

OFFICE OF
INSPECTOR GENERAL

Audit Report

The Farm Credit Administration's
Oversight of Young, Beginning,
and Small Farmer Programs
A-16-04

Auditor-in-Charge
Tori Kaufman

Issued September 28, 2016



FARM CREDIT ADMINISTRATION



September 28, 2016

The Honorable Kenneth A. Spearman, Board Chairman
The Honorable Dallas P. Tonsager, Board Member
The Honorable Jeffery S. Hall, Board Member
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Board Chairman Spearman and FCA Board Members Tonsager and Hall:

The Office of Inspector General (OIG) completed an audit of the Farm Credit Administration's (FCA or Agency) Oversight of Young, Beginning, and Small Farmer (YBS) Programs. The objective of this audit was to determine whether FCA's oversight of YBS programs is effectively administered.

We found oversight was effectively administered, and FCA had an extensive program in place to oversee the System's YBS programs and trends. The Office of Examination reviews YBS programs in several risk-based areas of the examination process. The Office of Regulatory Policy develops YBS-related regulations and other guidance. ORP also analyzes and reports on the System's YBS trends and performance each year through multiple communication channels.

We identified opportunities to improve YBS oversight. In response to our report, the following actions were agreed-upon:

1. ORP document policies and procedures for YBS oversight activities, including:
 - A methodology for YBS comparison reporting that accounts for institution size and
 - A process to address deficiencies identified through YBS reporting and analysis.
2. ORP incorporate YBS oversight activities and processes in internal control planning and evaluation.
3. ORP develop a plan for addressing recommendations in the Agency's YBS definitions review.
4. OE provide guidance to examiners to ensure YBS transaction testing and conclusions are appropriately documented.
5. ORP complete an interpretation on YBS disclosure requirements in annual reports to shareholders.

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

Respectfully,

A handwritten signature in black ink that reads 'Elizabeth M. Dean'. The signature is written in a cursive style.

Elizabeth M. Dean
Inspector General

Enclosure



EXECUTIVE SUMMARY

A-16-04

AGREED-UPON ACTIONS:

To improve oversight of YBS programs, the following actions were agreed-upon:

1. ORP document policies and procedures for YBS oversight activities, including:
 - A methodology for YBS comparison reporting that accounts for institution size and
 - A process to address deficiencies identified through YBS reporting and analysis.
2. ORP incorporate YBS oversight activities and processes in internal control planning and evaluation.
3. ORP develop a plan for addressing recommendations in the Agency's YBS definitions review.
4. OE provide guidance to examiners to ensure YBS transaction testing and conclusions are appropriately documented.
5. ORP complete an interpretation on YBS disclosure requirements in annual reports to shareholders.

AUDIT OF THE FARM CREDIT ADMINISTRATION'S OVERSIGHT OF YOUNG, BEGINNING, AND SMALL FARMER PROGRAMS

The Farm Credit Administration (FCA or Agency) is an independent federal agency responsible for regulating, examining, and supervising the Farm Credit System and the Federal Agricultural Mortgage Corporation. Section 4.19 of the Farm Credit Act of 1971, as amended, requires institutions to prepare programs to furnish sound and constructive credit and related services to young, beginning, and small farmers (YBS) and report operations and achievements to FCA. Annual reporting directly to Congress is specifically required for YBS activities.

The objective of this audit was to determine whether FCA's oversight of YBS programs is effectively administered. We found oversight was effectively administered, and FCA's program for overseeing the System's YBS programs and trends was extensive. FCA's Office of Examination (OE) performs risk-based examinations that address YBS programs. The Office of Regulatory Policy (ORP) develops regulations and other guidance related to YBS programs and analyzes YBS reporting from institutions to prepare reports for Congress, the public, the FCA Board, and System institutions. We identified opportunities for improvement to FCA's YBS oversight, including:

- FCA had not fully documented its YBS oversight process and control activities. Documentation is a fundamental part of an effective internal control system.
- Improvements to YBS data processes will enhance consistency and oversight. YBS variance reporting requirements are based on a standard threshold and do not account for institution size. This process may allow large year-over-year changes not to be fully explained or potential errors not to be identified. As part of reviewing annual YBS reporting, ORP may identify weaknesses that warrant correction by System institutions and coordination with OE. This process should be formalized and documented.
- Transaction testing for YBS coding was not always fully documented. OE's examination process and workpaper templates are designed to provide consistency and support for testing and conclusions.
- Annual reports to shareholders did not always delineate goals and targets. These measures are required in FCA regulations to gauge the status of YBS programs and provide a comprehensive understanding of results.

Agency officials agreed with our report and to provide specific tasks to be completed to strengthen oversight of YBS programs.

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BACKGROUND

The Farm Credit Administration (FCA or Agency) is an independent federal agency responsible for regulating, examining, and supervising the Farm Credit System (FCS or System) and the Federal Agricultural Mortgage Corporation. The core mission of the Agency is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. As part of this mission, Congress mandates that the System serve the credit needs of young, beginning, and small farmers and ranchers (YBS). The viability and financial success of these borrowers is a critical component affecting the future of agriculture.

Amendments in 1980 to the Farm Credit Act of 1971, as amended (the Act) set forth requirements for System institutions to serve YBS. Section 4.19, *Young, Beginning, and Small Farmers and Ranchers*, 12 U.S.C. § 2207, requires institutions to prepare programs to furnish sound and constructive credit and related services to YBS and report operations and achievements to FCA. Furthermore, Section 5.17, *Enumerated Powers*, 12 U.S.C. § 2252, requires annual reporting directly to Congress that includes a summary and analysis of reports to FCA on serving YBS. FCA established definitions for young, beginning, and small as follows:

Young

- A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date

Beginning

- A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming, ranching, or aquatic experience as of the loan transaction date

Small

- A farmer, rancher, or producer or harvester of aquatic products who normally generates less than \$250,000 in annual gross sales of agricultural or aquatic products

Specific activities and standards for the System's YBS programs are promulgated in FCA regulations. In March 2004, FCA adopted *Young, Beginning, and Small Farmers and Ranchers*, 12 C.F.R. § 614.4165. This regulation provides minimum components that each System bank and association must include when developing a YBS program. YBS reporting requirements are also incorporated in 12 C.F.R. § 620.5, *Contents of the Annual Report to Shareholders*. The following summarize YBS requirements:

614.4165 Young, Beginning, and Small Farmers and Ranchers

(b) Farm Credit Bank Policies

Each Farm Credit Bank and Agricultural Credit Bank must adopt written policies that direct:

- 1) The board of each affiliated direct lender association to establish a program to provide sound and constructive credit and services to young, beginning, and small farmers and ranchers and producers or harvesters of aquatic products;
- 2) Each association to include in its YBS program provisions ensuring coordination with other System institutions in the territory and other governmental and private sources of credit;
- 3) Each association to provide, annually, a complete and accurate YBS operations and achievements report to its funding bank; and
- 4) The bank to provide the Agency a complete and accurate annual report summarizing the YBS program operations and achievements of its affiliated associations.

(c) Direct Lender Association YBS Programs

The board of directors of each association must establish a program to provide sound and constructive credit and services to YBS in its territory. Such a program must include the following minimum components:

- 1) A mission statement describing program objectives and specific means for achieving such objectives.
- 2) Annual quantitative targets for credit to YBS that are based on an understanding of reasonably reliable demographic data for the lending territory.
- 3) Annual qualitative YBS goals that must include efforts to:
 - Offer related services directly or in coordination with others that are responsive to the needs of YBS in the territory;
 - Take full advantage of opportunities for coordinating credit and services offered with other System institutions in the territory and other governmental and private sources of credit who offer credit and services to those qualifying as YBS; and
 - Implement effective outreach programs to attract YBS.
- 4) Methods to ensure credit and services offered to YBS are provided in a safe and sound manner and within the association's risk-bearing capacity.

The YBS program of each association is subject to the review and approval of its funding bank. The funding bank's review and approval is limited to a determination that the YBS program contains required components of this section. Quantitative and qualitative targets and goals outlined above must be included in each direct lender association's operational and strategic business plan for at least the succeeding 3 years. In addition, each association must have internal controls that establish clear lines of responsibility for YBS program implementation, YBS performance results, and YBS quarterly reporting to the association's board of directors.

620.5 Contents of The Annual Report to Shareholders

(k) Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Projects

- 1) Each direct lender association must describe the YBS demographics in its territory and the source of this data. If there are differences in the methods by which demographic and YBS data are presented, these differences must be described.
- 2) Each association must provide a description of its YBS program, including a status report on each program component set forth in 614.4165(c) and the definitions for “young,” “beginning,” and “small” farmers and ranchers. The discussion must provide information necessary for a comprehensive understanding of the association’s YBS program and results.
- 3) Each Farm Credit bank must include a summary report of the quantitative YBS data from its affiliated associations as described in FCA’s instructions for the annual YBS year-end report. The report must also include the definitions of “young,” “beginning,” and “small” farmers and ranchers and narrative necessary for a complete understanding of YBS mission results.

Although § 614.4165 establishes minimum standards, it gives associations the flexibility to establish quantitative targets, safety and soundness measures, and outreach programs that are appropriate for their institution. Examples from the regulation are as follows:

Quantitative Targets for YBS Credit	Methods to Ensure Credit and Services are Provided in a Safe and Sound Manner	Outreach Programs
<ul style="list-style-type: none">• Loan volume and loan number goals• Percentage goals representative of the YBS demographics in the territory• Percentage goals for loans to new YBS borrowers• Goals for capital committed to YBS loans	<ul style="list-style-type: none">• Custom loan underwriting standards• Federal or state loan guarantees• Concessionary loan fees• Other credit enhancements	<ul style="list-style-type: none">• Advertising campaigns• Educational programs• Advisory committees to provide input on how to best serve YBS

FCA’s oversight of YBS programs is multilayered. The Office of Examination (OE) reviews YBS programs of banks and associations for compliance with regulations. The Office of Regulatory Policy (ORP) analyzes YBS trends in the System and develops regulations and other guidance.

The OE reviews YBS programs in several areas of the examination process. YBS activities are a component of examination topics to evaluate an institution’s mission compliance and regulatory

compliance. The mission compliance examination topic includes a YBS examination procedure, as well as other procedures, to evaluate internal controls for YBS lending as follows:

YBS	Examine the adequacy and administration of YBS programs, contribution to meeting the System's public mission, and compliance with FCA guidance
Audit	Determine if the institution conducts an effective audit of programs related to mission compliance
Transaction Testing	Examine individual assets and applications to assess compliance with the institution's mission-related programs and applicable laws and regulations to evaluate effectiveness of internal controls and accuracy of data

Examination procedures addressing YBS are risk-based. OE's risk-based structure is designed to focus resources in areas that may materially affect safety and soundness. Examiners evaluate many different factors to determine the scope and depth of work related to YBS procedures. These may include changing risk conditions and other indications that new or revised programs or processes are in place.

ORP analyzes quantitative and qualitative data related to YBS mission performance. FCA collects required YBS year-end reporting from the three Farm Credit Banks and one Agricultural Credit Bank. Each bank's report includes quantitative lending data from associations in its district. YBS lending activity data from banks and associations is available through FCA's Consolidated Reporting System. ORP also prepares a qualitative questionnaire each year to gauge associations' YBS program evaluation, management, credit components, and outreach. For the first time this year, ORP conducted interviews with personnel at selected associations to supplement questionnaire information and gain further insight on their YBS activities.

The ORP summarizes quantitative and qualitative results across the System to inform Congress, the public, the FCA Board, and System institutions. Each year, ORP prepares FCA's Annual Report on the System's YBS Mission Performance and the YBS section of FCA's Annual Report on the FCS. Each report is published on FCA's website. ORP also briefs the FCA Board on YBS trends and activity. Lastly, ORP summarizes qualitative questionnaire responses and distributes a report with best practices to System institutions.

In addition to developing regulations to implement the Act and help the System fulfill its mission, ORP has issued additional guidance on serving the credit and service needs of YBS. Informational memorandums are guidance documents issued to all FCS institutions and bookletters communicate the Agency's position on specific issues. The following were issued to provide additional guidance on YBS lending:

- **Informational Memorandum – Lending, Training, and Outreach Opportunities with the Farm Service Agency (November 25, 2014):** This memorandum provides information on lending,

training, and outreach opportunities available through the Farm Service Agency at the United States Department of Agriculture. The Informational Memorandum states these opportunities may be beneficial as part of coordinating YBS programs with other governmental sources of credit.

- **Bookletter 066 – Providing Credit to Farmers and Ranchers Operating in Local/Regional Food Systems (October 11, 2012):** This booklet provides guidance on how FCS associations can effectively meet the credit and related service needs of farmers who market their agricultural products through local/regional food systems. The booklet states due to their age, farming experience, and size, many local food farmers qualify as YBS.
- **Revised Bookletter 040 – Providing Sound and Constructive Credit to Young, Beginning, and Small Farmers, Ranchers, and Producers or Harvesters of Aquatic Products (August 10, 2007):** This booklet provides guidance on interpreting “sound and constructive credit” in section 4.19 of the Act and regulation 614.4165.

In December 2015, FCA issued a draft report on its review of YBS definitions and reporting procedures. The FCA review was conducted by a workgroup including members from ORP, OE, and the Office of General Counsel. The workgroup’s report discusses research and analysis to evaluate whether YBS definitions remain appropriate based on changes within agriculture. The review also covered technical issues related to YBS reporting language and procedures. The report included 11 recommendations and was distributed to FCA senior staff for input in July 2016.

FCA’s strategic planning emphasizes the importance of the System’s YBS lending. The Agency’s 2016-2021 Strategic Plan incorporates a strategy to emphasize mission-related responsibilities, including programs for serving the credit and related service needs of YBS. FCA monitors achievement in this area through a YBS performance measure. The Agency tracks the percentage of direct-lender institutions with YBS programs that are in compliance with YBS regulations and targets a percentage of 90 or more. OE and ORP are responsible for the Agency’s YBS performance measure.

Prior Reviews

In March 2002, the U.S. Government Accountability Office (GAO) completed an audit of FCA’s oversight of the System’s compliance with its statutory requirement to serve YBS. The audit, *Oversight of Special Mission to Serve Young, Beginning, and Small Farmers Needs to Be Improved* (GAO-02-304), made three recommendations:

- Promulgate a regulation that outlines specific activities and standards that constitute an acceptable program to implement the YBS statutory requirement;
- Ensure that examiners follow the guidance and complete the appropriate examination procedures related to YBS, and adequately document the work performed and conclusions drawn during examinations; and
- Publicly disclose the results of the examinations for YBS compliance for individual System institutions.

FCA regulation, § 614.4165, was a result of GAO’s audit. At the time of the audit, OE revised quality assurance processes to ensure YBS examination procedures were completed and documented. The third recommendation was closed and not implemented. After collecting input through an advance notice of proposed rulemaking, FCA developed regulatory requirements for specific YBS information to be

included in annual reports to shareholders, but YBS examination results, like the contents of all examination reports, are not publicly disclosed.

AUDIT RESULTS

The objective of this audit was to determine whether FCA's oversight of young, beginning, and small farmer (YBS) programs is effectively administered. We found oversight was effectively administered, and FCA had an extensive program in place to oversee the System's YBS programs and trends. FCA regulations provide standards for YBS programs, and FCS institutions are required to report on YBS activity throughout the year and annually to FCA.

The OE and ORP play significant roles in FCA's efforts to ensure the System serves YBS borrowers. OE's examination process includes a risk-based YBS procedure to examine: 1) the adequacy and administration of YBS programs; 2) contribution to meeting the System's public mission; and 3) compliance with FCA guidance. During our review, officials stated guidance for this procedure will be developed in the upcoming months. OE also uses standard examination workpapers to review implementation of YBS regulatory requirements in institutions' business plans and annual reports to shareholders. Standard examination workpapers are checklists used by examiners during the examination process in the specified area. In addition to developing regulations, informational memorandums, and bookletters, ORP analyzes and reports on the System's YBS trends and performance each year through multiple communication channels. This year-round process informs Congress, the public, the FCA Board, and System institutions.

Although FCA's process included institution and System-wide analysis and reviews of YBS programs, we identified areas for improvement. Actions in the following areas will improve oversight and transparency:

- Documenting oversight activities and controls;
- Data integrity; and
- Disclosures in annual reports to shareholders.

Documenting YBS Oversight Activities

The ORP conducts year-round activities as part of FCA's role in overseeing YBS programs in the System. ORP evaluates and analyzes required, annual YBS reporting. Following analysis, ORP may contact institutions to obtain further information on high variances in quantitative lending activity data. In addition, a qualitative questionnaire is prepared and distributed to institutions to gain insight on YBS program evaluation, management, credit components, and outreach. Using these datasets and information, ORP prepares several reports on YBS each year, including:

- Annual Report on the System's YBS Mission Performance,
- Annual Report to Congress on the FCS, and
- Summary of responses from the qualitative questionnaire.

To date, ORP has not documented its YBS oversight process and control activities in FCA policies or procedures. Documentation is a fundamental part of an effective internal control system. FCA's Policies and Procedures Manual 1007, *Evaluation of Internal Control Systems*, directs management to design, monitor, test, and evaluate internal controls for all FCA functions impacting financial reporting, regulatory compliance, and mission-related activities. This is also an emphasized area government-wide with the new standards for internal control and management's responsibility for enterprise risk management¹. ORP's analysis and reporting functions are critical components of the Agency's YBS oversight role. In addition, these functions are incorporated in strategies and actions adopted by the Agency to ensure the FCS fulfills its public mission for agriculture and rural areas.

Each year, FCA office directors review operations and identify functions to include in their office's internal control systems. Based on these key activities, each office develops a two-year plan describing internal control elements, their risk level, and planned reviews. ORP's plan covers critical regulatory and approval functions; however, the office's annual YBS oversight processes were not covered by control elements identified in the plan. The Agency's planning and evaluation process is designed to provide reasonable assurance that management controls are in place and operating effectively.

Data Integrity

YBS Annual Reporting

Data collection and analysis is central to FCA's mission and strategic goals. Section 4.19 of the Act establishes specific requirements for FCA to collect an annual report from each bank in the System summarizing operations and achievements of YBS programs in its district. An officer must certify as to the correctness of data in their bank's YBS report and FCA provides specific instructions for this reporting. Annually, each bank must provide FCA with the following:

- The number and dollar volume of all YBS loans outstanding for the bank and each affiliated association;
- The number and dollar volume of all new YBS loans for the bank and each affiliated association;
- A districtwide summary report for YBS loan activity;
- A narrative description of specific YBS programs and activities sponsored by the bank for all associations in its district; and
- A comparison report for each association and the bank including a narrative description of any year-over-year changes of 25 percent or more for a reporting category.

These YBS annual reports are used by OE during examinations, and ORP uses this data to prepare: 1) the Annual Report on the System's YBS Mission Performance and 2) the YBS section of the Annual Report on the FCS. Quantitative data on YBS lending activities is available through FCA's Consolidated Reporting System. As an additional control, ORP reviews comparison reports with year-over-year variances to identify potential reporting errors. Institution size can have a significant impact on year-over-year percentage changes. For example, a small institution going from two loans to four loans would yield a

¹ [Government Accountability Office's Standards for Internal Control in the Federal Government](#) and [Office of Management and Budget Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control](#)

100 percent increase. However, this type of large percentage increase is not necessarily indicative of incorrect reporting. Conversely, at larger institutions, variances less than 25 percent may still be significant and not necessitate an explanation through FCA's YBS reporting process. Although 25 percent is used as a standard threshold for each institution, this process could be strengthened. By developing a variance reporting threshold that accounts for institution size, FCA may gain better insight into potential errors and improve YBS data overall.

In its oversight role collecting and analyzing YBS annual reporting data, ORP may identify reporting weaknesses and areas for improvement at System institutions. As part of a coordinated effort, during the examination cycle, OE examiners may initiate recommended or required corrective actions to address weaknesses discovered in YBS annual reporting. As an example, if an examiner determines additional controls are necessary to ensure timely, complete, and accurate YBS annual reporting, a corrective action may be recommended, documented, and tracked. Although not all errors and data corrections require corrective action or referral to OE examination, ORP should develop a process to ensure noteworthy issues are documented, communicated, and addressed appropriately.

Transaction Testing

The OE plays a key role in reviewing YBS programs at System institutions. This oversight is accomplished through various risk-based examination procedures. Mission compliance is the main examination topic that incorporates oversight of YBS programs. If mission compliance is included in the exam scope, transaction testing may be completed. Mission compliance transaction testing examines individual assets and loan applications. The purpose is to assess compliance with the institution's mission-related programs and applicable laws and regulations.

We sampled 16 institutions. During our approximately 3-year audit scope, 38 examinations were completed at these institutions. Mission compliance transaction testing was completed as part of 10 examinations in our sample. We reviewed transaction testing because it includes reviewing the accuracy of YBS coding² for institution assets. Examiners select risk-based, judgmental samples of institution assets to test various elements of credit administration and compliance. In our sample, YBS coding documentation was incomplete in various examinations. Because of this lack of documentation and/or justification, we were unable to fully follow the extent of testing and/or conclusions required further support. Our review was limited and relied on results and reports of examination documented in OE's Enterprise Documentation and Guidance System.

To ensure consistency in examination documentation, OE uses a standard asset examination workpaper. This workpaper allows examiners to document whether YBS identification and reporting for the reviewed asset is: satisfactory, a technical weakness, a material weakness, not examined, or not applicable. Officials stated if the YBS identification and reporting field was blank in the asset examination worksheet, the asset was not examined. However, we found this was not always documented or explained. In order to verify sound methodologies and adequate levels of testing were performed, examination documentation should show each step completed to fulfill the objective of the examination procedure. OE's examination process and Enterprise Documentation and Guidance System are designed to provide a consistent, documented approach. This is especially important in risk-based

² Coding is established based on FCA definitions for young, beginning, and small as of the loan transaction date. Coding is used to track and report on YBS lending activity.

reviews where the scope and depth of work is based on examiner judgment and varies across examinations.

YBS Definitions Review

Periodic reviews of YBS performance measures and procedures help to ensure mission areas align with the changing agricultural production system. Current YBS definitions were adopted by the FCA Board in 1998 to use in assessing the System's performance. FCA's review stated in 2013, the United States Department of Agriculture's Economic Research Service revised its definition of a "small farmer" from \$250,000 in gross farm income to \$350,000 in gross cash farm income. The change was due to increased farm commodity prices. Given this change, the length of time since adopting current definitions, and other changes in agriculture and credit markets, FCA formed a workgroup to review YBS definitions and reporting procedures.

The workgroup's review was completed in December 2015 and yielded 11 recommendations for changing YBS definitions, reporting methodologies, or procedures. These recommendations included clarifying language changes as well as the following:

- Changing the income threshold for a small farmer from \$250,000 to \$350,000. This change would align with USDA's modified definition of a small farmer but would necessitate a restart to existing performance trends in this area.
- Establishing three loan size reporting categories for young, beginning, and small borrower performance measures. These amounts will be based on the recommended increased income threshold for a small farmer, if applied.
- Further defining "income" used to identify a small farmer.
- Defining "closely-held legal entity" and "material ownership interest" in YBS reporting instructions.
- Requiring reporting certifications to be completed by a financial officer and submitted to FCA with YBS reporting. The current practice is for data to be certified by any officer and maintained in the institution's files.
- Changing the current practice so associations report directly to FCA rather than through their district bank.

The ORP was in the process of collecting feedback on the definitions review and officials stated it would take time to analyze the impact of recommendations in the report. Although certain recommendations will require extensive input and deliberation, other recommendations, not involving a change in practice, may be incorporated earlier. To ensure appropriate actions are completed, ORP should create a plan and timeframes to consider and address each recommendation.

Disclosures in Annual Reports to Shareholders

Contents of the Annual Report to Shareholders, 12 C.F.R. § 620.5(k), requires the following YBS disclosures:

- Associations must describe the YBS demographics in their territory and the source of demographic data. If there are differences in the methods by which the demographics and YBS data are presented, those differences must be described.
- Each association must provide a description of its YBS program, including a status report on each program component as set forth in 614.4165(c) and the definitions of “young,” “beginning,” and “small” farmers and ranchers. This discussion must provide such other information necessary for a comprehensive understanding of the association’s YBS program and its results.
- Each Farm Credit bank must include a summary report of the quantitative YBS data from its affiliated direct lender associations as described in FCA’s instructions for the annual YBS year-end report. The report must also include the definitions of YBS. A narrative may be necessary for an ample understanding of the YBS mission results.

YBS reporting is one of many required disclosures. OE utilizes a standard examination workpaper to ensure annual reports to shareholders fulfill regulatory requirements. This checklist is completed as part of the financial and shareholder reporting examination procedure, which is also risk-based.

During our review, we identified annual reports to shareholders that did not fully describe the status and results of quantitative targets or qualitative goals. Examinations for 10 of the 16 institutions we sampled included reviews of YBS disclosures in annual reports to shareholders within our scope. For 5 of these 10 institutions, we noted examples where goals and actual results for the year were unclear in annual reports to shareholders. These institutions addressed YBS activities in various formats. For example, some reports discussed overall YBS lending at year-end or goals for future years; however, their goals for that reporting year and actual results were not specifically addressed.

OE officials stated 12 C.F.R. § 620.5(k) does not necessarily require each goal and results for the reporting year, moreover YBS activity is included in the institution’s reporting to their board. However, § 620.5(k)(2) references a “status report on each program component as set forth in 614.4165(c)” and “information necessary for a comprehensive understanding of the association’s YBS program and its results.” FCA regulation § 614.4165(c) describes required YBS goals and targets. To ensure a consistent approach and proper oversight, ORP can provide an interpretation on what is required to fulfill § 620.5(k)(2). Based on this interpretation, OE can provide guidance to institutions and examiners to ensure reporting contains sufficient detail to fulfill regulatory requirements.

Annual reports to shareholders are an important component of YBS data transparency of the System. Although FCA aggregates and reports on institutions meeting YBS goals, annual reports to shareholders provide public information about individual institution metrics and performance. Transparency was also a key focus when YBS requirements were established for annual reports to shareholders. These requirements were implemented in 2004 as part of the Agency’s response to GAO’s audit of FCA’s oversight of the System’s YBS mission. Although FCA did not implement GAO’s recommendation to publicly disclose YBS examination results, additional disclosure requirements were established to provide a comprehensive understanding of each institution’s YBS program performance.

Agreed-Upon Actions 1-5

To improve controls, consistency, and transparency, the following actions were agreed-upon:

1. ORP document policies and procedures for YBS oversight activities, including:
 - A methodology for YBS comparison reporting that accounts for institution size and
 - A process to address deficiencies identified through YBS reporting and analysis.
2. ORP incorporate YBS oversight activities and processes in internal control planning and evaluation.
3. ORP develop a plan for addressing recommendations in the Agency's YBS definitions review.
4. OE provide guidance to examiners to ensure YBS transaction testing and conclusions are appropriately documented.
5. ORP complete an interpretation on YBS disclosure requirements in annual reports to shareholders.

Agency officials agreed with our report and to provide specific tasks to be completed to strengthen oversight of YBS programs.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this audit was to determine whether FCA's oversight of young, beginning, and small farmer (YBS) programs is effectively administered. We conducted fieldwork at FCA's Headquarters in McLean, VA from May 2016 through September 2016. We limited our scope to FCA's YBS oversight from January 2013 through April 2016.

We took the following steps to accomplish the objective:

- Identified and reviewed applicable laws, regulations, and other guidance related to the objective.
- Reviewed prior audits and other reviews related to the audit objective.
- Reviewed the Agency's strategic plan and performance measures pertaining to the audit objective and determined FCA activities to fulfill YBS measures.
- Reviewed the Agency's process for YBS data collection, analysis, and reporting to inform the public, the FCA Board, and System institutions.
- Analyzed policies, procedures, and internal controls related to YBS activities and reporting.
- Reviewed guidance in the exam manual pertaining to the Agency's YBS oversight.
- Conducted interviews with Office of Regulatory Policy and Office of Examination officials.
- Sampled 16 institutions with 38 examinations completed from January 1, 2013 to April 30, 2016. We reviewed the YBS, audit, and transaction testing procedures completed as part of the mission compliance topic. We also reviewed regulatory compliance checklists completed to examine YBS requirements within business plans and annual reports to shareholders. Annual reports to shareholders for January 2013 to April 2016 were included in our review. Not all procedures were completed as part of each examination in our sample due to OE's risk-based examination process. Our sample was selected to incorporate institutions in each district; our sample included one bank and 15 associations. The sample was judgmental and cannot be projected over the entire population.

This audit was performed 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 objectives. We assessed internal controls and compliance with laws and regulations to the extent necessary to satisfy the objective. 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 assessed the computer-processed data relevant to our audit objective and determined the data was sufficiently reliable. We assessed the risk of fraud related to our audit objectives in the course of evaluating audit evidence. Overall, we believe the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

ACRONYMS

C.F.R.	Code of Federal Regulations
FCA	Farm Credit Administration
FCS	Farm Credit System
OE	Office of Examination
OIG	Office of Inspector General
ORP	Office of Regulatory Policy
U.S.C.	United States Code
YBS	Young, beginning, and small farmers, ranchers, and producers or harvesters of aquatic products

R E P O R T

Fraud | Waste | Abuse | Mismanagement



FARM CREDIT ADMINISTRATION OFFICE OF INSPECTOR GENERAL

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