Farm Credit Administration

Office of Inspector General

Audit Report

Farm Credit Administration's Enterprise Risk Management and Internal Control Program

A-22-01

June 9, 2022

FCA OIG

Farm Credit Administration
Office of Inspector General

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Office of Inspector General

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The Honorable Glen R. Smith, Board Chairman
The Honorable Jeffery S. Hall, Board Member
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Chairman Smith and Board Member Hall:

The Office of Inspector General (OIG) completed an audit of the Farm Credit Administration's Enterprise Risk Management (ERM) and internal control program. The objective of this audit was to determine whether FCA had established an adequate ERM and internal control program.

FCA had developed an ERM process, including an annual risk profile with prioritized risks, responsible offices, risk responses, and mitigating strategies. However, improvements are needed in the areas of risk monitoring, updating the risk appetite, addressing risk, and providing communication and training. For internal controls, FCA had developed a new risk and control self-assessment process, but it was not fully or consistently implemented. We also identified inconsistencies and incomplete processes related to risk information, reviews of service organizations, and monitoring improvements identified through internal control reviews.

We made eight recommendations to improve the ERM and internal control program. FCA management agreed with the recommendations and provided corrective actions that were responsive to our recommendations.

We appreciate the courtesies and professionalism extended by FCA to our staff during the audit. If you have any questions about this audit, we would be pleased to meet with you at your convenience.

Respectfully,

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

EXECUTIVE SUMMARY

Farm Credit Administration's Enterprise Risk Management and Internal Control Program

Report No. A-22-01 June 9, 2022

Objective

The objective of this audit was to determine whether FCA has established an adequate Enterprise Risk Management (ERM) and internal control program.

Recommendations

The Office of Inspector General made eight recommendations to the Office of the Chief Financial Officer to improve the ERM and internal control program. The recommendations relate to developing structured processes; updating policies, procedures, and guidance; implementing established internal control review processes; developing processes to review service organization control reports; training personnel; and developing a process to monitor gaps and recommendations identified in internal control reviews.

Agency Response

Management provided responsive corrective actions for the recommendations made in the report. Management agreed with all of the recommendations.

Why We did This Audit

The Farm Credit Administration (FCA) manages risks to address its mission. ERM provides an agency-wide approach to addressing the full spectrum of risks by understanding the impact of risks as an interrelated portfolio rather than addressing risks in silos. Internal control is a process that provides reasonable assurance that the objectives of the entity are achieved.

How We Did This Audit

We reviewed FCA's ERM and internal control program. We reviewed FCA's risk profiles and the process to update risk information. We reviewed the agency's Management Control Plans and reviewed a sample of internal control reviews completed across Agency offices. For the reviews in our sample, we determined how the review was documented, when the review was completed, and whether deficiencies were identified.

What We Found

We found FCA conducted annual risk assessments to identify risks, risk ratings, responsible offices, responses to risks, and mitigating strategies. The Agency had developed a new internal control review process to document internal control reviews using a risk and control matrix. Policies and procedures were developed to document requirements for both ERM and internal control evaluations.

However, we identified needed improvements to the Agency's ERM and internal control processes. Specifically, we identified improvements related to risk monitoring, updating the risk appetite, addressing risk, and providing communication and training. Although the Agency developed a new internal control review process, it was not fully or consistently implemented. In addition, we identified improvements related to planning, reviews of service organizations, and monitoring internal control improvements.

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BACKGROUND

Farm Credit Administration

The Farm Credit Administration (FCA or Agency) is an independent federal agency responsible for regulating, examining, and supervising the Farm Credit System (System) and the Federal Agricultural Mortgage Corporation (Farmer Mac). The Agency is responsible for ensuring that all System institutions are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America. A key element of managing challenges and threats to the mission is risk management. Federal agencies are responsible for implementing management practices that effectively identify, assess, respond, and report on risks.

Enterprise Risk Management

On July 15, 2016, the Office of Management and Budget (OMB) issued an updated Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (A-123). A-123 requires agencies to implement an Enterprise Risk Management (ERM) capability coordinated with strategic planning and internal control processes required by the Federal Managers' Financial Integrity Act and the Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book).

A-123 defines management's responsibility for ERM and internal controls and requires these functions to be integrated. ERM is an agency-wide approach to addressing the full spectrum of an organization's risks by understanding the impact of risks as an interrelated portfolio, rather than addressing risks within silos. While there are many approaches to implement ERM, A-123 states that most include the following elements:

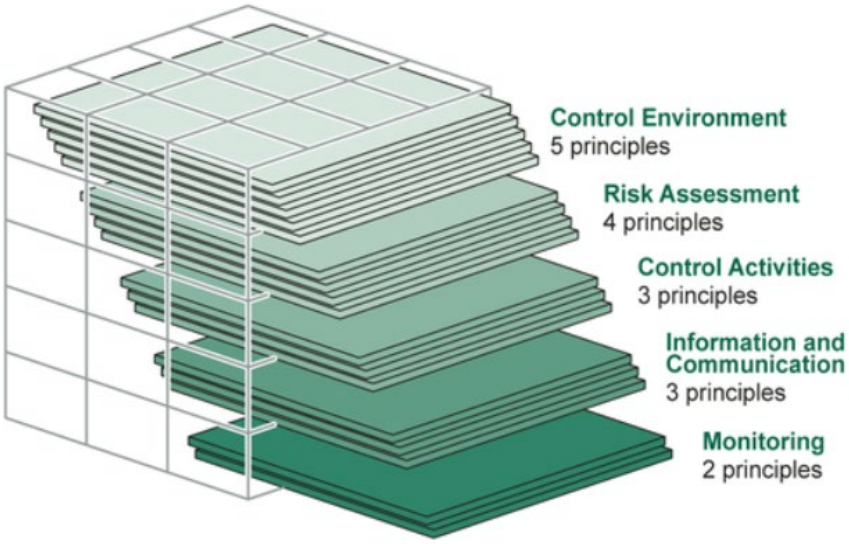
- Establish the context- understanding and articulating the internal and external environments of the organization,
- Initial risk identification- using a structured and systematic approach to recognizing where the potential for undesired outcomes or opportunities can arise,
- Analyze and evaluate risks- considering the causes, sources, probability of the risk occurring, the potential positive or negative outcomes, and then prioritizing the results of the analysis,
- Develop alternatives- systematically identifying and assessing a range of risk response options guided by risk appetite,
- Respond to risks- making decisions about the best option(s) among a number of alternatives, and then preparing and executing the selected response strategy,
- Monitor and review- evaluating and monitoring performance to determine whether the implemented risk management options achieved the stated goals and objectives, and
- Continuous risk identification- must be an iterative process, occurring throughout the year to include surveillance of leading indicators of future risk from internal and external environments.

Each year, agencies are required to develop a risk profile. The primary purpose of the risk profile is to provide an analysis of the risks an agency faces toward achieving its strategic objectives and to identify appropriate options for addressing significant risks. As part of developing a risk profile, agencies must determine those risks for which the appropriate response includes implementation of formal internal control activities.

Internal Control

A key factor for accountability is to implement an effective internal control system. The Green Book defines internal control as a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of the entity are achieved. The Green Book provides the framework and criteria for designing, implementing, and operating an effective system of internal control. The framework includes five components and seventeen required principles.[1]

The 17 Principles Supporting the Five Components of Internal Control



Source: GAO. | GAO-14-704G

To monitor and assess internal controls, FCA develops an Agency-wide Management Control Plan each fiscal year (FY). The Management Control Plan includes review elements for each Agency office, the risk for each element, and the applicable review cycle. The Management Control Plan assigns a risk of high, medium, or low for each review element, which correlates with the internal control review cycle.

[1] The Green Book includes a complete description of components, principles, and attributes explaining the principles. The Green Book can be viewed at https://www.gao.gov/greenbook.

Offices and Personnel with ERM and Internal Control Responsibilities

FCA's Chief Financial Officer is responsible for coordinating FCA's ERM and internal control efforts and ensuring compliance with associated requirements. The Office of the Chief Financial Officer (OCFO) also has a staff member dedicated to risk management and internal control initiatives. For all other Agency personnel, ERM and internal control responsibilities are a collateral duty. The FCA Board provides oversight of the Agency's risk management capabilities and the FCA Board Chairman submits an annual assurance statement on the effectiveness of internal controls. FCA's Chief Operating Officer (COO) has overall responsibility for operations, management functions, and performance outcomes. Each FCA office is involved in implementing processes and controls to identify, assess, and report on risks. FCA maintains a Senior Assessment Team, with representatives from each programmatic office,[2] to conduct assessments of internal controls in their own offices based on the Management Control Plan.

Requirements for the ERM and internal control program are documented in policies and procedures. Policies and Procedures Manual (PPM) 1009, *Enterprise Risk Management Program* (October 2020), describes roles and responsibilities and the Agency's required annual risk assessment. PPM 1007, *Evaluation of Internal Control Systems* (May 2021), describes guidelines, requirements, and procedures for the Agency's risk and control self-assessment process.

Prior Office of Inspector General Reports Relating to ERM and Internal Control

The FCA Office of Inspector General (OIG) issued an audit report in July 2005, *Performance Management and Internal Control Program* (05-02), to determine whether the Agency is adequately verifying and validating performance measure accomplishments presented in the FCA Performance and Accountability Report. The review also evaluated the adequacy of supporting documentation for the Agency's internal control program review assessments. The audit determined the Agency's internal management control program could be enhanced to be a more systematic integration of internal control review efforts and approached and written in a more standardized format. The report included an agreed-upon action and two recommendations:

1. The Office of Policy and Analysis Director will revise the process on reporting performance results for supplemental approach to provide a better match between the numbers of supplemental approach that are used during the rulemaking process for a single regulatory initiative. Also, the Director will review supplemental approaches counted in the Performance and Accountability Report to ensure methods used are consistent with the supplemental approach definition.

[2] The Senior Assessment Team includes personnel in OCFO, the Office of Examination, Office of Agency Services (OAS), Office of Information Technology (OIT), Office of Regulatory Policy, Office of General Counsel, Office of Data Analytics and Economics (ODAE), Office of Congressional and Public Affairs, Office of Secondary Market Oversight (OSMO), Office of Equal Employment Opportunity and Inclusion, and Office of the Board.

2. The Chief of Staff should establish a senior assessment team as suggested by OMB Circular No. A-123, "Management Responsibility for Internal Control," December 2004, to ensure a consistent level perspective is applied to the internal control program.
3. Prototype the Committee of Sponsoring Organization framework on several agencies' processes and obtain staff recommendations on how it can be adopted for Farm Credit Administration environment.

All items were closed by December 2006.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objective

The objective of this audit was to determine whether FCA has established an adequate ERM and internal control program. We performed this audit at FCA's headquarters in McLean, Virginia from December 2021 through May 2022.

Scope

The scope of the audit was limited to FCA's ERM and internal control program from FY 2019 to FY 2021.

Methodology

We took the following steps to accomplish the objective:

- Identified and reviewed related laws, regulations, circulars, guidance, and other background information applicable to the objective;
- Identified and reviewed applicable internal FCA policies and procedures;
- Reviewed prior FCA OIG and other external reviews related to the audit objective;
- Interviewed OCFO personnel and OIT personnel involved in development of the risk dashboard; and
- Reviewed risk documentation, the risk dashboard, Management Control Plans, annual internal control reporting documentation, and a sample of internal control reviews.

Tests Performed

- We requested and reviewed the Agency's risk profiles for 2019, 2020, and 2021. For the 2021 risk profile, we analyzed risk information in the Agency's web-based risk dashboard. We reviewed the dashboard to identify risks, assigned primary office, inherent risk ratings, risk response, mitigating strategies, activity in the dashboard, and personnel assigned to risks.
- We reviewed the Agency's Management Control Plans for FY 2019, FY 2020, and FY 2021 to determine what elements were included and how the plans changed.

- We selected and analyzed a judgmental sample of internal control reviews. We judgmentally selected 14 of the 56 review elements in the FY 2021 Management Control Plan based on FCA offices, review elements, timeframes of reviews, and risk ratings. We reviewed the sampled internal control reviews for steps included, dates of the review, and whether deficiencies were identified. Because the sample was judgmental, it cannot be projected to the population.
- We requested reviews of service organization control reports for the Bureau of the Fiscal Service and National Finance Center. We requested these reviews because they are applicable to the internal control reviews in our sample. We determined what steps were completed to identify, document, and test relevant controls in the service organization's report.

Generally Accepted Government Auditing Standards

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We reviewed internal controls identified as significant to the audit objective and did not identify any material control weaknesses. Given the interrelatedness with our objective, we determined internal control components were significant to our objective. We designed audit procedures to assess internal control to the extent necessary to address our objectives. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We also assessed the reliability of data relevant to our audit objective and determined that the data was sufficiently reliable.

We considered the risk of fraud and abuse during our audit, and nothing came to our attention to indicate fraud or abuse was occurring.

AUDIT RESULTS

We found FCA began implementing an ERM strategy and revised internal control review process. The Agency developed an annual risk profile with prioritized risks, responsible offices, risk responses, and mitigating strategies. For internal controls, the Agency prepared an annual Management Control Plan describing review elements, risks, and review cycles. The Agency developed a new risk and control self-assessment process to document controls, evaluation of control design, and tests of operating effectiveness.

However, we identified opportunities for improvement in the Agency's ERM and internal control program. Specifically, the Agency had not fully developed and documented risk management processes. While FCA revised its internal control review process, it was not fully or consistently implemented.

Enterprise Risk Management

We found FCA developed an ERM process, but improvements are needed in the following areas: monitoring risk, updating the risk appetite, addressing risk, and providing additional communication and training.

Risk Monitoring

The risk profile documents the Agency's analysis of the risks in achieving its strategic objectives and identifies appropriate options for addressing significant risks. FCA developed an annual risk profile with key risk information, but the process to update the risk profile was siloed and not fully documented. In 2019 and 2020, the risk profile was a stand-alone document. It identified risks, types of risk, capability to manage risk, the risk outlook, and key mitigating action plans. The final profiles did not include the review date or who participated in the review. In 2021, the Agency developed a web-based dashboard, which served as its risk profile. The dashboard enhanced risk information by creating a centralized repository with real-time information and a prioritized view of risks that is accessible to all employees. Furthermore, the dashboard incorporated risk responses and an activity log showing who changed risk information. The Agency assigns a primary office with responsibility for each risk in the risk dashboard.

While the risk dashboard was an improvement over the previous process, it did not document reviews or approvals of risk information. For the 2021 risk profile, OCFO sent emails and met with offices to review and update the risks they were assigned in the dashboard. For the 50 risks in the dashboard, 37 had only been modified by OCFO. Of those 37 risks, 33 were noted as being modified on a single day in July 2021. In addition, the risk dashboard did not capture reviews by responsible personnel. OCFO provided emails and meeting invitations to document responsible officials' reviews of risk information in 2021, but documentation did not address reviews with the Office of the Chief Operating Officer. Five risks that affect multiple offices were assigned to the COO in the dashboard. Some of these risks were then sent to other offices to review as part of the 2021 risk profile; however, this process was not fully documented and furthered the Agency's siloed consideration of risks. Furthermore, emails and meeting invitations do not fully evidence who participated in the meeting and whether risks were reviewed.

Risk Appetite and Addressing Risk

An ERM framework allows agencies to increase risk awareness and transparency, improve risk management strategies, and select risk responses based on the Agency's risk appetite and thresholds. Risk appetite is the determination of the amount of risk an organization is willing to accept in pursuit of its mission. FCA's risk appetite was last updated in April 2017. The risk appetite is established based on input from the most senior level leadership. However, there have been numerous changes to FCA's senior leadership since April 2017, including the COO, Chief Examiner, Chief Human Capital Officer, and Chief Data Officer.

Agencies apply the risk appetite to determine how risks will be addressed. A key component of this process is the identification of alternative responses and strategies to address risk. FCA's risk

dashboard included mitigating strategies for each risk, but it did not include details such as current and proposed responses, costs of specific strategies, or non-financial implications of alternatives. Milestones are another important decision-making and performance management tool. FCA did not track milestones for carrying out identified strategies.

Communication and Training

Risk management communication and training were ad-hoc. PPM 1009 states the ERM Program is intended to provide communications and training related to risk management to increase the level of awareness and understanding. Risk awareness is essential for senior leaders as well as personnel at all levels who may identify risks as part of day-to-day operations. The Agency provided limited information documenting communication and training on ERM and risk management responsibilities. OCFO stated most training is one-on-one and provided ERM briefing materials and meeting invitations from 2019 and 2020. Furthermore, officials stated risk information is shared with the Chief Financial Officer, who decides what communication happens next, and there is an expectation that leadership is reviewing the risk dashboard. However, the Agency did not have set meetings or reporting to communicate on key enterprise risks, share risk information with appropriate personnel, or provide training on risk management.

Root Causes

Several root causes contributed to the identified opportunities to enhance FCA's ERM strategy.

Structured Processes

The Agency had not established structured risk management processes. Specifically, the Agency did not have organized processes for:

- Cross-organizational reviews of risks,
- Monitoring risks throughout the year,
- Approving the risk profile,
- Updating its risk appetite,
- Evaluating strategies to address risk, or
- Communicating risk information and responsibilities.

Structured, formalized processes support timely, consistent, and efficient risk assessment. Because risks and responses can change at any time, it is important to define the steps, timeframes, and reporting that will take place across the Agency. As a small agency that assigns ERM responsibilities to office directors with other core duties, FCA may gain efficiencies by integrating existing business processes with risk management. As an example, cross-organizational reviews of risks and monitoring activities may be accomplished as part of existing meetings with senior staff. Additionally, consideration should be given to which processes may be accomplished or facilitated through the existing risk dashboard.

PPM 1009 on the ERM Process

PPM 1009 did not fully document specific procedures for the Agency's ERM process. PPM 1009 documents roles and responsibilities, the requirement for an annual risk assessment, and broad expectations related to risk management. However, it does not describe specific steps for risk management activities across the Agency. As an example, PPM 1009 states management will review the risk dashboard on a regular basis, but it does not describe the personnel, timeframes, or documentation for such reviews. As another example, PPM 1009 states risk management practices should be integrated with internal control functions and coordinated with the strategic planning and strategic review process, but it does not explain steps for linking these programs or how the Agency will achieve the integration. Documented procedures provide accountability and support consistent implementation across Agency offices. Procedures also serve as a guidebook and reference material. This is especially important at FCA where risk management is an additional duty for all but one staff member.

Impact

Because agencies cannot predict or address every risk, ERM is important as it provides a process to identify, measure, assess, and prioritize risks. This risk assessment process helps the Agency to effectively achieve its strategic objectives. Effective risk management facilitates continual organizational improvement and informs decision-making. By taking a portfolio-based view of risks and understanding their combined impact, FCA can determine how to effectively prioritize resources, address uncertainty, and mitigate challenges.

Recommendation

To enhance the Agency's risk management program:

1. The Office of Inspector General recommends the Office of the Chief Financial Officer develop and document structured processes for:
    - Cross-organizational reviews of risks;
    - Monitoring risk information throughout the year;
    - Approving the risk profile;
    - Updating the risk appetite;
    - Evaluating strategies to address risk; and
    - Providing communication and training to personnel with risk management responsibilities.

FCA Response

FCA Management agreed with the recommendation. Management agreed to update and approve risk profiles. Senior staff will meet quarterly to monitor risk information and mitigating strategies. Management also stated the 2017 risk appetite statement will be rescinded and that the Agency would procure additional risk management and training services.

Management estimated the actions will be completed by December 2022.

OIG Response

The OIG finds the actions responsive to our recommendation. OCFO's response to the recommendation can be found in the Management Comments section of the report.

Internal Controls

We found the Agency did not fully document and implement its new risk and control self-assessment process. Incomplete and inconsistent reviews of control activities may increase risk to the Agency.

Internal Control Review Process

Internal control reviews provide an in-depth analysis of controls for specific business processes to determine if such controls are designed and operating effectively. PPM 1007, on the evaluation of internal control systems, describes steps for assessing internal controls, including: planning and scoping; documenting controls and evaluating control design; testing operating effectiveness; identifying deficiencies and corrective action plans; and reporting. For reporting, PPM 1007 instructs offices to use the Assessment of Internal Controls Form (Assessment Form). The form includes high-level questions, ratings, and explanations for assigned ratings. Questions addressed on the form include:

- How well has the office delineated management responsibility for this activity?
- How well are goals of this activity documented, monitored, and reported?
- How adequately has line of authority for this activity been established at appropriate levels?
- How adequately have internal policies and procedures for this activity been documented, evaluated for conformity with laws and regulations, maintained and monitored?
- How well are staff members trained in performing this activity?
- How responsive has management for this activity been to recommendations?
- How adequately has the budget for this activity been monitored against expenditures?

An official stated that the Assessment Form did not address current guidance and was being phased out and replaced with a new process using a risk and control matrix. FCA's risk and control matrix documents risks and inherent risk ratings; control activities; evaluations of control design; and testing plans to determine whether controls are functioning properly. Despite having undergone revisions in 2020 and 2021, PPM 1007 still instructed staff to use the Assessment Form for internal control reviews.

Internal Control Review Sample

We selected a judgmental sample of 14 internal control reviews conducted across FCA offices[3] to determine if the Agency was following the documented internal process. We found that offices were inconsistently implementing the new process using the risk and control matrix. Specifically, for the 14 reviews we sampled:

- Eight utilized the assessment of internal controls form. Each form included ratings and explanations for assigned ratings. However, explanations included varying levels of detail and did not provide an in-depth analysis of controls, control design, and tests of operating effectiveness. For each review that utilized the Assessment Form, we requested additional supporting documentation for the review. We were provided additional supporting documentation for two reviews, both from the same office; however, the additional support did not fully document controls or control testing.
- Five utilized the risk and control matrix. However, two were incomplete and did not include all components. Specifically, two reviews we sampled, completed by OCFO for FY 2021, did not include the test plan. The test plan documents procedures to gain evidence that supports the operating effectiveness of each control. This includes documentation of tests performed, who conducted testing on what date, and results.
- One internal control review did not utilize the Assessment Form or the risk and control matrix and completed a separate review and report. The review addressed required steps, including the scope of work, activities performed, testing, findings, and internal controls. The review included supporting documentation and did not identify corrective actions needed or opportunities for improvement.

Inconsistent Risk Ratings

We identified inconsistencies across the risk identification and assessment process. The risk assessment portion of the risk and control matrix calculates inherent risk ratings for risks within specific business processes. Business processes are also rated as low, medium, or high risk in the Agency's Management Control Plan. We noted inconsistencies in risk ratings in related business processes. Specifically, for the five reviews we sampled, related business processes in the matrix did not correlate to overall risk ratings in the Management Control Plan:

[3] To select our sample, we reviewed the Agency's FY 2021 Management Control Plan, excluding the OIG. We judgmentally selected 14 internal control reviews, with at least one from each office. For offices that completed multiple reviews, we selected review elements that were rated high or medium risk. Because our sample was judgmental, results cannot be projected across the population.

Risks in the Management Control Plan and Risk and Control Matrix

Process	Responsible Office	Management Control Plan Risk Rating	Risk and Control Matrix Risk Assessment
Compliance with Foundations for Evidence-Based Policymaking Act of 2018	ODAE	High	Low
Security and Vulnerability Testing and Remediation	OIT	High	Low
Assessment Processing	OCFO	High	Medium
Payroll Reconciliation	OCFO	High	Low
General Oversight and Supervision of Farmer Mac	OSMO	Medium	Low

Service Organization Reviews

Improvements are needed regarding the process to review service organization control reports. Service organizations are responsible for providing assurances to customer agencies and assisting customers in understanding the relationship between controls at the service organization and controls at the customer agency. Service organizations, including the Bureau of the Fiscal Service and National Finance Center, are an important part of FCA's accounting and payroll control structure. PPM 1007 states offices should identify, document, and test complementary customer agency controls, at FCA, from the service organization's report. This process helps FCA determine whether appropriate controls are in place to support activities at the service organization. We requested the Agency's reviews of service organization control reports for the Bureau of the Fiscal Service and National Finance Center for FY 2021. OCFO provided its assessment of the Bureau of the Fiscal Service's report that identified customer agency controls, but it did not include test work. An assessment of the National Finance Center's report was not conducted.

Internal Control Improvements

FCA did not have a process to monitor implementation of improvements identified through internal control reviews. One risk and control matrix we sampled included recommendations in the FY 2021 test plan. The recommendations addressed specific steps needed to correct the issue and identified process owners; however, recommendations did not include targeted completion milestones. Five of the Assessment Forms in our sample identified areas for improvement related

to policies and procedures, internal reviews, performance monitoring, and documentation. However, the forms did not fully address whether corrective steps would be tracked, responsible personnel, or milestones for completion. PPM 1007 states monitoring should be commensurate with the severity of the deficiency and that management may, at its discretion, track findings considered to be less than a reportable condition. However, the monitoring process was not clearly defined.

Root Causes

Several root causes contributed to FCA's inconsistent approach to assessing internal controls. Addressing identified causes will strengthen the control environment and assurances over key controls.

Implementation Strategy

FCA's implementation of the new risk and control self-assessment process was inefficient and prolonged. The new process was rolled out in 2020. However, it was only used by one office, ODAE. Officials stated ODAE was new, so it made sense for them to start using the new process. In 2021, one additional office, OSMO, implemented the new process, and two offices partially implemented the new process. OCFO utilized the risk and control matrix without completing testing, and OIT used the new process for two of its five internal control reviews in 2021. OCFO stated that the new process was being implemented in phases and testing for OCFO would be implemented in 2022. The agency's implementation strategy was not based on office size, responsibility for the most significant risks, or business processes with the highest risk. By incrementally implementing the new process for two offices a year, it would take FCA at least until 2026, six years later, to fully implement the new process for all 11 offices.

Delayed planning also impacts implementation of the new internal control review process. Management Control Plans were not completed by the start of the covered period. The Management Control Plan documents the Agency's risk-based internal control review schedule for the current FY and the subsequent five FYs. However, the FY 2019 plan was updated in January 2019, the FY 2020 plan was updated from October 2019 through April 2020, and the FY 2021 plan was updated in December 2020. Delayed planning reduces the amount of time to evaluate control activities and implement new processes for the highest risk areas.

Despite recent updates, policies, procedures, and guidance did not reflect the new risk and control self-assessment process. As noted, PPM 1007 still referenced the Assessment Form. In addition, the Agency prepared annual guidance that still included the Assessment Form as a template. The Assessment Form was also not designed to document internal control reviews. Before 2020 revisions, PPM 1007 explained that the Assessment Form was used to document annual risk assessments incorporated in the Agency's Management Control Plan. The form's use was significantly changed without updates to address the steps to evaluate internal controls.

Service Organization Control Reports

PPM 1007 instructs offices to review service organization control reports. However, the Agency did not have a process to share reports with responsible offices. OCFO stated OAS was responsible for reviewing the National Finance Center's service organization control report. However, OAS stated that they did not receive the report from OCFO in 2021. This review is important because agencies are ultimately responsible for services and processes provided by third parties. Furthermore, these reviews can help FCA identify relevant controls, ensure the report covers applicable periods, and determine the impact of deficiencies on FCA.

Training

FCA had not emphasized the importance of training personnel in duties and responsibilities related to internal controls. Office directors select Senior Assessment Team members to conduct internal control reviews of their own offices. These responsibilities are an additional duty and not the employee's core role. An official stated one-on-one training is conducted with individuals that transition to the Senior Assessment Team; however, the Agency did not have a formalized training process established. Understanding control activities and review requirements is critical for an effective evaluation process. Training is especially important when requirements change or new processes are implemented.

Monitoring Improvements

FCA had a decentralized approach to track improvements identified in internal control reviews. Offices, and Senior Assessment Team members, are responsible for assessing internal controls, evaluating the severity of identified improvements, and monitoring correction of gaps and recommendations. Additional accountabilities help to ensure improvements are addressed effectively and efficiently. Internal control reviews were also not in a format to facilitate monitoring improvements. The risk and control matrix identified design gaps and recommendations, but it was not consistently implemented across the Agency. In addition, the risk and control matrix did not incorporate targeted milestones to implement needed improvements. The Assessment Form did not delineate identified improvements and included these areas in explanations for assigned ratings. Because the Assessment Form was not designed to document internal control reviews, it was not clear whether identified improvements warranted monitoring of corrective steps.

Impact

Internal controls help the Agency run efficiently and effectively, report reliable information, and comply with requirements. An effective internal control system increases the likelihood that objectives will be met. When controls are not designed and operating effectively, it increases risk across the Agency. Continuous, strategic assessments of control activities provide a mechanism to identify and correct deficiencies. Resolving deficiencies is a critical aspect of accountability and managing key risks. The assessment process also supports annual assurances on the effectiveness of controls across the organization.

Recommendations

To implement and document the internal control program:

2. The Office of Inspector General recommends the Office of the Chief Financial Officer implement the current internal control review process across Farm Credit Administration offices.
3. The Office of Inspector General recommends the Office of the Chief Financial Officer update Policies and Procedures Manual 1007 and annual guidance to reflect the current internal control review process.
4. The Office of Inspector General recommends the Office of the Chief Financial Officer develop and document timelines for updating the Agency's Management Control Plan.
5. The Office of Inspector General recommends the Office of the Chief Financial Officer develop and document a process to review service organization control reports.
6. The Office of Inspector General recommends the Office of the Chief Financial Officer determine the needs of the Agency related to internal control reviewers.
7. The Office of Inspector General recommends the Office of the Chief Financial Officer train internal control reviewers on requirements and responsibilities.
8. The Office of Inspector General recommends the Office of the Chief Financial Officer develop and document a process to monitor gaps and recommendations identified in internal control reviews.

FCA Response

Management agreed with the recommendations. Management stated risk and control matrices would be developed for additional offices in FY 2022 and FY 2023 and OCFO would update PPM 1007. Management stated that the Management Control Plan would be replaced with a testing schedule based on the risk and control matrix. In addition, OCFO will develop a template to document reviews of complementary customer agency controls. For the Senior Assessment Team, management stated that members would be assigned to review other offices and services will be procured to develop training based on targeted audiences. Lastly, management will develop a workflow to document and track gaps and recommendations in internal control reviews.

Management estimated the actions will be completed by November 2023.

OIG Response

The OIG finds the actions responsive to our recommendations. OCFO's responses to the recommendations can be found in the Management Comments section of the report.

The Agency waived an exit conference.

MANAGEMENT COMMENTS

Farm Credit Administration

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McLean, VA 22102-5090
(703) 883-4000

May 31, 2022

To: Sonya Cerne, AIG for Audits, Inspections, and Evaluations
FCA Office of Inspector General

From: Sandra R. Walters, Chief Financial Officer and Director, Sandra R. Walters
Office of the Chief Financial Officer

Subject: Office of the Chief Financial Officer's Response to OIG's draft audit report titled, *Farm Credit Administration's Enterprise Risk Management and Internal Control Program, A-22-01*

This memorandum responds to the draft audit report from the Office of the Inspector General dated May 5, 2022, titled *Farm Credit Administration's Enterprise Risk Management and Internal Control Program*. The stated objective of the audit was to determine whether FCA has established an adequate Enterprise Risk Management (ERM) and internal control program.

The draft audit report includes eight recommendations to improve the ERM and internal control programs. The office of the Chief Financial Officer (OCFO) provides the following responses:

1. With respect to recommendation 1, develop and document structured processes for the Agency's risk management program, we will collaborate with all offices to coordinate risk management activities across the agency to ensure an integrated approach.
2. With respect to recommendation 2, implement the current internal control review process, we prototyped the new risk and control assessment process with two offices in 2021 to obtain staff recommendation on how it can be adopted for other offices. We will formalize and prioritize the transition to the new internal control review process with all offices.
3. With respect to recommendation 3, update Policies and Procedures Manual 1007, we will review and update the manual to document formal changes to the internal control review process.
4. With respect to recommendation 4, updating the Agency's Management Control Plan, this plan is part of the former internal control review process and will be evaluated to determine whether or not it is applicable to the new process.
5. With respect to recommendation 5, review service organization control (SOC) reports, we have developed a template for documenting our review of SOC reports that will be completed for the FY 2022 reports.

6. With respect to recommendation 6, internal control reviewers, we will evaluate the internal control review process to ensure appropriate segregation of duties.
7. With respect to recommendation 7, train internal control reviewers, we will work with available resources to develop a training series based on targeted audience.
8. With respect to recommendation 8, monitor gaps and recommendations, we currently review gaps and recommendations from the internal control review process on an annual basis. We will evaluate the process to determine an appropriate frequency for review.

Thank you for the opportunity to respond to this report. The Office of the Chief Financial Officer is committed to continuing to improve the Agency's ERM and internal control program.

ACRONYMS

COO	Chief Operating Officer
ERM	Enterprise Risk Management
Farmer Mac	Federal Agricultural Mortgage Corporation
FCA or Agency	Farm Credit Administration
FCS or System	Farm Credit System
FY	fiscal year
OAS	Office of Agency Services
OCFO	Office of the Chief Financial Officer
ODAE	Office of Data Analytics and Economics
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
OSMO	Office of Secondary Market Oversight
PPM	Policies and Procedures Manual

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