborating with the Fiscal Service also helps us achieve our perennial goal of improving financial management; the collaboration ensures that our financial systems are up to date and in compliance with the latest guidance from the Treasury and OMB. We continue to work on streamlining our business processes to ensure efficient and effective financial management operations.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) requires federal agencies to establish and maintain a system of internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

The management control objectives under the FMFIA are to reasonably ensure that our

- obligations and costs comply with applicable laws;
- assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- revenues and expenditures are properly recorded and accounted for.

Agencies must evaluate and report on the effectiveness of their internal controls and assess whether their financial management systems comply with requirements outlined in section 4 of the FMFIA.

As a federal agency, we ensure our compliance with the FMFIA through our financial management system strategy, internal control program, and compliance with applicable laws and regulations.

Internal control program

We have established internal controls to meet the objectives of section 2 and section 4 of the FMFIA. Our system of internal control conforms with the Government Accountability Office's Standards for Internal Control in the Federal Government (Green Book).

Our internal controls are designed to provide reasonable assurance that transactions are properly recorded, processed, and summarized so that we can prepare financial statements accurately and safeguard our assets.

Our program offices are responsible for implementing and maintaining effective risk management practices and internal controls to ensure the following:

- Alignment of strategic goals with the agency's mission.
- Effective and efficient operations.
- Reliable reporting.
- Compliance with applicable laws and regulations.

We conduct risk-based internal control assessments in accordance with OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, and applicable appendices. Based on the results of the assessments, we have reasonable assurance that controls over operations, reporting, and compliance with laws and regulations are designed and operating effectively.

In addition, our independent financial statement auditor reported that we maintained effective internal control over financial reporting and compliance with applicable laws and regulations. The auditor did not report any material weaknesses or significant deficiencies.

Prompt Payment Act

We follow the Prompt Payment Act guidelines, which call for vendors generally to be paid 30 days after we receive a valid invoice for the goods and services we've received.

During FY 2022, we paid on time 99.9% of the 1,849 invoices subject to the Prompt Payment Act. Payments are made by electronic funds transfer through the Secure Payment System.

Debt Collection Improvement Act

The Debt Collection Improvement Act of 1996 prescribes standards for carrying out federal agency collection actions and for referring an agency's uncollectible debts to the proper federal agency for collection and litigation. The act has no material effect on us because we operate with virtually no delinquent debt.

This act was amended by the Digital Accountability and Transparency Act of 2014 (DATA Act) to require that debts outstanding for more than 120 days be transferred to the Treasury Department for collection under the Treasury Offset Program. We have transferred applicable debt to the Treasury Department.

Improper payments

The Payment Integrity Information Act of 2019 requires executive branch agencies to identify programs and activities that may be susceptible to significant improper payments, conduct risk assessments to determine risk factors that are likely to contribute to a susceptibility to significant improper payments, estimate annual improper payment amounts in the susceptible programs, and report on actions to recover improper payments.

Additional information on our improper payment activities are reported under "Payment Integrity Information Act Reporting" in the "Other Information" section of this report.

Digital Accountability and Transparency Act

The DATA Act was enacted to increase accountability and transparency in federal spending and expand the requirements of the Federal Funding Accountability and Transparency Act of 2006. Since our agency does not receive federal tax dollars, OMB has determined that FCA is not subject to the reporting requirements of the DATA Act.

Inspector General Act

The Inspector General Act of 1978, as amended, requires inspectors general to report to their agency heads and to Congress every six months. The semiannual reports prepared by FCA's Office of Inspector General (OIG) describe its audits, inspections, evaluations, investigations, and other oversight activities.

The FCA OIG posts all audit, inspection, and evaluation reports on its website within three business days of final submission to the FCA board. These reports are also posted on Oversight.gov, which contains OIG reports from across the federal government.

Below is a summary of the recommendations in these reports, as well as our progress in taking corrective action.

Summary of OIG audit, inspection, and evaluation activities

OIG issued seven audit, inspection, or evaluation reports during FY 2022, resulting in 27 new recommendations. At the beginning of FY 2022, four recommendations remained open from prior fiscal years. Over the course of FY 2022, 14 of the 31 open recommendations were closed. As of Sept. 30, 2022, 17 remained open. The reports are available on the FCA OIG's website at www.fca.gov/about/inspector-general-plans-and-reports. OIG issued the following reports in FY 2022.

- FCA's Compliance with the Federal Information Security Modernization Act for Fiscal Year 2021 (Oct. 27, 2021): The audit produced three recommendations.
- FCA's Financial Statements (Nov. 10, 2021): The audit produced no recommendations.
- FCA's Property Management Program (Dec. 7, 2021): The inspection produced nine recommendations.
- FCA's Compliance with the Payment Integrity Information Act of 2019 for Fiscal Year 2021 (March 23, 2022): The inspection produced no recommendations.
- FCA's Enterprise Risk Management and Internal Control Program (June 9, 2022): The audit produced eight recommendations.
- FCA's Compliance with the Federal Information Security Modernization Act for Fiscal Year 2022 (July 25, 2022): The audit produced two recommendations.
- FCA's External Communication Process (Aug. 2, 2022): The inspection produced five recommendations.

Summary of OIG recommendations

Open recommendations as of Oct. 1, 2021	4
New recommendations during FY 2022	27
Recommendations closed during FY 2022	14
Open recommendations as of Sept. 30, 2022	17
Recommendations open more than one year	2

OIG survey of FCS institutions regarding the agency's examination function

OIG conducts a quarterly survey of FCS institutions on the agency's examination function. It issues reports on the survey results to the FCA chief examiner and the FCA board. In FY 2022, OIG issued the following survey reports:

- Second through Fourth Quarters and Summary Report Fiscal Year 2021 (Jan. 21, 2022) (OIG did not conduct a survey for the first quarter of 2022 because of the COVID-19 pandemic.)
- First and Second Quarters Fiscal Year 2022 (July 18, 2022)

Statement of Assurance

The Farm Credit Administration's management is responsible for managing risks and maintaining effective internal control and financial management systems that meet the objectives of sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA).

FCA has considered risk management practices in the design of internal controls and in the assessment of their effectiveness. We conducted our assessment of risk and internal controls in accordance with OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the results of this assessment, we can provide reasonable assurance that the internal controls over financial reporting and operational and compliance objectives were operating effectively as of Sept. 30, 2022. No material weaknesses were found in the design or operation of the internal controls.

As part of our evaluation process, we considered the results of extensive testing and assessment across the organization, as well as independent audits, to provide our unmodified statement of assurance.

Vincent G. Logan
Board Chairman and Chief Executive Officer
FARM CREDIT ADMINISTRATION
November 8, 2022

Program Performance

This section discusses FCA's performance in achieving the goals and strategic objectives identified in the agency's Strategic Plan for Fiscal Years 2018 – 2023. This section also details the actions we are taking to achieve our goals and the targets we are using to measure our success.

We use the June 30 end date for reporting on operational performance measures because the information statements for the fourth quarter arrive after the November submission deadline for this report. However, for goal 3, which relates to workforce management, we report the results for the federal fiscal year, as of Sept. 30, 2022.

FCA Performance Report

FCA's mission is to ensure that Farm Credit System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

We fulfill our mission by (1) issuing regulations and implementing public policy and (2) identifying risk and taking corrective action. The FCA board has adopted three strategic goals:

- Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.
- Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the System and Farmer Mac.
- Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.

Our Strategic Plan for Fiscal Years 2018 – 2023 contains a desired outcome for each goal, as well as 19 strategies we are using to meet these goals. In addition, we have 14 performance measures with associated targets to measure our success in meeting our goals.

The strategic plan addresses the changing environment facing agriculture: commodity and input price volatility; sustainability, environmental, food safety, and animal welfare issues; fluctuating interest rates and land values; diversity; and pressure to reduce the subsidies and support payments that were provided in the 2018 Farm Bill.

The plan focuses on helping the agency operate effectively and efficiently; minimizing costs for FCS borrowers and Farmer Mac customers; and helping ensure a safe, sound, and dependable source of credit and financially related services for agriculture and rural America.

Data validation and verification

FCA ensures the completeness, reliability, and quality of all reported information included in this report by validating the performance data and other information contained in this section.

Our validation and verification process includes the following:

- Using applied measurement techniques to identify sources, validate data, and generate meaningful information.
- Identifying and implementing authoritative sources, calculations, and standards.
- Using automated data collection systems and reporting whenever available.
- Using automated data checking procedures in addition to manual verification.
- Analyzing data and identifying possible discrepancies for resolution.
- Implementing controls, such as restricting permissible values, flagging outliers for review, and visually checking results in the development stages of dashboards and reports.
- Requiring data owners and users to review data.
- Consolidating and deploying enterprise tools for standardized reporting.
- Performing independent quality assurance reviews before issuing reports.
- Reviewing and discussing performance results with the executive leadership team.

Goals

As our performance results show, we succeeded in meeting the three strategic goals described below. Summary tables that follow the goals outline our performance measures and results. Each goal reflects our mission of ensuring that Farm Credit System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America. The performance measures and targets were established in the FCA Strategic Plan Fiscal Years 2018 – 2023.

Goal 1 — Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.

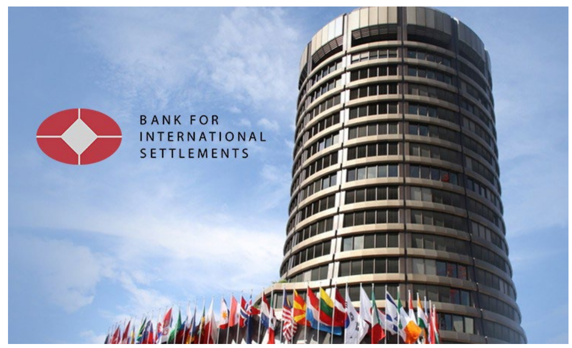
In our Strategic Plan for Fiscal Years 2018 – 2023, we established this goal to meet the credit and related financial service needs of agricultural producers as the agricultural industry changes. Agricultural production and processing methods are evolving and becoming more integrated. The demographics of farmers and agricultural producers are gradually changing. The varieties and types of food and fiber production continue to grow. Trends, such as heightened demand for locally grown and specialty foods, and the growth in urban agriculture, are creating additional options for persons interested in becoming farmers, ranchers, and agricultural suppliers and distributors.

The purpose of goal 1 is to maximize the ability of the FCS and Farmer Mac to fulfill their purposes and meet their public missions as defined by Congress in the Farm Credit Act of 1971, as amended. We established nine strategies to accomplish this goal, and we defined six performance measures to evaluate our progress and success.

Goal 1, Strategy 1: Ensure that the capital rules for the FCS and Farmer Mac are consistent with standards for the financial service industry and preserve their financial strength and stability so they can meet the credit needs of eligible borrowers.

The FCA board adopted a final rule in March 2016 that revised our capital rules for FCS banks and associations and provided clearly defined capital standards that are both consistent with Basel III and appropriate for the farmer-owned cooperative Farm Credit System.

BASEL refers to the Basel Committee on Banking Supervision, located in Basel, Switzerland, where the Bank for International Settlements is headquartered. This committee's primary job is to produce guidelines for financial regulators of the G-20 countries, with the goal of aligning regulatory rules around the world. FCA is not required to comply with BASEL guidelines, but we consider them in all rulemakings. BASEL I, II, and III represent the various significant changes or iterations in capital guidelines.



In FY 2016, we issued the capital planning rule requiring an annual assessment of Farmer Mac's capital plan, including capital adequacy modeling and stress testing methodologies.

The tier 1/tier 2 capital framework is defined in BASEL III and in FCA regulations. Tier 1 capital represents the highest-quality capital included in regulatory capital ratios. Tier 2 represents the lower-quality capital included in the ratios.

In FY 2017, we updated our Financial Institution Rating System (FIRS) benchmarks for capital and our examination guidance and examiner training to ensure that FCS institutions implement the capital rules properly. We also issued an informational memorandum to the System titled "Implementation of the Tier 1/Tier 2 Capital Framework."

In FY 2019, we issued guidance on Farmer Mac's interest rate risk management. The guidance makes clear the board of directors' ultimate responsibility for governance of interest rate risk and management's role in the design and execution of measurement systems for interest rate risk.

In FY 2021, we issued a final rule that clarified numerous provisions of the 2016 capital regulations and codified certain guidance.

In FY 2022, we revised the 2016 guidance to align with the revisions in the 2021 rule.

Goal 1, Strategy 2: Within the framework of the Farm Credit Act, develop and update policies and regulations as appropriate so that the System, including Farmer Mac, can continue to effectively serve its members as conditions in agriculture and rural America change.

The following actions are examples of ways we have used this strategy in FY 2022:

- Issued guidance to the System on FCA's expectations regarding due diligence and best practices in the governance and management of wholesale funding.
- Issued a final rule governing the standards of conduct for System institutions.
- Issued a final rule governing the implementation of the current expected credit losses model in determining the allowance for loan losses.
- Issued a final rule to clarify numerous provisions of the tier 1/tier 2 capital framework and issued guidance to the System that incorporated those clarifications.
- Issued a proposed rule governing the risk-weighting of high-volatility commercial real estate collateral evaluations.
- Issued a proposed rule governing the appointment of the Farm Credit System Insurance Corporation as conservator and receiver of distressed System institutions.
- Issued a proposed rule governing the funding banks' oversight of lending and nonlending activities to serve young, beginning, and small farmers and ranchers.
- Continued to study the loan syndication market.

As part of every rulemaking project, we consider ways to reduce the burden of existing rules and to minimize the regulatory burden of the rule being proposed. Also, we regularly solicit public comments on regulations that are unnecessary, unduly burdensome, or not based on law; our most recent solicitation was in July 2022. We plan to address the comments from this solicitation in FY 2023.

We routinely provide guidance to System institutions to protect their safety and soundness and to help them manage risk. This guidance facilitates the flow of funds to agriculture and rural areas by providing System institutions with sound practices to follow in developing and implementing lending programs. We also provide guidance related to internal controls and information technology. Ultimately, our guidance helps institutions manage loan and funding programs more efficiently.

Farmer Mac continues to enhance its relationships with its loan sellers, servicers, and other business partners by holding informational forums, providing updates to its formal servicing guidelines, and performing internal credit reviews. Our Office of Secondary Market Oversight evaluates Farmer Mac's efforts to strengthen these relationships.

We support advances in Farmer Mac's product offerings within the bounds of safety and soundness and the provisions of the Farm Credit Act. Our communication, examination reports, and off-site monitoring of Farmer Mac provide timely guidance on the possible risks associated with new products and policies. Over the reporting period, we provided Farmer Mac with guidance on regulatory compliance issues, policy direction, and questions regarding new products and services.

In addition, we continue to advance regulatory rulemaking projects on topics related to capital and margin and liquidity reserve requirements. We are also working to enhance our data management and collection and to update other areas of supervisory guidance.

Goal 1, Strategy 3: Emphasize the public purpose and mission-related responsibilities of the agricultural government-sponsored enterprises (GSEs) to serve all of agriculture and rural America. This includes innovative programs for serving the credit and related service needs of young, beginning, and small (YBS) farmers, ranchers, and producers and harvesters of aquatic products.

FCA examiners evaluate the operating and strategic plans and the credit delivery programs of System institutions. We also evaluate System outreach efforts and best practices for serving the credit and related service needs of all creditworthy, eligible customers.

In addition, our examiners evaluate each institution's YBS farmer and rancher program relative to the demographics of its chartered territory. These evaluations help examiners identify trends in lending to YBS farmers and ranchers and assess the System's efforts to provide financial and business management assistance and outreach to YBS farmers and ranchers.

Over the past several years, FCA has worked with the System to improve management, monitoring, data quality, and reporting of this critical segment of the market. FCA published a proposed rule in the Federal Register on June 16, 2022, and we are currently considering the comments submitted. We expect this rule to lead to the creation of a rating system that evaluates each institution's program and measures its year-over-year progress in lending and nonlending support to the YBS population in its territory.

When evaluating YBS programs, we continue to assess the extent to which FCS institutions use loan guarantee programs. We encourage System institutions to work with federal and state agencies that offer such programs. For example, we encourage institutions to meet the requirements to qualify for the USDA Farm Service Agency's "preferred lender" status.

Not only can loan guarantees help institutions manage credit risk, they also help borrowers obtain the funding they need. We encourage System institutions to use loan guarantees to make loans to YBS borrowers with limited financial capacity and to existing borrowers with temporary financial difficulties.

We validate compliance with YBS laws and regulations through our risk-based oversight and examination processes as described in Goal 2, Strategy 3. During the reporting period covered in this document, all the YBS programs we evaluated complied with YBS regulations. Each year, we survey FCS associations regarding their YBS programs. With the information received, we prepare a YBS annual report that we publish in our Annual Report on the Farm Credit System.

FCA regulations require each direct-lender System institution to include in its operating and strategic business plan a marketing plan with strategies for providing the institution's products and services to all creditworthy and eligible persons in its territory. During the reporting period covered in this document, all FCS institutions we evaluated had adequate marketing plans to provide products and services to all creditworthy and eligible persons. In addition, each institution must report annually to its board of directors on the progress it has made in this area. We review these reports and evaluate the System's progress in meeting this requirement. As part of our examination activities, we also review institution annual reports and encourage institutions to include a discussion of how they are meeting their mission.

We evaluate the extent to which Farmer Mac has accomplished its mission as well. Farmer Mac's customer base includes financial institutions and other lenders that seek a secondary market for their agricultural, rural housing, and rural utility cooperative loans. We evaluate Farmer Mac's performance in reaching out to all potential customers and in creating easy access to its services.

Farmer Mac submits an annual mission report to FCA. This report includes data on Farmer Mac's participation in federal guarantee programs, the geographic distribution of Farmer Mac's program business, the proportion of fixed-rate versus variable-rate loan volume, and activity related to rural utilities. In addition, the report highlights activity related to small and family farms, which Farmer Mac is required by statute to promote and encourage. These reporting requirements encourage

Farmer Mac's business development staff to focus on the credit needs of small and family farms when working with its lender customers.

Goal 1, Strategy 4: Encourage the System to provide products and services to all creditworthy and eligible potential borrowers and to promote outreach to enhance diversity and inclusion.

Our examinations assess the System's efforts to provide financial or business management assistance and outreach to all creditworthy, eligible customers, including YBS farmers and ranchers. The System continues to implement programs to meet the needs of YBS producers and other borrowers.

The business plan of each direct-lender institution must include strategies and actions to market the institution's products and services to all eligible and creditworthy persons and to strive for diversity and inclusion within each market segment. We evaluate the System's progress in meeting this requirement.

In addition, we review inquiries and complaints from applicants, borrowers, and other members of the public about the lending process, and we investigate any allegations of discrimination. During the reporting period from July 1, 2021, through June 30, 2022, we responded to 19 such inquiries. Our investigations did not discover any pattern or practice of deliberate discrimination or an unwillingness of FCS institutions to serve eligible customers within their chartered territories. We also found that System institutions continued to comply with equal credit opportunity and equal housing laws. Our examinations did not identify any institution with significant weaknesses in complying with federal lending and borrower rights regulations.

We are also concerned about the needs of farmers with disabilities and farmer veterans. In previous years, we have held presentations on these topics to raise awareness among our staff about the challenges these individuals face. In 2016, members of our staff met with the USDA undersecretary to discuss ways to better meet the credit needs of farmer veterans.

To ensure that Farmer Mac meets its responsibility to promote and encourage the inclusion of small and family farms in its programs, we have developed certain reporting requirements. We also provide Farmer Mac with feedback on various issues, including loan eligibility for prospective new lines of business.

Farmer Mac continues to work to make its programs accessible to all market participants, including those involved in rural utilities and federal agricultural loan guarantee programs. It seeks to ensure equitable treatment of all potential borrowers and the lenders that serve them.

During examinations, we review loans purchased and guaranteed by Farmer Mac to ensure that their underwriting, loan-approval standards, and servicing are appropriate and consistent with established guidance. Further, Farmer Mac's annual mission report includes a section about its financing of small and family farmers and rural utility cooperatives.

FCA Bookletter (BL-066) "Providing Credit to Farmers and Ranchers Operating in Local/Regional Food Systems" encourages System associations to meet the credit and related service needs of farmers who market their agricultural products through local and regional food systems. It explains that System associations have authority to finance local-food farmers and certain farm-related businesses under existing statutes and regulations and under prior FCA guidance. The bookletter also provides guidance on how the regulations on strategic business planning apply to financing local-food farmers (including those operating in urban areas).

Goal 1, Strategy 5: Encourage diversity on the boards and in the workforce of System institutions.

Our oversight and examination programs periodically evaluate each institution's human capital planning, director elections, and nominating committees. Examination guidance and procedures consider any significant changes in bylaws, policies, control systems, staffing, board membership, board involvement, election processes, or issues related to standards of conduct. As part of our review of the nominating committee's processes and practices, we evaluate the committee's outreach efforts to expand diversity on the board. In 2018, we updated examination guidance on this topic.

As part of the review of human capital management, we may evaluate conditions such as staff turnover or changes in key personnel (actual or upcoming), depth of management, changes in compensation and benefit programs or levels, involvement of the compensation committee, and the extent of operational weaknesses cited in audit, review, and examination reports that could be connected to human capital issues.

Goal 1, Strategy 6: Consistent with the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their members and rural America.

FCA analyzes and approves periodic requests by institutions to restructure or offer new programs designed to better serve their customers.

During 2022, FCA approved two mergers: one merging two associations affiliated with CoBank and another merging two associations affiliated with AgriBank. Also, during 2022, FCA approved the voluntary liquidation and loan portfolio sale of an association affiliated with AgriBank.

At fiscal year-end 2022, the System had 64 associations.

Goal 1, Strategy 7: Encourage System institutions to be conscious of the reputation risk associated with their lending and investments decisions.

We issue guidance on business planning, capital management, portfolio risk management, debt issuance, secondary liquidity sources, and related topics. We also work with Systemwide committees and groups to discuss challenges, opportunities, and best practices in these areas. Further, we assess System institutions' use of programs undertaken jointly with other financial service providers. Through our supervisory and enforcement activities, we require institutions to develop plans to address any potential reputation risks associated with their lending and investment decisions.

Goal 1, Strategy 8: Promote public trust in FCA's regulatory framework for the System and Farmer Mac by developing policy guidance that supports mission achievement, financial stability, and transparency.

We promote public trust and investor confidence by helping ensure that the System and Farmer Mac meet their missions to serve agriculture and rural America. See strategies 2 and 3 for a discussion of some of the ways we have helped them achieve their missions.

We provide guidance to System institutions to help them better understand their lending authorities and, therefore, to more appropriately market their products and services to prospective eligible customers. We also publish our semiannual Regulatory Projects Plan on our website to notify the public of upcoming regulatory actions so that the public may participate in the regulatory process. Our e-government program allows the public to make comments in electronic format and to review comments from others on our website.

We further support public trust and investor confidence by reviewing inquiries and complaints about the loan-granting process and by investigating any allegations of discrimination. See strategy 4 above for more information about inquiries and complaints from applicants, borrowers, and other members of the public.

Farmer Mac, too, has increased its focus on its public mission. Its year-end annual report and Form 10-K filing now include numerous references to its public mission, including a discussion of how pursuing its mission may contribute to lower returns to stockholders. Farmer Mac actively oversees its sellers/servicers, ensuring that loans sold into the secondary market meet its underwriting standards and that processes are in place to detect fraud and operational errors.

The guidance we have provided has had a positive impact on Farmer Mac's public disclosures related to its mission, and we will continue to encourage Farmer Mac to regularly disclose its mission accomplishments.

Goal 1, Strategy 9: Encourage full participation of stakeholders in the development and review of regulatory and policy proposals as appropriate.

We encourage stakeholders to provide input on regulatory proposals before we issue rules. We publish our semiannual Regulatory Projects Plan on our website to notify the public of upcoming regulatory actions. In addition, our e-government program allows the public to make comments in electronic format and to review comments from others on our website.

Where practicable, we solicit input from stakeholders before we publish rules for comment. In some cases, we use advance notices of proposed rulemaking to obtain input. In almost all cases, we publish our proposed rules with comment periods of at least 60 days. For regulatory proposals that relate to the System's GSE mission, we also reach out to nontraditional commenters for their input.

Goal 2 — Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the System and Farmer Mac.

In our Strategic Plan for Fiscal Years 2018 – 2023, we included this goal to ensure that FCA, the System, and Farmer Mac can manage data to operate effectively. As the System continues to consolidate and institutions become larger and more sophisticated, our ability to effectively examine and monitor risk becomes even more critical.

To accomplish goal 2, we examine and supervise each System institution and Farmer Mac. We have six strategies to accomplish this goal and six performance measures to evaluate our success.

Goal 2, Strategy 1: Seek early FCA board input on policy and regulatory issues. Ensure that the board has timely and comprehensive information to be fully informed and able to respond appropriately.

The FCA board provides early input on regulatory and policy projects. For regulatory projects, the board provides input before and during the development and approval of the semiannual Regulatory Projects Plan, which outlines our regulatory agenda. For policy projects, the board also provides early input; a policy project may produce a guidance document, or it may eventually become a regulatory project.

After we've started a regulatory or policy project, board involvement continues to be crucial. We obtain board input by providing board briefings and monthly progress reports throughout the project.

The Office of Examination and the Office of Secondary Market Oversight report important issues at least monthly or as needed to the FCA board. The Office of Examination delivers reports to the board each quarter on the condition of the System. The Office of Secondary Market Oversight delivers periodic reports to the board on the condition of Farmer Mac.

Goal 2, Strategy 2: Maintain strong and frequent two-way communication with stakeholders on issues of risk and safety and soundness.

FCA management and staff participate regularly in FCS meetings and conferences to answer questions related to regulatory and FCS operational issues. We also use these opportunities to reinforce our expectations regarding these issues and to discuss new regulatory direction. FCA staff members also participate in agencywide workgroups and FCS-wide committees and groups to discuss challenges, opportunities, and best practices.

Our approach to oversight and examination involves meeting with institution boards and audit committees on the risks facing their institutions, examination activities, and corrective actions. Through direct interaction with System institutions, we hear about emerging issues and acquire a systemic view of issues warranting regulatory attention. Our oversight and examination approach also involves timely written communication through interim activity letters and examination reports. We also regularly communicate with FCS management on upcoming examination practices that may affect their institutions.

Annually, we issue an informational memorandum on our National Oversight Plan in which we identify focus areas that we will emphasize in our examination and oversight of System institutions. Likewise, we issue an annual informational memorandum to Farmer Mac identifying the focus areas of the current examination cycle. These informational memorandums provide perspective on our concerns and priorities. When needed, we use the supervisory and enforcement process to require institutions to take appropriate action. In addition, we review borrower inquiries and complaints about the lending process and investigate any allegations.

Goal 2, Strategy 3: Continue proactive oversight of institution-specific and systemic risks.

We proactively identify and evaluate emerging issues that create Systemwide risk and allocate oversight and examination resources based on that risk. The amount of examination resources we devote to a System institution and the scope of our oversight and examination depend on the institution's ability to identify and manage its risks. We increase oversight and examination efforts and implement supervisory or enforcement actions when institutions prove unable or unwilling to address material unsafe and unsound practices or to comply with law and regulations. See policy statement 53 for more about our examination philosophy.

FCA continues to develop individualized oversight and examination plans for each institution. Another key element of our approach is the national oversight planning process. This process identifies emerging risks and guides our efforts to ensure the safety and soundness of the System. We manage and update this process on a regular basis. We also provide information to System institutions on how we examine them.

Through examinations, we routinely evaluate the operations and risk management practices of System institutions, and we share our conclusions and recommendations with System boards of directors. We determine whether FCS institutions have internal control systems and processes to manage their operations and loan portfolios, and whether direct-lender institutions have systems that allow them to properly assess the loans and risk exposures in their portfolios.

With one exception, institutions had adequate internal control programs or adequate corrective actions in place in FY 2022. In the case of the exception, the institution's corrective action plan was not adequate to resolve weaknesses in its internal control program. The institution's board and management are developing a new corrective action plan to address and resolve the identified weaknesses more effectively. Overall, we have found that FCS institutions have adequate lending systems in place and that they continue to enhance these systems.

The FCS uses a two-dimensional credit risk rating system, consisting of a 14-point scale to measure each borrower's probability of default and a set of ratings to measure the loss given default for each loan. The FCS enhances this system through periodic refinements, and we closely evaluate those refinements. The System also performs database querying and stress testing. We consider the following elements when we examine loan portfolios:

- Management of risk concentrations
- Loan underwriting
- Collateral risk management
- Portfolio planning and analysis
- Credit administration
- Risk identification

Goal 2, Strategy 4: Effectively remediate weakened institutions.

We use a risk-based supervisory and enforcement program to respond differentially to the risks and particular oversight needs of FCS institutions. If we discover unacceptable threats to safety and soundness or lack of compliance with laws and regulations, we take action to ensure that the institution mitigates identified risks appropriately. Corrective actions may include reducing risk exposures or improving the institution's ability to bear risk by increasing capital and enhancing earnings, complying with applicable laws and regulations, and strengthening risk management.

We use a three-tiered supervision program: normal supervision, special supervision, and enforcement actions. Institutions under normal supervision are performing in a safe and sound manner and operating in compliance with applicable laws and regulations. These institutions are able to correct identified weaknesses in the normal course of business.

For those institutions displaying more serious or protracted weaknesses, we shift from normal to special supervision, and our examination oversight increases accordingly. Under special supervision, we give an institution clear and firm regulatory guidance to address weaknesses, and we allow the institution time to correct the problems.

If informal supervisory approaches have not been or are not likely to be successful, we use our formal enforcement authorities. We may take an enforcement action for several reasons:

- A situation threatens an institution's financial stability.
- An institution has a safety and soundness problem or has violated a law or regulation.
- An institution's board is unable or unwilling to correct problems we have identified.

Our enforcement authorities include the following powers:

- To enter into formal agreements
- To issue cease-and-desist orders
- To levy civil money penalties
- To suspend or remove officers, directors, and other persons

If we take an enforcement action, the FCS institution must operate under the requirements of the action and report back to our agency on its progress in fulfilling the requirements. Our examiners oversee the institution's performance to ensure compliance with the enforcement action. As of June 30, 2022, there were no formal enforcement actions in place.

Goal 2, Strategy 5: Ensure that technology, information management, and cybersecurity awareness are priorities at FCA and in the FCS.

Our FCS Loan Database is an enterprise system we built to reliably collect and store data for examination activities and systemic risk analysis. The loan database provides a robust dataset for analyzing institution loan portfolios and facilitating the loan review activities of our Office of Examination. It also supports Systemwide risk analysis.

We previously established uniform instructions to help System institutions report accounts in a timely and reliable manner. We also worked with the System to improve data quality, systems, and analysis capabilities. This included requiring institutions to identify shared assets and systemically significant customers by incorporating into the dataset shared-asset and customer numbers, as well as attribution data on their largest customers.

We also deployed an agency-level data mart/data cube environment, which is a centralized data warehouse for transactional and indicative data provided by each financial institution in the Farm Credit System.

In 2022, we improved our examination processes by continuing to do the following:

- Redesign the collection process for System Call Report data.
- Develop and implement new business intelligence tools and analysis applications. These tools and applications allow our examiners to use our information sources, including the data mart, more effectively for analytical purposes.
- Enhance the EDGe Loan Workpaper, a web-based application that accesses the FCS Loan Database.
- Improve the FCS Loan Database.
- Develop and integrate new management reports and examination tools as part of the EDGe project.

- Improve connectivity to System institutions through videoconferencing, teleconferencing, and electronic access to loan files.

We continually evaluate whether institutions are maintaining systems to analyze their portfolio risk and borrower profiles. We review their processes and tools for analyzing sensitivity and stress. In December 2018, we issued a System memorandum on the use of personal email and related cybersecurity concerns. In September 2021, we issued an informational memorandum to Farmer Mac on the same topic.

In June 2021, we issued an informational memorandum to provide System institutions with guidance to protect critical data against ransomware attacks.

A year later, in June 2022, the FCA board approved a proposed rule on cyber risk management that would rescind and revise FCA regulations governing electronic commerce. Among other things, the proposed regulations would require each System institution to implement a board-approved cyber risk management plan and maintain robust internal controls.

Goal 2, Strategy 6: Ensure that strong governance, standards of conduct, and ethical behavior are part of the organizational culture of the FCS.

We evaluate the compliance of System institutions with governance regulations and their adherence to cooperative principles. In August 2021, we updated our standards of conduct regulations for FCS institutions; these regulations take effect in 2023. We continue to evaluate each institution's standards of conduct policies and procedures as determined by its board of directors and implemented by its standards of conduct official. We also continue to evaluate each institution's ethics and organizational culture. We share our conclusions and recommendations with System boards of directors. As discussed under goal 2, strategy 4, we use a three-tiered supervision program to ensure that institutions take appropriate measures to mitigate any risks our examiners identify.

Goal 3 — Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.

In our strategic plan for fiscal years 2018 to 2023, we established this goal to ensure that we will continue to be an effective organization by having the right number of people with the right skills, experiences, and competencies.

There are four strategies and two performance measures aligned with goal 3. The data cited for this goal are for the fiscal year ended Sept. 30, 2022.

Goal 3, Strategy 1: Maintain a highly skilled and diverse workforce to meet FCA's current and future regulatory development, risk analysis, examination, and supervision needs.

FCA is committed to having a diverse and inclusive workforce and respecting individuals and their cultures, while complying with merit principles and applicable federal laws. We strive to ensure that our employees have a wide range of experiences, perspectives, and skills because this diversity leads to better solutions, drives innovation and creativity, and enhances decision making.

Ensuring a diverse and inclusive workforce enables FCA to be more responsive to the institutions we regulate and better equipped to fulfil our mission. We continue to make strides in recruiting and hiring a diverse workforce. Of 42 hires in FY 2022 (including Pathways Program interns and recent graduates),

- 28.6% are from diverse ethnic and racial groups,
- 7.1% have disabilities, and
- 2.4% have targeted disabilities.

Multiple waves of COVID-19, along with efforts to limit disease spread and offset its economic impacts, have led to dramatic ups and downs in the economy. The COVID-19 pandemic wreaked havoc on the U.S. labor market. Like many organizations, we experienced an increase in workforce attrition. Despite this attrition, we managed to maintain a highly qualified and engaged workforce by focusing on three key activities:

- Strategic recruitment and improved operational effectiveness, which includes facilitating internal mobility and hiring external talent for midcareer positions.
- Enhancing FCA's employee benefits package by customizing what we offer to better meet the needs of our workforce.
- Establishing a recruitment and retention workgroup tasked with developing recommendations to minimize attrition and enhance recruitment.

Hiring operations

Organizations today face intense competition for skilled workers. To compete in this environment, federal agencies need a hiring system that meets the following criteria:

- Is responsive to managers' needs and the needs of applicants.
- Produces high-quality, diverse applicants.
- Supports timely decisions.
- Results in competitive job offers.

Our Office of Agency Services (OAS) worked closely with senior leaders and hiring managers to recruit and hire talented individuals from all communities in FY 2022. The OAS Operations Division improved the personnel security process and reduced the time to clear for onboarding to an average of six days. The Human Resources team (HR) also took steps to improve the efficiency of the hiring operations. Over the first three quarters of FY 2022, HR reduced the overall time to hire to 87 days—15 days fewer than the FY 2021 average. This allowed FCA to maintain a highly skilled and diverse workforce that meets FCA's current and future regulatory development, risk analysis, examination, and supervision needs.

Midcareer hires

OAS also supported the agency by continuing to focus on midcareer hiring and closing the skills gaps with seasoned talent. Midcareer hiring, which has been strong for the past couple years, increased slightly in 2022 to 26.2% of our overall hiring. Midcareer hiring levels for the past two years (FY 2021 and 2022) dramatically outpaced the levels in FY 2019 and FY 2020, when they were 10% and 9.5%, respectively. We were able to increase our midcareer hires by using targeted hiring, a strategy that supplements our robust early-career development programs.

In FY 2022, the Office of Information Technology, Office of Agency Services, Office of Examination, and Office of the General Counsel each hired at least one midcareer employee from outside FCA. To fill critical skill gaps, the agency focused its midcareer hiring on jobs with transferable skills. Among our midcareer hires were attorneys, IT specialists, examiners, and HR specialists. Over 70% of FCA midcareer hires were sourced from other federal agencies, and some of them were former FCA employees.

Enhanced compensation and benefits package

To ensure that FCA continues to attract and retain a diverse, highly skilled workforce, we enhanced compensation and benefits in FY 2022 to include the following:

- An across-the-board pay increase
- A leave exchange program
- A student loan repayment program
- A childcare subsidy program

Recruitment and Retention Workgroup

FCA established a recruitment and retention workgroup with representation from every office. The group was led by the chief human capital officer, while the chief operating officer served as the executive sponsor. The workgroup made several recommendations, which are currently being considered.

Here are some other notable measures we've taken to support recruitment and retention:

- Promoted work-life balance, applying some of the lessons we learned from our response to the pandemic.

- Recruited individuals with disabilities and used special hiring authorities (e.g., to hire veterans and Schedule A applicants).
- Provided opportunities for staff to engage with senior leaders by delivering the agency's Meet the Leaders program in a virtual environment. This program allows new hires to learn more about FCA culture and to interact with senior executives through small team discussions.
- Gave employees opportunities to take training from the Small Agency Council in areas such as emotional intelligence, business writing with a plain language approach, conflict management, retirement financial planning, leading hybrid teams, and business writing.

Goal 3, Strategy 2: Facilitate the development of the skills our workforce needs to evaluate FCS risk and provide timely and proactive oversight.

In FY 2022, FCA continued to devote significant resources to training new examiners through our examiner commissioning program. In addition, we increased our focus on helping midcareer staff develop their skills.

Through our examiner commissioning program, we are building a diverse cadre of highly qualified examiners, ensuring they have the knowledge, skills, and talents necessary to accomplish the agency's mission. The program provides examiners with formal and on-the-job training in credit, finance, operations, and examination management—our primary areas of oversight and examination.

We also invest in the development of our commissioned and technical specialist examiners through human capital planning, examiner career development, and specialty programs. The specialty programs enable examiners to gain technical expertise and encourage them to pursue professional development and certification.

In addition to training examination staff in the technical and soft skills they need, we provide opportunities for commissioned and technical specialist examiners to develop their careers further by completing certifications (for credit, finance, operations, and examination management). These opportunities have strengthened current performance, increased our bench strength, and reduced unforced attrition.

We help our examiners maintain their readiness to administer elevated supervision of the FCS institutions when necessary, and we make sure that all our examiners understand our risk supervision approaches and how to implement them.

Through a partnership with Virginia Tech's Department of Agricultural and Applied Economics, we gave our employees the opportunity to earn graduate certificates in agricultural and applied economics in the fall of 2022. The program consisted of six two-week, self-paced courses that explored economic phenomena and policymaking strategies. Course topics included supply and demand, determining market equilibrium, analyzing market equilibrium, perfect competition, market structure, and monopoly power.

In the third quarter of FY 2022, our Office of Agency Services worked with FCA subject-matter experts and Virginia Tech faculty to create and administer three capstone projects for current Virginia Tech certificate students. Through these projects, students demonstrated the new skills they had acquired during the graduate certificate program. Those projects included forecasting credit quality; analyzing trends in lending to young, beginning, and small farmers; and Systemwide debt growth.

The partnership with Virginia Tech also allowed us to create a new graduate fellows certificate program to provide our employees with a solid foundation in agricultural policy, econometrics, and data science tools. The certificate program offers concentrations in the following:

- Agribusiness foundations—Policy: This concentration focuses on the management, marketing, finance, and policy tools one needs to excel in agribusiness. The emphasis is on foundational methods spanning production management, human resource management, market planning and analysis, financial analysis, and policy interpretation.

- Agribusiness foundations—Risk management: This concentration focuses on the in-depth information and analysis needed to enhance one's ability to identify and evaluate emerging risks to Farm Credit System institutions. The emphasis is on agribusiness risk management and credit principles, capital budgeting and risk and returns in agribusiness settings, and capital investment decisions.

- Applied economics for agribusiness: This concentration focuses on the applied economics needed for success in agribusiness, general business, government, and related fields. The emphasis is on economic analysis, with a specific focus on relevant microeconomic, macroeconomic, commodity market, and agribusiness applications.

- Agricultural data analytics: This concentration focuses on equipping the individual with the skills needed to develop data-driven strategies that can help the agency fulfill its oversight and supervisory obligations. The emphasis is on the descriptive statistics, inference, statistical simulation, data modeling, and data visualization methods that are used in finance and agribusiness management.

Goal 3, Strategy 3: Ensure adequate succession planning and knowledge transfer to ensure that future FCA leadership and staff possess the knowledge and skills required to be an effective arm's length regulator.

We have updated our examiner career development program by creating a management development plan for supervisory examiners. This will help ensure that our future supervisory examiners have the leadership, management, and supervisory skills they will need to replace seasoned managers and supervisors when they retire. Our strategy is to develop a pool of candidates who could become successful supervisors, leaders, and managers, and could even qualify for the position of chief examiner. We also recognize that retirements create opportunities for diversity and inclusion in management.

We have begun the process of building our internal capability to assess the competency of current and aspiring leaders. This capability will enable us to provide targeted learning development journeys for employees, based on where they currently are and where their interests lie. We will be able to identify behaviors that predict supervisory and leadership readiness. The goal of the assessment is to help staff members determine whether supervision is suited to their strengths and career plans.

We will use the results of the competency assessment to tailor learning programs or instructional resources to the competency needs of the individual. We are deriving the competencies, definitions, and behavioral indicators from the OPM proficiency levels for leadership competencies, and we're developing our suggested learning objectives in accordance with those proficiency levels. The learning objectives will help staff members identify the learning materials or programs they need to develop their skills.

In addition to developing an assessment tool, FCA has used the following methods to develop future groups of program managers and leaders:

- Created leadership positions for program and portfolio managers and provided selected candidates with formal leadership training, on-the-job training, and opportunities to participate in other projects.

- Expanded the number of our Skillsoft Percipio licenses to provide all FCA employees full access to over 500,000 blended learning resources. Percipio is Skillsoft's next-generation learning platform, which provides an immersive learning experience anywhere, anytime, and on any device. Featured content includes an extensive course library; more than 170 technical certifications; e-books and audiobooks; and a blend of virtual, on-demand, instructor-led training.

- Informed employees of internal career growth and developmental opportunities through the agency's employee newsletter and provided special training sessions on how to apply for internal jobs.

- Sent two FCA employees to OPM's Federal Executive Institute in FY 2022.

- Conducted two webinar sessions titled "Leadership Engagement" for FCA leaders; more than 70 employees participated. These sessions covered strategies, tools, and tips to help supervisors build strong, engaging relationships with their employees. The course feedback was overwhelmingly favorable. Participants said the sessions gave them an opportunity to interact with their colleagues and discuss current challenges.
- Developed and held four training sessions on working in a hybrid (in-office and virtual) work environment. The sessions covered the following topics: how to manage a virtual team; how to provide feedback in a hybrid environment; how to optimize performance for all in a hybrid environment; and how, as a teleworker, to perform successfully on a hybrid team. More than 65 current managers and executives and more than 225 nonsupervisory employees attended the training.
- Created and held three training sessions on the prevention of workplace harassment, whistleblower protections, and prohibited personnel practices for FCA employees and supervisors.
- Helped staff build skillsets through developmental assignments, such as serving as examiners-in-charge of complex institutions and participating in specialist programs through the Office of Examination.

Goal 3, Strategy 4: Encourage a workplace culture that motivates staff to be engaged, embraces diversity in all its forms, and promotes strong ethical behavior.

According to the 2022 Federal Employee Viewpoint Survey, FCA's overall employee engagement index increased slightly, from 82 to 83, as shown in table 8. By comparison, the engagement score in 2019 was 79.

Since 2017, FCA has been ranked by the Partnership for Public Service as one of the top 10 best places to work among small federal agencies. We promote engagement in various ways, such as providing training and development opportunities for employees to build their skills and advance their careers.

We also strengthen engagement by having an inclusive workplace. For example, our special emphasis programs, such as the Federal Women's Program Committee, Blacks in Government, and HOLA FCA (Hispanic Organization for Leadership and Advancement), sponsor regular presentations on issues affecting women and minority groups. And each year we have a Diversity Day on which we celebrate the diverse cultures represented in our workplace. However, in fiscal years 2020, 2021, and 2022, Diversity Day was canceled because of the pandemic.

Table 8. 2022 Federal Employee Viewpoint Survey results for employee engagement

Employee engagement	Governmentwide	Small agencies	Farm Credit Administration 2021	Farm Credit Administration 2022	Change in points
Overall	71	76	82	83	+1
Leaders Lead	59	65	72	76	+4
Supervisors	80	84	92	92	–
Intrinsic work experience	73	78	82	81	−1
Global satisfaction	62	68	78	75	−3

We also strive to increase workforce diversity. We target at least 25% of our recruiting efforts toward potential applicants who have a disability or who are members of a minority group. For example, during each recruiting season, we attend career fairs at historically Black colleges and universities and schools with a high rate of minority enrollment.

And as a financial banking regulator, we emphasize ethical conduct among all employees. In 2011, our board adopted a policy statement on ethics, independence, and our role as an arm's length regulator. This document states the following:

- The FCA board will continue to hold itself to the highest standards of ethical conduct in recognition that its commitment and adherence to the agency ethics program sets the standard for the commitment and conduct of agency staff.
- FCA board members and employees must remain mindful of their duty to make independent determinations on matters being considered by the agency.
- As the arm's length regulator of the Farm Credit System, FCA is committed to carrying out its work without any undue influence, favoritism, or special access.

Our ethics program performs the following functions:

- Oversees financial disclosure reporting (that is, the completion of public, confidential, and certification forms) of covered FCA and Farm Credit System Insurance Corporation (FCSIC) employees.
- Provides ethics counseling to FCA and FCSIC employees.
- Provides ethics training to all covered FCA and FCSIC employees annually, as well as to new employees during orientation.
- Provides a liaison to coordinate with other government agencies regarding ethics issues.
- Helps develop regulations and policies related to ethics.

Table 9a. Goal 1 — Performance measures and results for public mission

July 1, 2021, to June 30, 2022

Measure 1: Percentage of FCS institutions providing products and services that serve creditworthy and eligible persons and perform outreach to enhance diversity and inclusion.

Results: FCA regulations require each direct-lender System institution to include in its operating and strategic business plan a marketing plan with strategies for providing the institution's products and services to all creditworthy and eligible persons. The Office of Examination has updated examination guidance and communications with the System on FCA's minimum business plan expectations beyond regulatory compliance, including diversity and inclusion requirements. Annually, we review all System institutions' business plans for compliance with FCA regulations and examination guidance. In 2022, 100% of FCS institutions had satisfactory operating, marketing, and strategic plans for providing products and services to all creditworthy and eligible persons.

2017 Target	2017 Results	2018 Target	2018 Results	2019 Target	2019 Results	2020 Target	2020 Results	2021 Target	2021 Results	2022 Target	2022 Results	Results vs. Target
≥90%	100%	≥90%	100%	≥90%	100%	≥90%	99%	≥90%	99%	≥90%	100%	▲

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: **≥** is greater than or equal to; **N/A** indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates we exceeded the FY 2022 target; ✓ indicates we achieved the FY 2022 target; ▼ indicates we did not meet the FY 2022 target.

Notes: In April 2018, the FCA board adopted the FCA Strategic Plan for FYs 2018–2023. The performance measures in that plan remain substantially the same as the measures in the previous plan.

Measure 2: Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans.

Results: Statute requires the Farmer Mac board to promote and encourage the inclusion of qualified loans for small farms and family farmers in the agricultural mortgage secondary market. Farmer Mac achieved this goal in FY 2022. FCA, through the Office of Secondary Market Oversight, monitors and oversees Farmer Mac's activities. In our review of Farmer Mac's 2022 business plan, we found the plan contained adequate strategies for promoting and encouraging the inclusion of all qualified loans, including small and family farm loans, in its secondary market programs. Its business activities further its mission to provide a source of long-term credit and liquidity. The 2022 plan discussed opportunities to enhance relationships and initiatives that provide affordable financial solutions for the benefit of small farms and family farmers, including minority and women farmers. Farmer Mac submits an annual mission achievement report to FCA, highlighting activity related to small and family farms and market penetration. Each year, during our examination of Farmer Mac, we review its mission achievement and its annual mission achievement report, and we document results and conclusions in our annual Report of Examination.

2017 Target	2017 Results	2018 Target	2018 Results	2019 Target	2019 Results	2020 Target	2020 Results	2021 Target	2021 Results	2022 Target	2022 Results	Results vs. Target
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	✓

Measure 3: Percentage of direct-lender institutions with satisfactory consumer and borrower rights compliance.

Results: Our oversight and examination program regularly evaluates compliance with consumer and borrower rights regulations through review of policies, programs, processes, and loans. In 2022, 100% of direct-lender institutions had satisfactory consumer and borrower rights compliance.

2017 Target	2017 Results	2018 Target	2018 Results	2019 Target	2019 Results	2020 Target	2020 Results	2021 Target	2021 Results	2022 Target	2022 Results	Results vs. Target
≥90%	100%	≥90%	97.3%	≥90%	95%	≥90%	96%	≥90%	99%	≥90%	100%	▲

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: **≥** is greater than or equal to; **N/A** indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates we exceeded the FY 2022 target; ✓ indicates we achieved the FY 2022 target; ▼ indicates we did not meet the FY 2022 target.

Notes: In April 2018, the FCA board adopted the FCA Strategic Plan for FYs 2018–2023. The performance measures in that plan remain substantially the same as the measures in the previous plan.

Measure 4: Percentage of direct-lender institutions with YBS programs for farmers and ranchers that are in compliance with YBS regulations.

Results: Ongoing oversight and examination activities regularly address compliance with mission-related regulations, including young, beginning, and small farmer programs. All direct-lender institutions with YBS programs are in compliance with YBS regulations.

2017 Target	2017 Results	2018 Target	2018 Results	2019 Target	2019 Results	2020 Target	2020 Results	2021 Target	2021 Results	2022 Target	2022 Results	Results vs. Target
≥90%	100%	≥90%	100%	≥90%	100%	≥90%	100%	≥90%	100%	≥90%	100%	▲

Measure 5: Whether the majority of objectives listed in the preamble of each final rule were met on the two-year anniversary of the rule's effective or implementation date.

Results: There was one rule that met the reporting requirement. Most of the objectives listed in the preamble of the final rule were met by the two-year anniversary of the implementation date.

2017 Target	2017 Results	2018 Target	2018 Results	2019 Target	2019 Results	2020 Target	2020 Results	2021 Target	2021 Results	2022 Target	2022 Results	Results vs. Target
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	✓

Measure 6: Percentage of pre-rulemaking projects and proposed rules on which FCA requested input from persons outside of FCA. (This measure considers all the pre-rulemaking projects and proposed rules that were listed as completed on FCA's Unified Agenda Abstracts for the reporting period.)

Results: There were four pre-rulemaking projects or proposed rules that met the reporting requirement; we did request input on these projects or rules from persons outside of FCA. It is our standard practice to request input on all pre-rulemaking projects and proposed rules.

2017 Target	2017 Results	2018 Target	2018 Results	2019 Target	2019 Results	2020 Target	2020 Results	2021 Results	2021 Results	2022 Target	2022 Results	Results vs. Target
100%	89%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	✓

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: **≥** is greater than or equal to; **N/A** indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates we exceeded the FY 2022 target; ✓ indicates we achieved the FY 2022 target; ▼ indicates we did not meet the FY 2022 target.

Notes: In April 2018, the FCA board adopted the FCA Strategic Plan for FYs 2018–2023. The performance measures in that plan remain substantially the same as the measures in the previous plan.

Table 9b. Goal 2 — Performance measures and results for safety and soundness

July 1, 2021, to June 30, 2022

Measure 1: Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2. (CAMELS is a rating of capital, assets, management, earnings, liquidity, and sensitivity.)

Results: Ninety-nine percent of System assets are in institutions with composite CAMELS ratings of 1 or 2.

2017 Target	2017 Results	2018 Target	2018 Results	2019 Target	2019 Results	2020 Target	2020 Results	2021 Target	2021 Results	2022 Target	2022 Results	Results vs. Target
≥90%	99.6%	≥90%	98.6%	≥90%	98%	≥90%	99%	≥90%	99%	≥90%	99%	▲

Measure 2: Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.

Results: The agency does not have any supervisory agreements in place with FCS institutions.

2017 Target	2017 Results	2018 Target	2018 Results	2019 Target	2019 Results	2020 Target	2020 Results	2021 Target	2021 Results	2022 Target	2022 Results	Results vs. Target
≥80%	N/A	≥80%	N/A	≥80%	N/A	≥80%	N/A	≥80%	N/A	≥80%	N/A	N/A

Measure 3: Percentage of institutions complying with regulatory capital ratio requirements.

Results: Our oversight and examination program analyzes and reports on capital at least quarterly and in conjunction with the statutory compliance date. All institutions complied with regulatory capital ratio requirements.

2017 Target	2017 Results	2018 Target	2018 Results	2019 Target	2019 Results	2020 Target	2020 Results	2021 Target	2021 Results	2022 Target	2022 Results	Results vs. Target
≥90%	100%	≥90%	100%	≥90%	100%	≥90%	100%	≥80%	100%	≥80%	100%	▲

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: **≥** is greater than or equal to; **N/A** indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates we exceeded the FY 2022 target; ✓ indicates we achieved the FY 2022 target; ▼ indicates we did not meet the FY 2022 target.

Notes: In April 2018, the FCA board adopted the FCA Strategic Plan for FYs 2018–2023. The performance measures in that plan remain substantially the same as the measures in the previous plan.

Measure 4: Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed.

Results: The Office of Secondary Market Oversight's examination and oversight plan effectively identifies risk by completing an annual risk assessment of Farmer Mac's operations to determine where to focus examination resources and time. In addition, an annual informational memorandum identifies specific areas of emphasis during the upcoming examination cycle. These focus areas are identified during the Office of Secondary Market Oversight's annual planning process and are considered for updates as needed based on the results of our ongoing monitoring and oversight. We issue corrective actions to Farmer Mac that warrant the attention of its board and management; the corrective actions we issue aim to improve the overall safety and soundness of Farmer Mac. We evaluate actions taken to address matters requiring attention on a quarterly basis and summarize progress in interim activity letters and the annual Report of Examination. In 2022, actions taken in response to our examination activities strengthened Farmer Mac's operations, and its efforts to address matters requiring attention were satisfactory.

2017 Target	2017 Results	2018 Target	2018 Results	2019 Target	2019 Results	2020 Target	2020 Results	2021 Target	2021 Results	2022 Target	2022 Results	Results vs. Target
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	✓

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: ≥ is greater than or equal to; **N/A** indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates we exceeded the FY 2022 target; ✓ indicates we achieved the FY 2022 target; ▼ indicates we did not meet the FY 2022 target.

Notes: In April 2018, the FCA board adopted the FCA Strategic Plan for FYs 2018–2023. The performance measures in that plan remain substantially the same as the measures in the previous plan.

Measure 5: Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans.

Results: Our oversight and examination program specifically emphasizes strong internal controls at all System institutions, including internal controls over financial reporting. With one exception, all institutions had satisfactory audit and review programs, including institutions with acceptable corrective action plans. One institution did not meet this standard because its corrective action plan was not adequate to resolve weaknesses in its internal control program. The institution's board and management are developing a more effective corrective action plan to address and resolve identified weaknesses in their program.

2017 Target	2017 Results	2018 Target	2018 Results	2019 Target	2019 Results	2020 Target	2020 Results	2021 Target	2021 Results	2022 Target	2022 Results	Results vs. Target
100%	99%	100%	95.9%	100%	97%	100%	99%	100%	100%	100%	99%	▼

Measure 6: Whether five or more reports and dashboards were created that use data collected from the Farm Credit System to assess risk in the System.

Results: The agency exceeded this goal. Numerous tracking and analysis reports and dashboards related to mergers, shared assets, portfolios, and others were created to better spot trends and identify risks.

2017 Target	2017 Results	2018 Target	2018 Results	2019 Target	2019 Results	2020 Target	2020 Results	2021 Target	2021 Results	2022 Target	2022 Results	Results vs. Target
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	✓

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: ≥ is greater than or equal to; **N/A** indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates we exceeded the FY 2022 target; ✓ indicates we achieved the FY 2022 target; ▼ indicates we did not meet the FY 2022 target.

Notes: In April 2018, the FCA board adopted the FCA Strategic Plan for FYs 2018–2023. The performance measures in that plan remain substantially the same as the measures in the previous plan.

Table 9c. Goal 3 — Performance measures and results for workforce management

July 1, 2021, to June 30, 2022

Measure 1: Whether, as part of its recruiting efforts for entry-level examiners, FCA has ensured that at least 25% of its outreach efforts target applicants with a disability or who are members of a minority group.

Results: At least 25% of our virtual outreach efforts targeted potential applicants who have a disability or who are members of a minority group.

2017 Target	2017 Results	2018 Target	2018 Results	2019 Target	2019 Results	2020 Target	2020 Results	2021 Target	2021 Results	2022 Target	2022 Results	Results vs. Target
25%	Yes	25%	Yes	25%	Yes	25%	Yes	25%	Yes	25%	Yes	✓

Measure 2: Whether we have maintained or improved our score from last year in the annual employee satisfaction survey.

Results: The results for the 2021 Federal Employee Viewpoint Survey were not released until November 2021. FCA had a strong showing--ranking 6 on the list of best places to work among small agencies in the federal government. The 2022 survey was administered in July 2022, and preliminary results were recently released. In the 2022 survey, FCA's employee engagement score increased to 83%. Over the past several years, FCA has consistently ranked among the top 10 best places to work for small agencies based on overall engagement, in large part because of our focus on employee well-being, effective supervisory leadership, and our ability to achieve our mission.

2017 Target	2017 Results	2018 Target	2018 Results	2019 Target	2019 Results	2020 Target	2020 Results	2021 Target	2021 Results	2022 Target	2022 Results	Results vs. Target
≥72%	Yes	≥75%	Yes	≥81%	Yes	≥81%	Yes	≥86%	No	≥82%	Yes	▲

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: **≥** is greater than or equal to; **N/A** indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates we exceeded the FY 2022 target; ✓ indicates we achieved the FY 2022 target; ▼ indicates we did not meet the FY 2022 target.

Notes: In April 2018, the FCA board adopted the FCA Strategic Plan for FYs 2018–2023. The performance measures in that plan remain substantially the same as the measures in the previous plan.

Financial Section

In this section, we present our independent auditors' report and our financial statements and notes. We prepared these statements and accompanying notes in compliance with U.S. generally accepted accounting principles for the federal government and OMB Circular A-136, Financial Reporting Requirements.

Transmittal Letter of Auditor's Report

FCA OIG
Farm Credit Administration
Office of Inspector General

November 10, 2022

The Honorable Vincent G. Logan, Board Chairman and Chief Executive Officer
The Honorable Jeffery S. Hall, Board Member
The Honorable Glen R. Smith, Board Member
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Dear Chairman Logan and Board Members Hall and Smith:

The Office of Inspector General contracted with the independent public accounting firm Harper, Rains, Knight & Company P.A. (HRK) to audit the financial statements of the Farm Credit Administration (FCA) as of and for the fiscal years ended September 30, 2022 and 2021, and to provide a report on internal control over financial reporting and compliance with laws and other matters. The contract required that the audit be performed in accordance with *Government Auditing Standards*, Office of Management and Budget audit guidance, and the United States (U.S.) Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency's *Financial Audit Manual*.

In its audit of FCA, HRK reported:

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting; and
- no reportable noncompliance with provisions of laws tested or other matters.

In connection with the contract, we reviewed HRK's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements, was not intended to enable us to express, and we do not express, opinions on FCA's financial statements or conclusions about the effectiveness of internal control over financial reporting, or on compliance with laws and other matters. HRK is responsible for the attached auditor's report dated November 8, 2022, and the conclusions expressed therein. However, our review disclosed no instances where HRK did not comply, in all material respects, with *Government Auditing Standards*.

Respectfully,

Sonya K. Cerne

Sonya K. Cerne
Assistant Inspector General for Audits, Inspections, and Evaluations

Enclosure

1501 Farm Credit Drive, McLean, VA 22102 · 703-883-4030 · www.fca.gov/about/inspector-general

Independent Auditor's Report

Harper, Rains, Knight & Company

Independent Auditors' Report

The FCA Board and Inspector General
Farm Credit Administration

Report on the Audit of the Financial Statements

Opinion

In accordance with the Accountability of Tax Dollars Act, we have audited the financial statements of the Farm Credit Administration (FCA). FCA's financial statements comprise the balance sheets as of September 30, 2022, and 2021, and the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended, and the related notes to the financial statements.

In our opinion, FCA's financial statements present fairly, in all material respects, FCA's financial position as of September 30, 2022, and 2021, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 22-01 are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of FCA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

FCA's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; preparing, measuring, and presenting the Required Supplementary Information (RSI) in accordance with accounting principles generally accepted in the United States of America; preparing and presenting other information included in documents containing the audited financial statements and auditors' report, and ensuring the consistency of that information with the audited financial statements and the RSI; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Certified Public Accountants · Consultants · hrkcpa.com

1052 Highland Colony Parkway, Suite 100
Ridgeland, MS 39157
p: 601-605-0722 · f: 601-605-0733

700 12th Street NW, Suite 700
Washington, DC 20005
p: 202-558-5162 · f: 601-605-0733

The FCA Board and Inspector General
Farm Credit Administration (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually, or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, GAGAS, and OMB Bulletin No. 22-01, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FCA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America issued by the Federal Accounting Standards Advisory Board (FASAB) require that the information in the Management's Discussion and Analysis be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB who considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditors' inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit, and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

The FCA Board and Inspector General
Farm Credit Administration (continued)

Other Information

Our audit was conducted for the purpose of forming an opinion on FCA's financial statements. The information in the Statement of Board Chairman and CEO, Program Performance, and Other Information sections contain a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to me materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

Report on Internal Control over Financial Reporting

In planning and performing our audit of FCA's financial statements as of and for the year ended September 30, 2022, in accordance with GAGAS, we considered FCA's internal control relevant to the financial statement audit as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FCA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of FCA's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies or to express an opinion on the effectiveness of FCA's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses. However, material weaknesses and significant deficiencies may exist that have not been identified.

During our 2022 audit, we identified deficiencies in FCA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant FCA management's attention. We have communicated these matters to FCA management and, where appropriate, will report on them separately.

The FCA Board and Inspector General
Farm Credit Administration (continued)

Report on Internal Control over Financial Reporting (continued)

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

As part of obtaining reasonable assurance about whether FCA's financial statements are free from material misstatement, we performed tests of its compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in FCA's financial statements, and to perform certain other limited procedures, but not for the purposes of expressing an opinion on FCA's compliance with applicable laws, regulations, contracts, and grant agreements. Accordingly, we do not express such an opinion. We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to FCA. FCA management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the entity.

Our tests of compliance with these selected provisions of applicable laws, regulations, and contracts, and grant agreements disclosed no instances of noncompliance for the year ended September 30, 2022, that would be reportable under GAGAS or OMB Bulletin No. 22-01. We caution that noncompliance may occur and not be detected by these tests.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by GAGAS is solely to describe the scope of our testing of internal control and compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on the effectiveness of FCA's internal control or compliance. These reports are an integral part of an audit performed in accordance with GAGAS and OMB Bulletin No. 22-01 in considering the entity's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

Harper, Rains, Knight & Company, P.A.

November 8, 2022
Washington, DC

Financial Statements

We have prepared the accompanying financial statements in accordance with U.S. generally accepted accounting principles and with the Office of Management and Budget Circular A-136, as amended. For comparison purposes, we present our financial statements and notes for FY 2022 and FY 2021. All amounts are in whole dollars. Our financial statements include the following:

- Balance sheets, which show our assets, our liabilities, and our net position (assets minus liabilities).
- Statements of net cost, which show our net cost of operations. We calculate our net costs by subtracting from our gross costs any revenue we earn. We break the statement of net cost into three program components: public mission, safety and soundness, and other activity.
- Statements of changes in net position, which show the changes in our net position over the two-year period ending Sept. 30, 2022.
- Statements of budgetary resources, which show our resources, the status of our resources, and the outlay of resources during the fiscal year.
- Notes to the financial statements, which clarify and provide additional detail regarding the amounts in the financial statements.

Not all the statements mentioned in Circular A-136 apply to our agency. For this reason, we do not include a statement of custodial activity, a statement of social insurance, or a statement of changes in social insurance amounts.

Balance sheets

As of Sept. 30, 2022 and 2021
(In dollars)

Balance sheet categories	Description	2022	2021
Assets	**Intragovernmental**		
	Fund balance with Treasury (note 2)	$4,511,469	$896,793
	Investments (note 3)		
	Federal investments	42,290,788	39,447,090
	Interest receivable — investments	168,610	163,522
	Accounts receivable (note 4)	13,365	44,705
	Total intragovernmental	**46,984,232**	**40,552,110**
	With the public		
	Accounts receivable (note 4)	21,404	6,751
	General property, equipment, and software, net (note 5)	1,105,520	1,487,624
	Prepaid expenses	292,494	267,923
	Total with the public	**1,419,418**	**1,762,298**
	Total assets	**$48,403,650**	**$42,314,408**
Liabilities	**Intragovernmental**		
	Accounts payable	$130,091	$149,254
	Other liabilities (note 7)		
	Other liabilities (without reciprocals)	207,279	194,129
	Benefit program contributions payable	760,286	668,224
	Total intragovernmental	**1,097,656**	**1,011,607**
	With the public		
	Accounts payable	1,270,426	807,594
	Actuarial workers' compensation liability (note 6)	1,561,692	1,533,273
	Employer contributions and payroll taxes payable	676,697	656,980
	Deferred revenue	9,474,827	6,474,352
	Accrued payroll and benefits	8,375,421	9,141,457
	Accrued taxes payable	0	15,973
	Total with the public	**21,359,063**	**18,629,629**
	Total liabilities (note 6)	**$22,456,719**	**$19,641,236**
Net position	**Cumulative results of operations – funds from dedicated collections (note 8)**	**$25,946,931**	**$22,673,172**
	Total net position	**25,946,931**	**22,673,172**
	Total liabilities and net position	**$48,403,650**	**$42,314,408**

The accompanying notes are an integral part of these statements.

Statements of net cost

For the years ended Sept. 30, 2022 and 2021
(In dollars)

Agency programs	Program costs	2022	2021
Public mission	Gross costs	$22,481,168	$20,209,279
	Less: Earned revenue	(21,725,126)	(18,680,718)
	Net program cost	$756,042	$1,528,561
Safety and soundness	Gross costs	$63,424,321	$62,627,132
	Less: Earned revenue	(61,234,830)	(57,887,401)
	Net program cost	$2,189,491	$4,739,731
Other activity	Gross costs	$618,091	$830,844
	Less: Earned revenue	(322,832)	(467,605)
	Net program cost	$295,259	$363,239
Net cost of operations (note 9 and note 14)		**$3,240,792**	**$6,631,531**

The accompanying notes are an integral part of these statements.

Statements of changes in net position

For the years ended Sept. 30, 2022 and 2021
(In dollars)

Description		2022	2021
Cumulative results of operations			
Beginning balances (includes funds from dedicated collections) (note 8)		$22,673,172	$22,894,608
Other financing sources (Non-exchange)	**Imputed financing sources**		
	Federal employee benefits (note 10)	2,864,551	2,760,095
	Rent (note 10)	3,650,000	3,650,000
	Total financing sources	6,514,551	6,410,095
Net cost of operations		(3,240,792)	(6,631,531)
Net change		3,273,759	(221,436)
Cumulative results of operations (includes funds from dedicated collections)		$25,946,931	$22,673,172
Net position		**$25,946,931**	**$22,673,172**

The accompanying notes are an integral part of these statements.

Statements of budgetary resources

For the years ended Sept. 30, 2022 and 2021
(In dollars)

Statement of budgetary resources categories	Description	2022	2021
Budgetary resources	Unobligated balance from prior year budget authority, net	$23,283,704	$23,124,450
	Spending authority from offsetting collections	86,775,766	76,457,995
	Total budgetary resources (note 12)	**$110,059,470**	**$99,582,445**
Status of budgetary resources	New obligations and upward adjustments (total)	$81,335,892	$76,298,741
	Unobligated balance, end of year		
	Exempt from apportionment, unexpired accounts	19,248,751	16,809,352
	Exempt from apportionment, not available	9,474,827	6,474,352
	Unobligated balance, end of year (total)	28,723,578	23,283,704
	Total budgetary resources (note 12)	**$110,059,470**	**$99,582,445**
Outlays, net	Outlays, net (total)	(6,862,733)	(1,161,341)
	Distributed offsetting receipts	0	(25,245)
	Agency outlays, net (note 14)	**$(6,862,733)**	**$(1,186,586)**

The accompanying notes are an integral part of these statements.

Notes to the financial statements

Note 1. Summary of significant accounting policies

A. **Reporting entity** — See the section titled FCA at a Glance on page 7 for details on the reporting entity.

FCA is a component of the U.S. government. For this reason, some of our assets and liabilities may be eliminated for governmentwide reporting because they are offset by assets and liabilities of another U.S. government entity. These financial statements should be read with the realization that they are for a component of the U.S. government.

B. **Basis of accounting and presentation** — The financial statements have been prepared in accordance with OMB Circular No. A-136, as amended. In addition, the financial statements have been prepared on an accrual basis from our books and records in accordance with generally accepted accounting principles and the Statements of Federal Financial Accounting Standards (SFFAS) prescribed by the Federal Accounting Standards Advisory Board, the official body for setting accounting standards for the federal government. Under the accrual method, revenues are recognized when earned, and expenses are recognized when goods or services are received, without regard to receipt of funds or payment of cash. FCA is not subject to apportionment. We have applied budgetary accounting to facilitate compliance with legal constraints and control over the use of funds.

C. **Budgetary terms** — The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to federal agencies by law and help ensure compliance with the law. We use the following commonly used budgetary terms in this report:

- *Budgetary resources:* Amounts available to incur obligations each year. Budgetary resources consist of new budget authority for the current budget fiscal year and unobligated balances of budget authority provided in previous years.
- *Obligations:* A binding agreement that will result in outlays (cash disbursements), immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.
- *Offsetting collections:* Payments to the agency that, by law, are credited directly to expenditure accounts. We are authorized to use these funds for the purposes of carrying out our mission without further action from Congress. These funds become our primary form of budget authority each year. Offsetting collections and unobligated balances from prior years account for our total budgetary resources.
- *Offsetting receipts:* Payments to the agency that are credited to offsetting General Fund receipt accounts and are not funds that we are authorized to use in our operations. We transfer these funds to Treasury at the end of each fiscal year.
- *Outlays:* A payment to liquidate an obligation, also known as a cash disbursement. Outlays are a measure of government spending.

D. **Fund balance with Treasury** — We maintain a revolving, no-year account with the U.S. Treasury through which cash receipts and disbursements are processed. We do not receive appropriated funds. See note 2.

E. **Investments** — The Farm Credit Act gives us the authority to invest in public debt securities with maturities suitable to our needs. We invest solely in U.S. Treasury securities, which are normally held to maturity and carried at cost. Investments are adjusted for unamortized premiums or discounts. Premiums and discounts are amortized, and interest is accrued using the level-yield, scientific method of effective interest amortization over the term of the respective issues. We use interest earned on investments to build and maintain an agency reserve, which allows us to respond effectively and efficiently to unexpected, unbudgeted expenses without increasing assessments. See note 3.

F. **Accounts receivable** — Accounts receivable are composed of reimbursements for FCA administrative expenses according to agreements with other federal entities, assessments from institutions in accordance with the Farm Credit Act and FCA regulations, and any amounts owed FCA that are generated through the normal course of business with employees and vendors.

   Amounts due from federal agencies are considered fully collectible. An allowance for uncollectible amounts receivable from the public is established when we have determined that the collection is unlikely to occur after considering the debtor's ability to pay.

   The Office of the Chief Financial Officer, in conjunction with the agency's accounting service provider, the Bureau of the Fiscal Service, reviews the agency's accounts receivable on a regular basis. We have determined that all accounts receivable as of Sept. 30, 2022, are fully collectible. See note 4.

G. **Advances and prepaid expenses** — Payments made before the receipt of goods and services are recorded as advances or prepaid expenses at the time of prepayment and are recognized as expenses when the goods and services are received. This process helps to minimize large dollar fluctuations in cost and provides for the recognition of cost based on use. When the prepayment amount has minimal impact on cost, it is more cost-effective to expense the advance or prepayment at the time of payment. We establish advances for prepaid maintenance agreements over $20,000 and for prepaid training exceeding $15,000.

H. **General property, equipment, and software** — Property (including vehicles), equipment, and software are recorded at cost, net of an allowance for accumulated depreciation. Repairs and maintenance costs are expensed as incurred. We capitalize all property and equipment with itemized costs of $50,000 or more and a useful life of two years or more. We also capitalize groups of items that individually are under $50,000 but together meet the bulk purchase criteria of $500,000 or more. We capitalize software when its costs exceed $250,000 and when the software has a useful life of two years or more. We use the straight-line method of depreciation with half-year convention to allocate the cost of capitalized property, equipment, or software over its estimated useful life. See note 5.

I. **Accounts payable** — Accounts payable consist of amounts owed to other federal agencies and the public. We strive to make payments in a timely manner in accordance with the Prompt Payment Act. If payments are late, we pay interest penalties.

J. **Liabilities** — Liabilities may or may not be covered by budgetary or other resources. All our liabilities are covered by budgetary resources except for the actuarial workers' compensation liability (see note 6). Intragovernmental liabilities are claims against us by other federal agencies.

K. **Funds from dedicated collections** – Funds from dedicated collections are financed by specifically identified revenues, which remain available over time. These specifically identified revenues are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues. With our primary source of funding coming from the FCS assessments, and intended for the agency's operations by statute, our funds are all considered funds from dedicated collections. See note 8 for additional details.

L. **Inter-entity costs** — Goods and services are received from other entities at no cost or at a cost less than full cost to the providing entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by FCA are recognized as imputed cost on the statement of net cost and are offset by imputed revenue on the statement of changes in net position. FCA's inter-entity costs that are reported as imputed costs include federal employee benefits and rent. See note 10.

M. **Annual, sick, and other leave** — Annual leave, compensatory leave, credit hours, and some other types of leave are accrued as a funded liability when earned, with an offsetting reduction for leave taken. The accrued leave liability for each of these types of leave is calculated using current pay rates. Sick leave and other types of nonvested leave are expensed as the leave is taken. Our methodology for calculating the leave liability includes the cost of benefits associated with the compensation. This ensures that our estimated liability for leave reflects the current composition of our staff; nearly all our employees are under the Federal Employees Retirement System instead of the Civil Service Retirement System.

N. **Assessments** — A substantial portion of our revenues is based on direct assessments billed to the System institutions we regulate or examine. We also recognize revenues based on examination services provided by the Office of Examination. We use a formula established in our regulations to calculate assessments. We base each institution's assessment, in part, on its average risk-adjusted assets and its overall financial health.

O. **Deferred revenue** — Any funds received before the beginning of the new fiscal year are considered unearned revenue and are reported as deferred revenue on the balance sheet. These amounts are also reported as "exempt from apportionment, not available" on the statement of budgetary resources.

P. **Use of estimates** — We have made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses; we have also made estimates and assumptions in the note disclosures. Actual results could differ from these estimates. Some estimates include year-end accruals and accrued workers compensation.

Q. **Financial data** — All amounts presented in this report are in whole dollars.

R. **Classified activities** — Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. FCA does not have any classified activities.

Note 2. Fund balance with Treasury

Description	2022	2021
Status of fund balance with Treasury		
Unobligated balance		
Available	$19,248,751	$16,809,352
Unavailable	9,474,827	6,474,352
Obligated balance not yet disbursed	17,652,003	16,229,144
Subtotal — Status of fund balance	46,375,581	39,512,848
Funds invested with Treasury, net of unamortized discount	(41,864,112)	(38,616,055)
Total fund balance with Treasury	**$4,511,469**	**$896,793**

The fund balance with Treasury is an asset account that shows our available cash. The balance in the account increases as we collect funds and decreases as we disburse funds. The status of our fund balance with Treasury may be classified as unobligated available, unobligated unavailable, or obligated. Unobligated available amounts represent funds available for incurring new obligations. The unobligated unavailable amounts include funds not yet available for use and represent the amount of new fiscal year assessments received before Oct. 1. These unavailable amounts are also classified as deferred revenue on the balance sheet. Amounts noted as "obligated balance not yet disbursed" represent amounts designated for payment of goods and services received and not yet paid.

Unobligated balances noted above agree with unobligated balances reported on the Statement of Budgetary Resources.

All our funds invested with Treasury are in U.S. Treasury securities.

Note 3. Investments

Amounts for 2022 balance sheet reporting

Intragovernmental securities	Cost	Amortized (premium) discount	Investments, net	Interest receivable	9/30/22 Investment balance	Market value disclosure
Nonmarketable: market-based	$42,985,786	$(694,998)	$42,290,788	$168,610	$42,459,398	$41,195,535

Amounts for 2021 balance sheet reporting

Intragovernmental securities	Cost	Amortized (premium) discount	Investments, net	Interest receivable	9/30/21 Investment balance	Market value disclosure
Nonmarketable: market-based	$39,836,961	$(389,871)	$39,447,090	$163,522	$39,610,612	$39,446,602

Premiums and discounts are amortized, and interest is accrued using the level-yield, scientific method of effective interest amortization over the term of the respective issues. Interest revenue on investments was $258,623 and $251,147 for FYs 2022 and 2021, respectively.

Note 4. Accounts receivable

Description	2022	2021
Intragovernmental		
Reimbursements for services provided	$13,365	$44,705
Subtotal	13,365	44,705
With the public		
Reimbursements for services provided	6,560	2,359
Expenditure refunds	14,844	4,392
Subtotal	21,404	6,751
Total accounts receivable	**$34,769**	**$51,456**

The intragovernmental receivables represent reimbursable services provided to USDA and FCSIC but unbilled as of Sept. 30. Receivables for services provided to the public represent uncollected amounts related to the cost of examining the National Consumer Cooperative Bank and some employee receivables.

We do not have any uncollectible accounts receivable and therefore do not display any estimate for allowance for uncollectible accounts.

Note 5. General property, equipment, and software

As of Sept. 30, 2022

Type of asset	Estimated useful life	Depreciation method	Acquisition value	Accumulated/amortized depreciation	Book value
Equipment	3 years	Straight line	$918,140	$(765,117)	$153,023
Equipment	5 years	Straight line	498,328	(470,346)	27,982
Equipment	10 years	Straight line	305,304	(228,501)	76,803
Internal use software	5 years	Straight line	1,656,962	(1,331,382)	325,580
Software in development			522,132	0	522,132
Total			**$3,900,866**	**$(2,795,346)**	**$1,105,520**

As of Sept. 30, 2021

Type of asset	Estimated useful life	Depreciation method	Acquisition value	Accumulated/ amortized depreciation	Book value
Equipment	3 years	Straight line	$918,140	$(459,070)	$459,070
Equipment	5 years	Straight line	498,328	(422,157)	76,171
Equipment	10 years	Straight line	305,304	(197,971)	107,333
Internal use software	5 years	Straight line	1,656,962	(1,071,794)	585,168
Software in development			259,882	0	259,882
Total			**$3,638,616**	**$(2,150,992)**	**$1,487,624**

Capitalization thresholds for property and equipment are $50,000 per individual asset and $500,000 for bulk purchase of equipment. Capitalized internal use software is capitalized when costs exceed $250,000.

Note 6. Liabilities not covered by budgetary resources (actuarial workers' compensation liability)

We record an unfunded liability (liability not covered by budgetary resources) for the actuarial liability under the Federal Employees' Compensation Act (FECA). The actuarial FECA liability is the estimated liability for future benefit payments and is recorded as a component of federal employee benefits. The actuarial liability estimate for benefits under FECA includes the expected liability for costs associated with death, disability, and medical care for approved compensation cases. The estimate also includes costs associated with incurred but unreported claims.

The Department of Labor estimates future workers' compensation liability for specified entities that are preparing statements under the Chief Financial Officers Act and the Government Management Reform Act. Because we are not one of the entities for which the Department of Labor provides individual estimates on a routine basis, we calculated our estimated FECA actuarial liability amount by using the Department of Labor's FY 2022 model.

Liability description	2022	2021
Federal Employees' Compensation Act actuarial liability	$1,561,692	$1,533,273
Total liabilities not covered by budgetary resources	1,561,692	1,533,273
Total liabilities covered by budgetary resources	20,895,027	18,107,963
Total liabilities	**$22,456,719**	**$19,641,236**

Note 7. Other liabilities

There are two categories of intragovernmental other liabilities in our balance sheet. The benefit program contributions payable line represents the employer portion of payroll taxes and benefit contributions, such as retirement, and health and life insurance. These intragovernmental liabilities also include the amount of our funded liability for the Federal Employees' Compensation Act. The other liabilities (without reciprocals) line item refers to transactions that are intragovernmental in nature, but no reciprocal balances will be reported by any other federal entity. For FCA, these balances relate to accrued liabilities for employees' withholding taxes under the Federal Insurance Contributions Act and hospital insurance tax.

Other liabilities	2022	2021
Intragovernmental		
Other liabilities (without reciprocals)	$207,279	$194,129
Benefit program contributions payable	760,286	668,224
Total intragovernmental other liabilities	967,565	862,353
Total other liabilities	**$967,565**	**$862,353**

Note 8. Funds from dedicated collections

Our primary source of funding is the assessment collections from the Farm Credit System and Farmer Mac. Collections of the assessments are intended, by statute, to fund our agency operations and are not general revenues of the federal government. As such, we classify our funds as dedicated collections.

Description	Total funds from dedicated collections (consolidated) FY 2022	Total funds from dedicated collections (consolidated) FY 2021
Balance sheet		
Intragovernmental		
Fund balance with Treasury	$4,511,469	$896,793
Investments, net	42,459,398	39,610,612
Accounts receivable, net	13,365	44,705
Total intragovernmental assets	46,984,232	40,552,110
Other than intragovernmental		
Accounts receivable, net	21,404	6,751
General property, plant, and equipment, net	1,105,520	1,487,624
Advances and prepayments	292,494	267,923
Total other than intragovernmental	1,419,418	1,762,298
Total assets	**48,403,650**	**42,314,408**
Intragovernmental		
Accounts payable	130,091	149,254
Other liabilities	967,565	862,353
Total intragovernmental liabilities	1,097,656	1,011,607
Other than intragovernmental		
Accounts payable	1,270,426	807,594
Federal employee benefits payable	2,238,389	2,190,253
Other liabilities	17,850,248	15,631,782
Total other than intragovernmental	21,359,063	18,629,629
Total liabilities	**22,456,719**	**19,641,236**
Cumulative results of operations	25,946,931	22,673,172
Total liabilities and net position	**$48,403,650**	**$42,314,408**
Statement of net cost		
Gross program costs	$86,523,580	$83,667,255
Less: earned revenues	(83,282,788)	(77,035,724)
Net program costs	3,240,792	6,631,531
Net cost of operations	**$3,240,792**	**$6,631,531**

Description	Total funds from dedicated collections (consolidated) FY 2022	Total funds from dedicated collections (consolidated) FY 2021
Statement of changes in net position		
Cumulative results of operations		
Beginning balance	$22,673,172	$22,894,608
Imputed financing	6,514,551	6,410,095
Net cost of operations	(3,240,792)	(6,631,531)
Net change in cumulative results of operations	3,273,759	(221,436)
Cumulative results of operations: ending	25,946,931	22,673,172
Net position, end of period	**$25,946,931**	**$22,673,172**

Note 9. Suborganization program costs

The following tables provide a detailed breakout of the statement of net cost for each of the fiscal years ended 2022 and 2021. We display our cost and earned revenue amounts by office within each program.

For the year ended Sept. 30, 2022

Agency programs	Program costs	Office of Examination	Office of Regulatory Policy	Office of Secondary Market Oversight	Other offices	Total
Public mission	Gross costs	$449,925	$5,477,144	$567,923	$15,986,176	$22,481,168
	Less: Earned revenue	(432,265)	(5,262,164)	(461,661)	(15,569,036)	(21,725,126)
	Net program cost	17,660	214,980	106,262	417,140	756,042
Safety and soundness	Gross costs	36,733,098	260,836	1,421,398	25,008,989	63,424,321
	Less: Earned revenue	(35,351,385)	(250,150)	(1,100,066)	(24,533,229)	(61,234,830)
	Net program cost	1,381,713	10,686	321,332	475,760	2,189,491
Other activity	Gross costs	65,433	515	4,283	547,860	618,091
	Less: Earned revenue	(34,176)	(269)	(2,237)	(286,150)	(322,832)
	Net program cost	31,257	246	2,046	261,710	295,259
Net cost of operations		**$1,430,630**	**$225,912**	**$429,640**	**$1,154,610**	**$3,240,792**

For the year ended Sept. 30, 2021

Agency programs	Program costs	Office of Examination	Office of Regulatory Policy	Office of Secondary Market Oversight	Other offices	Total
Public mission	Gross costs	$412,841	$5,141,388	$523,326	$14,131,724	$20,209,279
	Less: Earned revenue	(383,409)	(4,774,814)	(432,124)	(13,090,371)	(18,680,718)
	Net program cost	29,432	366,574	91,202	1,041,353	1,528,561
Safety and soundness	Gross costs	37,663,274	251,682	1,518,691	23,193,485	62,627,132
	Less: Earned revenue	(34,936,386)	(232,330)	(1,255,517)	(21,463,168)	(57,887,401)
	Net program cost	2,726,888	19,352	263,174	1,730,317	4,739,731
Other activity	Gross costs	207,940	21,164	88	601,652	830,844
	Less: Earned revenue	(117,030)	(11,911)	(50)	(338,614)	(467,605)
	Net program cost	90,910	9,253	38	263,038	363,239
Net cost of operations		**$2,847,230**	**$395,179**	**$354,414**	**$3,034,708**	**$6,631,531**

Note 10. Inter-entity costs

Federal employee benefits

Benefit description	2022	2021
Imputed pension costs	$393,705	$396,947
Other imputed retirement benefits	2,470,846	2,363,148
Total	**$2,864,551**	**$2,760,095**

We report the amount of our pension expense and other retirement benefits in accordance with SFFAS No. 5, Accounting for Liabilities of the Federal Government. These expenses are treated as an imputed expense, which is recognized when amounts remitted to OPM are less than the full cost to the government. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

Pension expenses — Our employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which we make contributions according to plan requirements. CSRS and FERS are multiemployer plans. We do not maintain or report information about the assets of the plan, nor do we report actuarial data for accumulated plan benefits. The reporting of such amounts is the responsibility of OPM.

Other retirement benefit expenses — We also recognize an expense for the cost of providing health benefits and life insurance to our employees after they retire. OPM provides the factors used to calculate these costs.

Rent

FCA office description	2022	2021
Leased field offices	$1,465,193	$1,410,455
FCA headquarters	2,184,807	2,239,545
Total	**$3,650,000**	**$3,650,000**

In accordance with the Farm Credit Act, we occupy buildings owned and leased by the Farm Credit System Building Association (FCSBA). Our administrative headquarters building and land are in McLean, Virginia. In addition, the FCSBA leases office space for field offices on our behalf at various locations throughout the United States. Rent is provided at no cost to us. Our imputed rent expense is an estimate based on the FCSBA's estimated budget for 2022. In accordance with SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, the rent expense and the associated imputed revenue are recorded as a nonmonetary transaction.

Note 11. Undelivered orders at the end of the period

As of Sept. 30, 2022, budgetary resources obligated for undelivered orders were as follows:

Type of undelivered orders	Federal	Nonfederal	Total
Paid undelivered orders	$0	$292,494	$292,494
Unpaid undelivered orders	183,035	6,604,930	6,787,965
Total undelivered orders	**$183,035**	**$6,897,424**	**$7,080,459**

As of Sept. 30, 2021, budgetary resources obligated for undelivered orders were as follows:

Type of undelivered orders	Federal	Nonfederal	Total
Paid undelivered orders	$0	$267,923	$267,923
Unpaid undelivered orders	263,933	4,821,566	5,085,499
Total undelivered orders	**$263,933**	**$5,089,489**	**$5,353,422**

Note 12. Explanation of differences between the Statement of Budgetary Resources and the budget of the U.S. government

SFFAS 7 requires the reporting of material differences between amounts reported in the Statement of Budgetary Resources and the actual amounts reported in the Budget of the United States Government.

There are no material differences between the amounts reported in the FY 2021 Statement of Budgetary Resources and the FY 2021 actual amounts reported in the FY 2023 Budget of the United States

Government. The FY 2024 Budget of the United States is not yet available to compare the FY 2022 actual amounts to the FY 2022 Statement of Budgetary Resources. The budget is expected to be available in February 2023 at https://www.whitehouse.gov/omb/budget/.

Note 13. Incidental custodial collections

Our custodial collections include receipts to cover the costs of fulfilling Freedom of Information Act requests; they also include other receipts, such as interest and penalties. During the fiscal year, we include these collections in the Fund Balance with Treasury. However, since these collections are immaterial to the financial statements and incidental to our mission, we do not provide a Statement of Custodial Activity. Custodial collections totaled $16 for the year ended Sept. 30, 2022, and $25,245 for the year ended Sept. 30, 2021. The funds collected during FY 2022 were transferred to the Department of the Treasury at the end of FY 2022.

Note 14. Reconciliation of net cost to net outlays

As prescribed by SFFAS 53, Budget and Accrual Reconciliation, this note explains the relationship between our net outlays on a budgetary basis and the net cost of operations during the reporting period. It is a reconciliation between budgetary and financial accounting information.

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash. Because financial accounting is intended to provide a picture of the government's financial operations and financial position, it presents information on an accrual basis. The accrual basis includes information about costs arising from consuming assets and incurring liabilities. The analyses in the tables below illustrate this reconciliation by listing the key differences between net cost and net outlays.

For the year ended Sept. 30, 2022

Reconciling items	Intragovernmental	With the public	Total
Net operating cost	**$22,693,967**	**$(19,453,175)**	**$3,240,792**
Components of net operating cost that are not part of budgetary outlays			
Property, plant, and equipment depreciation expense	0	(644,354)	(644,354)
Increase/(decrease) in assets			
Accounts receivable	(31,340)	14,653	(16,687)
Other assets	0	24,572	24,572
Investments	(399,271)	0	(399,271)
(Increase)/decrease in liabilities not affecting budgetary outlays			
Accounts payable	19,163	(462,832)	(443,669)
Salaries and benefits	0	(48,136)	(48,136)
Other liabilities	(105,212)	(2,218,467)	(2,323,679)
Other financing sources			
Imputed federal employee retirement benefit costs	(2,864,551)	0	(2,864,551)
Imputed rent	(3,650,000)	0	(3,650,000)
Total components of net operating cost that are not part of budgetary outlays	**(7,031,211)**	**(3,334,564)**	**(10,365,775)**
Components of budgetary outlays that are not part of net operating cost			
Acquisition of capital assets	0	262,250	262,250
Total components of budgetary outlays that are not part of net operating cost	**0**	**262,250**	**262,250**
Miscellaneous items			
Net outlays (calculated total)	**$15,622,756**	**$(22,525,489)**	**$(6,862,733)**
Related amounts on the Statement of Budgetary Resources			
Outlays, net			**$(6,862,733)**

For the year ended Sept. 30, 2021

Reconciling items	Intragovernmental	With the public	Total
Net operating cost	**$21,735,529**	**$(15,103,998)**	**$6,631,531**
Components of net operating cost that are not part of budgetary outlays			
Property, plant, and equipment depreciation expense	0	(712,250)	(712,250)
Increase/(decrease) in assets			
Accounts receivable	13,697	(6,258)	7,439
Other assets	(2,396)	53,101	50,705
Investments	670,187	0	670,187
(Increase)/decrease in liabilities not affecting budgetary outlays			
Accounts payable	(16,631)	(422,703)	(439,334)
Salaries and benefits	0	(112,894)	(112,894)
Other liabilities	(136,470)	(1,106,962)	(1,243,432)
Other financing sources			
Imputed federal employee retirement benefit costs	(2,760,095)	0	(2,760,095)
Imputed rent	(3,650,000)	0	(3,650,000)
Total components of net operating cost that are not part of budgetary outlays	**(5,881,708)**	**(2,307,966)**	**(8,189,674)**
Components of budgetary outlays that are not part of net operating cost			
Acquisition of capital assets	0	396,802	396,802
Total components of budgetary outlays that are not part of net operating cost	**0**	**396,802**	**396,802**
Miscellaneous items			
Distributed offsetting receipts	(25,245)	0	(25,245)
Net outlays (calculated total)	**$15,828,576**	**$(17,015,162)**	**$(1,186,586)**
Related amounts on the Statement of Budgetary Resources			
Outlays, net			**$(1,186,586)**

Note 15. COVID-19 activity

As in FYs 2020 and 2021, we did not use any significant amount of our budgetary resources this year to respond to COVID-19. We also did not receive any budgetary resources under any of the COVID-19 supplemental appropriations. Any expenses related to COVID-19 were nominal and immaterial to our overall costs.

Other Information

This section includes the following additional Office of Management and Budget reporting requirements:

- A summary of our financial statement audit and management assurances
- A summary of the management challenges identified by our inspector general, which includes a description of each challenge along with an assessment of the agency's actions to address those challenges
- Our response to the inspector general's assessment
- Our actions to address the Payment Integrity Information Act of 2019 requirements
- An update on our annual adjustment on civil monetary penalties

Summary of Financial Statement Audit and Management Assurances

FCA has no reported material weakness, and we are in conformance with the Federal Managers' Financial Integrity Act (FMFIA).

Table 10. Summary of financial statement audit

Audit opinion: Unmodified
Restatement: No

Material weaknesses	Beginning balance	New	Resolved	Consolidated	Ending balance
Total material weaknesses	0	0	0	0	0

Table 11. Summary of management assurances

Effectiveness of internal control over financial reporting (FMFIA § 2)
Statement of assurance: Unmodified

Material weaknesses	Beginning balance	New	Resolved	Consolidated	Reassessed	Ending balance
Total material weaknesses	0	0	0	0	0	0

Effectiveness of internal control over operations (FMFIA § 2)
Statement of assurance: Unmodified

Material weaknesses	Beginning balance	New	Resolved	Consolidated	Reassessed	Ending balance
Total material weaknesses	0	0	0	0	0	0

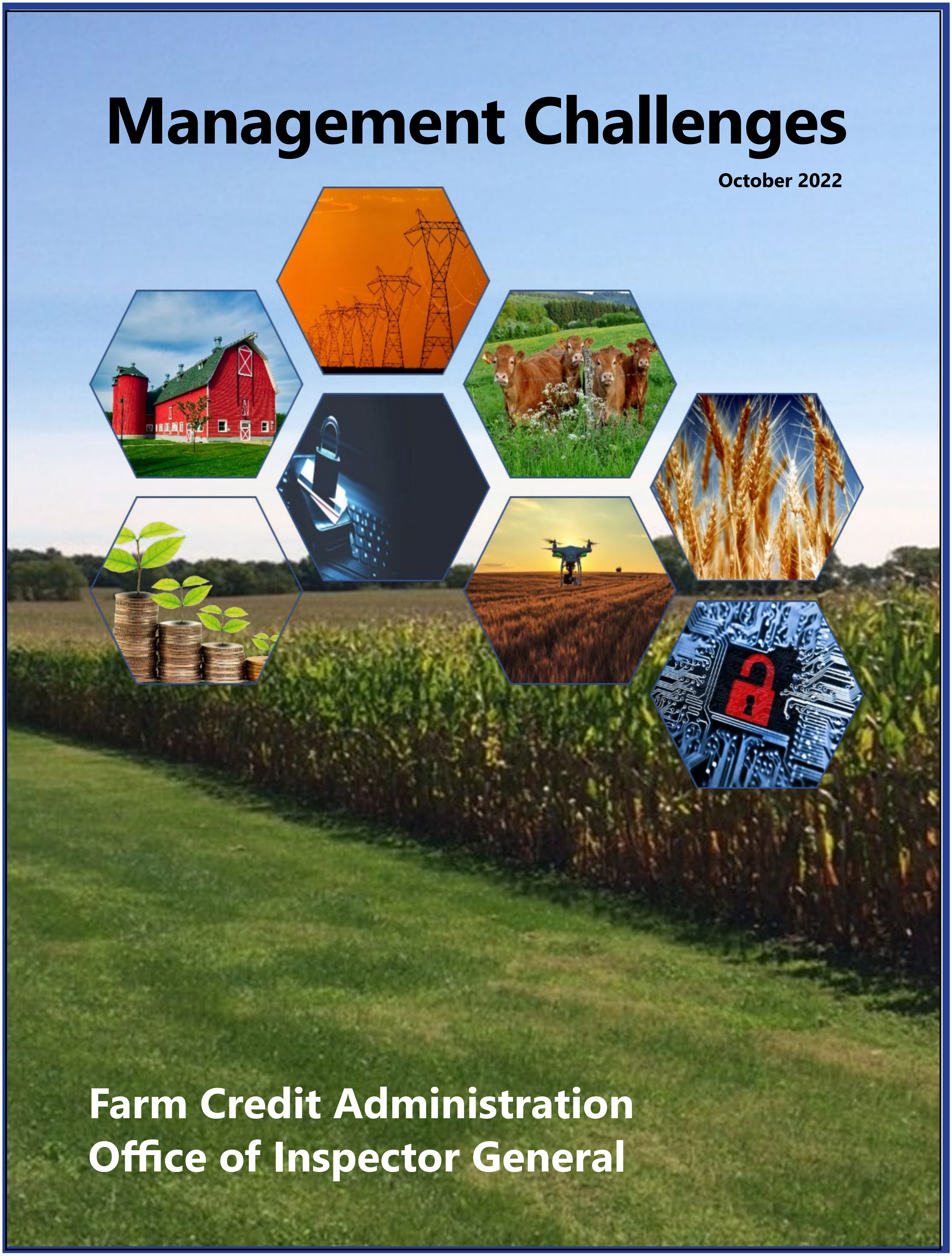
Conformance with federal financial management system requirements (FMFIA § 4)
Statement of assurance: Federal systems conform

Nonconformances	Beginning balance	New	Resolved	Consolidated	Reassessed	Ending balance
Total nonconformance	0	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FFMIA § 803[a])
We are not required to report under this act.

Management Challenges

October 2022



Farm Credit Administration
Office of Inspector General

Management Challenges

The Reports Consolidation Act of 2000 requires the Inspector General to provide a summary perspective on the most serious management and performance challenges facing the Farm Credit Administration (FCA or Agency) and briefly assess the Agency's progress in addressing those challenges. These challenges may reflect ongoing vulnerabilities identified by the Office of Inspector General (OIG) over recent years as well as new and emerging issues. The chart below lists the top management challenges facing FCA and the pages following the chart provide more depth on each challenge.

Regulating and Supervising a Complex Farm Credit System

Operating with Less Than an Ideal Board Member Composition

Continuous Monitoring and Contingency Planning

Recruiting and Retaining Talented Employees

CHALLENGE ONE: Regulating and Supervising a Complex Farm Credit System

Regulating and Supervising a Complex Farm Credit System

As the Farm Credit System (System) becomes more complex, FCA will face challenges to address evolving risks, threats, and conditions. The System continues to be impacted by changes in the supply chain, labor market, interest rates, cybersecurity threats, the collective farm debt, and climate. This varied environment creates new needs for examination and supervision resources. Because System conditions can change quickly, FCA will need to maintain forward-looking plans to ensure staff are equipped with the unique, specialized skills to provide effective oversight. Technology, data analytics, and risk management systems and approaches also continue to become more sophisticated. FCA will be challenged to ensure it has the right tools to keep pace with the developments across the System.

Merger activity also impacts complexity across the System. Merger activity has increased, which creates both benefits and risks. FCA will be challenged to ensure it has appropriate resources to fully understand and address this changing landscape. Risk management tools, specialized training, and institutional knowledge will become increasingly important as institutions merge and become more complex. Further, as institutions grow, FCA will need to continue to identify ways to better understand the impact of merger activities. Specifically, effective supervision and oversight will require a nuanced understanding of the impact of changes in geographic diversification, risk concentration, and organizational structure on the System as a whole. The complexity of these factors is further increased by the unique issues that impact agricultural lending.

Consolidation may also affect other oversight areas. As the number of institutions declines, FCA will be challenged to develop policies, guidance, and standards that address the unique circumstances of both large and small institutions. The diversity across institutions will require the Agency to understand policy impacts to avoid adverse impacts. While large institutions have more risk and complex organizational structures, smaller institutions have more limited resources and different approaches to compliance. The Agency will be challenged to find the appropriate balance and ensure institutions remain safe and sound as their size or structure change.

Overall, changes across the System will place greater demands on Agency resources. Timely and thorough identification of corrective actions and appropriate follow-up are critical to preventing the escalation of issues and maintaining safety and soundness. The agency also needs to be proactive in order to foresee and respond to challenging scenarios. Internal and external factors can lead to significant changes in condition in short periods of time. The Agency must be agile to monitor and prevent such conditions to protect the System. The Agency must also find the appropriate resource balance. Specifically, the Agency will be challenged to maintain a thorough and robust oversight plan while preparing for unique or difficult oversight scenarios. The Office of Examination's FY 2023 National Oversight Plan includes six focus areas: risk management practices in an uncertain environment; phaseout of the London Interbank Offered Rate; current expected credit losses implementation; young, beginning, and small farmer and rancher programs; standards of conduct; and small, low-risk associations.

CHALLENGE TWO: Operating with Less than an Ideal Board Member Composition

Operating with Less Than an Ideal Board Member Composition

FCA faces another challenge in operating for an extended period of time with less than a full complement of the Board in non-expired terms.

The Farm Credit Act of 1971, as amended (Act), established FCA as an independent agency in the executive branch and vests responsibility for managing the Agency in the FCA Board. The Board should consist of three presidentially appointed, Senate-confirmed members who are broadly representative of the public interest, with no more than two being members of the same political party. Board members serve in six-year terms, which are staggered and fixed so that a term expires every two years regardless of when the member was appointed. The Act provides for board members to continue serving after expiration of their term until a successor is appointed and confirmed.

The above notwithstanding, the FCA Board operated as a two-member body from the death of Board Chairman Dallas P. Tonsager in May 2019 until the October 2022 swearing in of Vincent G. Logan to the Board. The resulting vacancy, which lasted over three years, was the longest since the current structure of the Board was established by the Farm Credit Amendments Act of 1985. While the continued service of Board Chairman Glen R. Smith and Board Member Jeffery S. Hall—both of whose terms have expired—provided the quorum necessary for the Board to transact business, this extended vacancy left the Board without the benefit of a third member to weigh in on the most pressing and important decisions facing the Agency. It also left the Board without the bipartisan composition contemplated by the Act, as Chairman Smith and Member Hall are members of the same political party.

Although the Board once again has a full complement of members, the fact that two members' terms are expired is less than ideal. Board members in such a 'holdover' status may face uncertainty as to the length of their continued service, which is dependent upon timing of the appointment of their successor. This uncertainty—which Board policy has mitigated in part by allowing certain holdover members to perform their official duties from outside the Washington, D.C., area—in turn makes the guarantee of a quorum even more tenuous. Without a quorum, a single-member Board would be unable to establish general policy or promulgate rules and regulations, leaving the Agency less able to carry out its statutory mission. Moreover, extended holdover positions have the potential to undermine the independent status of the Agency as a Board member without a fixed term may appear more vulnerable to the vagaries of politics.

OIG acknowledges that this challenge is largely outside the Agency's power to address, as Board members are subject to presidential appointment and Senate confirmation.

CHALLENGE THREE: Continuous Monitoring and Contingency Planning in FCA's Information Technology Security Program

Continuous Monitoring and Contingency Planning

As noted in OIG's Fiscal Year 2022 Federal Information Security and Modernization Act Audit Report, FCA's information technology security program faces significant challenges in meeting the requirements of continuous monitoring and contingency planning. Cybersecurity threats and vulnerabilities present significant challenges to information technology security. These challenges require a security program that is responsive, agile, and forward-looking. Security events and breaches across the world highlight the prevalence of cybersecurity threats and risks and the importance of robust detection and prevention processes.

Continuous Monitoring

FCA is behind on the implementation of certain requirements in meeting continuous monitoring standards—requirements that involve costly resources to ensure successful implementation. Notwithstanding the challenge of resources, the Agency is planning to implement Continuous Diagnostics and Mitigation tools.

Information technology and security requirements and guidance frequently change. It is imperative that FCA's systems are able to adapt and change as needed. The new efforts and resource allocations that are planned should enhance its ability to get back on track with updates and enhancements to meet requirements and standards. However, implementation in these areas is not easy and will continue to challenge the Agency.

Contingency Planning

FCA is also challenged by contingency planning efforts. While safety and security are everyone's responsibility, the Agency designated two offices with the majority of emergency preparedness and continuity of operations responsibilities—the Office of Agency Services and the Office of Information Technology. The COVID-19 pandemic posed challenges for the FCA workforce and for contingency planning. The new working environment added a new layer of complexity given the reliance on personally managed internet connections and the resources and support needed for a secure environment while keeping the health and safety of FCA staff the utmost priority. As a result, certain contingency planning efforts and testing of plans and systems became less of a priority, leaving certain aspects of the Agency's contingency planning program ineffective.

The Agency will continue to be challenged on meeting all the requirements of an information technology security program. However, regularly testing the contingency plans and information systems is an important way to ensure that services provided by information systems are able to operate effectively and without excessive interruption. The Agency has indicated there are plans to complete contingency plan testing in 2023.

CHALLENGE FOUR: Recruiting and Retaining Talented Employees

Recruiting and Retaining Talented Employees

A significant management challenge facing all FCA offices is recruiting and retaining a talented workforce. The Agency's success depends greatly on its ability to recruit, retain, and develop an able workforce. The Agency will need to be proactive in its human capital management with competitive recruiting and retention programs and developing a diverse and inclusive workforce and workplace environment.

The Agency is facing a competitive employment market where employees, especially early career employees, will choose an employer with an in-office/telework hybrid workplace model over an employer with rigid onsite work requirements. Employees throughout the public and private workforces adapted to working from home productively during the COVID-19 pandemic. The federal workforce has largely returned to the office while retaining some telework flexibilities. Employees want to retain the telework and scheduling flexibilities gained during the pandemic.

The Agency is challenged with retaining and developing expertise in a tight employment market. Early and mid-career employees are looking not only for a flexible workplace, but competitive compensation, evermore so in inflationary times. In a tight employment market, early career employees can more easily "chase the dollar" and move on to the next employer for a marginal increase in salary. As a regulatory agency with a non-General Schedule salary structure, the Agency has competitive federal salaries. However, FCA is also competing against private sector compensation and benefit packages. The Agency will need to continually implement and enhance salary and benefit programs that make its employees want to stay after they are recruited.

Workforce training and development can also help ensure that FCA maintains a vital, experienced staff. Programs such as job sharing, rotational details, intra-office micro-assignments, and mentorships can promote career development as well as cultivate a sense that FCA is an employer rich with career opportunities.

Diversity is another important aspect of recruiting and retaining a talented workforce in a competitive employment market. The Agency must continually assess and implement strategies, such as evaluating FCA's recruiting data, to reach its diversity and inclusion (D&I) goals. The Agency will need to employ various tools that identify and reduce potential barriers to D&I, while continuing to foster appreciation in its workforce with programs that celebrate D&I and promote outreach and education.

Employees are FCA's most valuable asset. In this employment market, the Agency must continue to seek ways to remain competitive through its compensation and benefits package, and by offering a work environment that promotes a work-life balance through flexible schedules and telework and fosters diversity, equity, inclusion, and accessibility. The Agency added new employee benefits during FYs 2022 and 2023, including two pay increases and enhanced leave and student loan benefits for younger employees in an effort to retain its workforce. FCA recognizes diversity and inclusion by periodically publishing D&I news articles and hosting events throughout the year.

Management's Response to Challenges Identified by FCA's Inspector General

Farm Credit Administration

1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4000

November 8 2022

Ms. Wendy Laguarda
Inspector General
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Dear Ms. Laguarda:

Thank you for the management challenges report that you sent us on Oct. 13. We concur with your assessment of these challenges, and we appreciate your analysis. We offer the following feedback on the four challenges you identified.

Challenge 1: Regulating and supervising a complex Farm Credit System

As you pointed out, mergers among System institutions have increased recently, and these mergers create both challenges and opportunities. To improve our ability to regulate institutions of divergent sizes and complexity, we took a number of regulatory steps in FY 2022. For example, we issued guidance on wholesale funding, standards of conduct, and the implementation of the current expected credit losses model. We have plans for more regulatory actions in FY 2023 to strengthen the safety and soundness of the System and its ability to fulfill its public mission.

In addition, we continue to hire mid-career technical experts in the areas of credit, finance, and operations to strengthen our internally developed examination staff; these mid-career hires help us meet the challenges of examining more complex institutions. We have also developed a comprehensive national oversight plan for FY 2023 to ensure that our examiners can identify and address any threats to the System.

Challenge 2: Operating with less than an ideal board member composition

This has been a challenge for FCA since the death of Board Chairman Dallas Tonsager in 2019. I am hopeful that my recent appointment to the board will mitigate this challenge to some degree. I look forward to benefiting from the vast institutional knowledge of my fellow board members and the agency's senior staff. I also look forward to making valuable contributions to the board by sharing my own experience and perspective.

Challenge 3: Continuous monitoring and contingency planning

Thank you for highlighting the challenges posed by cybersecurity threats to the agency; they are indeed daunting. I am excited about our plans to implement new diagnostic and mitigation tools and to integrate them with Department of Homeland Security reporting to help protect against these threats. We are also in negotiation with the Department of Justice for continuous cybersecurity monitoring with immediate mitigation support.

FCA is committed to strengthening contingency planning efforts in FY 2023. We have created a dedicated cybersecurity monitoring position and plans for conducting regular tabletop cyber incident exercises. As you noted, our mobile workforce has created challenges for contingency planning; however, it has also created some valuable opportunities to securely improve our mobile workforce. We are continuously adding more mobile workforce capabilities.

Challenge 4: Recruiting and retaining talented employees

In a labor market as tight as we have right now, many public and private organizations are facing the challenge of recruiting and retaining talented employees. However, we took many important steps in FY 2022 to address this challenge and will continue to do so in FY 2023. In addition to the employee benefit enhancements that you mentioned in your management challenges report, we increased employee development and training opportunities and provided flexibility to allow employees to telework more.

We also strengthened diversity and inclusion in FY 2022. Of 42 hires in the fiscal year, almost 29% were from diverse ethnic and racial groups, and more than 7% had disabilities. As a result of these and other key actions, our employee engagement score increased to 83%.

Again, thank you for your insightful analysis. We look forward to working with you and your staff in the coming year.

Sincerely,

Vincent G. Logan
Board Chairman and CEO

Payment Integrity Information Act Reporting

The Payment Integrity Information Act of 2019 requires agencies to report annual improper payment estimates for OMB-designated high-priority programs and programs that are susceptible to significant improper payments. FCA does not have any programs that were designated by OMB as high priority, and our risk assessments did not identify any programs or activities that were susceptible to significant improper payments.

In accordance with legislative requirements and OMB guidance, we conduct risk assessments at least once every three years to identify programs that may have a significant risk of improper payments. We perform our assessments on contract payments, purchase cards, travel cards, claims and vouchers, and payroll. Based on our last risk assessment for the period ended Sept. 30, 2020, we determined that our programs and activities are low risk and are not susceptible to significant improper payments. We will complete the next assessment in FY 2024 for the period ended Sept. 30, 2023.

Given the size of our agency and our low-risk status for improper payments, recovery audits are not cost-effective. The benefits of any recovered amounts would not exceed the cost of a recovery audit program. We work with our service provider to collect identified overpayments.

On March 23, 2022, our inspector general published her annual report on whether FCA complied with reporting requirements for improper payments. The report concluded that we were in compliance and there were no recommendations.

Additional information on improper payments can be found on PaymentAccuracy.gov.

Civil Monetary Penalty Adjustment for Inflation

Under the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, agencies must make annual inflation adjustments to civil monetary penalties and report on these adjustments. Table 12 shows the adjustments FCA has made this year.

Table 12. Annual inflation adjustments of civil monetary penalties

Statutory authority	Reason for penalty	Year enacted	Latest year of adjustment (via statute or regulation)	Current penalty (dollar amount)	Location for penalty update details
Section 5.32(a) of the Farm Credit Act of 1971, as amended	Violation of a final order	1985	2022	$2,544	87 FR 1331
Section 5.32(a) of the Farm Credit Act of 1971, as amended	Violation of the act or regulation	1985	2022	$1,151	87 FR 1331
Section 102(f) of the Flood Disaster Protection Act of 1973	Pattern or practice of committing violations of the National Flood Insurance Program	1994	2022	$2,392	87 FR 1331

Additional Information

Copies of this report are available on the **Farm Credit Administration**'s website at www.fca.gov/about/reports-publications.

To request print copies of this report or earlier editions, please contact the Office of Congressional and Public Affairs at the email address or mailing address provided below. You may also call 703-883-4056 to request a copy.

We would like to hear from you! What did you think of our FY 2022 Performance and Accountability Report? Did we present information in a way you could use? How can we improve our report in the future? Any feedback you have time to provide would be most appreciated. Please email your comments to info-line@fca.gov.

Or send written comments to the following address:

Office of Congressional and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Thank you!

The **Federal Farm Credit Banks Funding Corporation**, with the support of the System banks, prepares the financial press releases and the System's annual and quarterly information statements, which contain the System's combined financial statements. Copies are available on the Funding Corporation's website at www.farmcredit-ffcb.com or from

Federal Farm Credit Banks Funding Corporation
10 Exchange Place
Suite 1401
Jersey City, NJ 07302
Telephone: 201-200-8000

The **Farm Credit System Insurance Corporation** publishes an annual report. Copies are available on FCSIC's website at www.fcsic.gov or from

Farm Credit System Insurance Corporation
1501 Farm Credit Drive
McLean, VA 22102
Telephone: 703-883-4380

In addition, FCS banks and associations are required by regulation to prepare annual and quarterly financial reports. Copies of these documents are available for public inspection at FCA headquarters in McLean, Virginia.

Copies available from

Office of Congressional and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102

703-883-4056
www.fca.gov

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