



# **Management Challenges**

**Farm Credit Administration**

**Office of Inspector General**

**October 9, 2020**

# MANAGEMENT CHALLENGES

As part of the Farm Credit Administration's (FCA or Agency) annual Performance and Accountability Report, the Reports Consolidation Act of 2000 requires Inspectors General to provide a summary perspective on the most serious management and performance challenges facing the Agency. These challenges reflect ongoing vulnerabilities identified by the Office of Inspector General (OIG) over recent years as well as new and emerging issues that the FCA faces. The chart below summarizes the top management challenges. The pages following the chart provide more depth regarding each challenge and the Agency's progress in addressing them.

## Examination and Supervision Program

- Identifying and addressing risks in the Farm Credit System through effective examination and supervision to ensure it remains safe and sound.

## Information Technology

- Leveraging investments in information technology while maintaining a secure environment and mobile workforce.

## Data Quality and Analysis

- Obtaining consistent and quality data vital to the Farm Credit Administration's mission.

## Human Capital

- Maintaining a safe, well-trained, and sustainable workforce while facing challenges in retirement eligibilities, workforce retention, and diversity.

## Secondary Market Oversight

- Providing effective and impartial oversight of the Federal Agricultural Mortgage Corporation through the Farm Credit Administration's Office of Secondary Market Oversight.

## **CHALLENGE ONE: *EXAMINATION AND SUPERVISION PROGRAM***

A significant challenge for FCA lies in identifying and addressing risks in the Farm Credit System (FCS or System) through effective examination and supervision to ensure the System remains safe and sound.

Although the System remains financially sound, it continues to be impacted by changing risk conditions. This year, the COVID-19 pandemic has had a swift and substantial impact on the global economy. Disruptions to employees, markets, transportation, and other factors have yielded significant volatility and uncertainty, creating new and increased risks in the System. In addition to the pandemic, this year has brought significant natural disasters, which increase stress to borrowers in affected areas. These unprecedented challenges require FCS institutions to be increasingly proactive and responsive to risks in the System. Working with borrowers and adapting to increasing risks, while maintaining financial capacity, will further increase the complexity of the System.

FCA's examination and supervision program will face new challenges to align with evolving threats, risks, and conditions. As a result of the COVID-19 pandemic, FCA directed most of its workforce to telework, suspended onsite examinations, and restricted business travel and in-person training. Within this new environment, FCA will need to continue its risk-based approach to oversight of the System. The Agency will require more sophisticated risk evaluation techniques to align with emerging risk factors and identify and deter consequences with the greatest potential impact. Effective oversight will require using new technologies and developing new skill sets within the Agency to adapt to challenges, such as the challenges the System faces with the London Interbank Offered Rate (LIBOR) phase out. The control environment must also adapt to address increasing expectations associated with internal controls.

More serious or persistent weaknesses require additional oversight activities. FCA must respond and intervene, when necessary, to protect the System. Effective examination and supervision require prompt identification of unacceptable risks. Both internal and external factors can cause significant changes in condition in a short period of time. Corrective actions and follow-up are critical to preventing the escalation of issues that impact safety and soundness. The Agency must be agile to monitor and prevent such conditions to protect the System.

### **Agency Progress**

FCA continuously works to address the challenges of its examination and supervision roles and responsibilities. The Office of Examination (OE) has issued Informational Memoranda (IM) with guidance for institutions.

The Agency issued an IM titled, *Guidance for System Institutions Affected by the COVID-19 Pandemic* (May 4, 2020), which addressed working with borrowers; meeting capital and liquidity requirements; complying with financial reporting requirements; and managing operational and other issues. The guidance also included supplements addressing troubled debt restructurings; 2020 annual meeting and election activities; flood insurance requirements; consumer financial protection; regulatory capital requirements for Paycheck Protection Program (PPP) loans and PPP loans pledged to the PPP Liquidity Facility; and electronic delivery of borrower rights notices. OE issued an IM on the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) requirements that may impact institutions, *CARES Act Requirements and COVID-19 Related Compliance Guidance from the Consumer Financial Protection Bureau* (May 14, 2020). The Office of Regulatory Policy issued an IM, *Guidance on the Paycheck Protection Program for Small Businesses Affected by the COVID-19 Pandemic* (July 14, 2020) with guidance on the PPP, which authorized forgivable loans to small businesses to support payroll and certain other needs during the COVID-19 pandemic.

On January 9, 2020, the Agency issued a Bookletter, *Interest Rate Risk Management*, to provide clarification and guidance to System institutions on an effective interest rate risk management framework.

Each year, OE identifies National Oversight Plan risk topics that are emphasized in ongoing examinations and oversight activities. OE identified three risk topics for fiscal year 2020: risk identification in stressed industries and institutions' lending controls; board governance over internal controls, with a focus on the internal audit program; and cybersecurity and emerging information technology-related threats.

### **Relevant OIG Work**

FCA's OIG completed an audit on FCA's criminal referral process. The objective of the audit was to determine whether FCA's criminal referral and follow-up process is effective and efficient. FCA established regulations on criminal referral requirements and had processes in place to enable examination staff to access criminal referral information. However, we identified opportunities to improve the overall effectiveness and efficiency of collecting, storing, and analyzing criminal referrals. We made seven recommendations to the Agency to improve the criminal referral process. In response to our recommendations the Agency agreed to:

- Update policies and procedures;
- Complete a Privacy Impact Assessment and update the System of Records Notice for criminal referrals;
- Review and update processes for criminal referral reviews;
- Minimize the storage and visibility of Personally Identifiable Information in criminal referrals;
- Determine whether additional resources are needed to educate the System on criminal referral activities and trends;
- Add potential loss and insider information fields to the criminal referral listing; and
- Evaluate and identify ways to enhance the capture of criminal referral data and the presentation of related statistics.

The OIG also plans to address other challenges faced by the examination and supervision program, including a review of the Agency's examination staff scheduling and rotation, OE recruiting, and the similar entity lending oversight process.

### **CHALLENGE TWO: *INFORMATION TECHNOLOGY***

A significant management challenge for FCA is the ability to leverage investments in information technology (IT) while maintaining a secure environment.

Cybersecurity threats and vulnerabilities present significant challenges across the federal government. These challenges require an IT security program that is responsive, agile, and forward-looking. The prevalence of cybersecurity threats and risks have been highlighted by security incidents and data breaches across the public and private sectors. Because FCA relies on various IT systems, security challenges can directly impact the Agency's ability to achieve its mission. As such, FCA must continuously identify and respond to complex IT risks to effectively manage this challenge area.

Given the current COVID-19 pandemic and national emergency, FCA has its staff working remotely full-time. While the FCA staff is telework-ready and has responded to the challenge of transition, additional resources are required from the IT staff to support the telework environment. Further, working remotely exposes potential vulnerabilities that may go beyond the Agency's control. The new working environment adds a new layer to the Agency's IT services given the resources and support needed for a secure environment while

keeping the health and safety of FCA staff the upmost priority.

It is imperative that FCA has the necessary tools and staff to operate efficiently and effectively. At the same time, the Agency must be prudent and responsible with its spending. To stay current and address the Agency's IT requirements, FCA needs well-trained personnel that can successfully maintain IT systems and integrate new tools to improve operations. This challenge becomes increasingly difficult as new IT requirements are developed and implemented across federal systems.

### **Agency Progress**

FCA continues to invest in various IT tools to increase efficiency and effectiveness. In addition, FCA's information security program continues to mature as it continuously identifies areas to strengthen and improve security. FCA has also updated several important policies and procedures to document new processes and overall responsibilities. Updates include the IT Security and Privacy Policy, the Information Security Continuous Monitoring Strategy, and multiple office directives on items such as privacy and security. OIT also continues to work on developing the privacy program.

Over the last few years, the Office of Information Technology (OIT) has also supplemented its staff. FCA hired a privacy officer to address privacy requirements, including compliance with the Privacy Act. Several other positions within OIT have been filled, including a new Enterprise Data Management Team Lead, Information Security Specialists, and other IT Specialists.

### **Relevant OIG Work**

The OIG performs an annual evaluation of FCA's compliance with the Federal Information Security Modernization Act of 2014. Looking ahead, the OIG will continue to focus on OIT operations and implementation of IT systems.

## **CHALLENGE THREE: *DATA QUALITY AND ANALYSIS***

A significant management challenge for FCA exists in the collection and use of data.

Obtaining timely, consistent, and quality data is vital to FCA's mission of ensuring that the System remains a dependable source of credit for agriculture and rural America. Such data allows FCA to better monitor the System's condition and identify current and emerging risks, including the impacts of the COVID-19 pandemic. In doing so, FCA enhances the development of a risk-based examination agenda and the promulgation of evidence-based regulations, policies, and guidance.

Collecting useful data from the System is no simple task, as varying practices and technical capabilities among its 70-plus institutions can result in inconsistencies that inhibit robust data analysis. In imposing reporting requirements, the Agency must consider the resulting burdens to System institutions while ensuring that data is collected and maintained in a manner comporting with legal requirements and that sensitive information is safeguarded against unauthorized access or use. By identifying the gaps and critical data necessary to efficiently and effectively perform its mission, the Agency can better ensure the safety and soundness of the System.

### **Agency Progress**

The Agency's Strategic Plan recognizes and underscores the importance of effective data analysis to oversight

of the FCS. In November 2019, in recognition of the importance of data analytics and with a view to the requirements of the Foundations for Evidence-Based Policymaking Act of 2018 (Evidence Act), the FCA Board established a new Office of Data Analytics and Economics (ODAE) to be headed by the Agency's Chief Data Officer. The ODAE will, among other things, serve as a steward for Agency data and provide information to support objective, evidence-based decisionmaking Agency-wide.

In further implementation of the Evidence Act, FCA created the Data Advisory Group as a forum for addressing data management standards, priorities, policies, and practices. Headed by the Chief Data Officer and composed of various Agency leaders, the Data Advisory Group is tasked with leading implementation of Agency-wide processes and standards, and with addressing common issues affecting FCA data programs and resources. The Agency has also formed a Data Users' Group to focus on the technical implementation and management of core Agency datasets.

In the interest of improving its data analytics, FCA has made investments in related IT and continues to develop and implement analytical and examination tools that will enhance its ability to perform systemic risk and data analysis. FCA also continues to work with the System to prioritize the most critical data fields for the overall improvement of data quality and consistency.

### **Relevant OIG Work**

Recent OIG reviews relevant to this subject include a 2019 audit on the Agency's implementation of stress testing guidance and use of data and analytical and examination tools; a 2016 audit on FCA's oversight of young, beginning, and small farmer and rancher programs; and a 2016 audit on FCA's risk project. Going forward, the OIG will continue monitoring the Agency's progress in obtaining and analyzing data.

### **CHALLENGE FOUR: *HUMAN CAPITAL***

A significant management challenge for FCA is maintaining a safe, well-trained, sustainable workforce while facing challenges in retirement eligibilities, succession planning and training, and diversity.

Employees are FCA's most valuable asset and the safety and well-being of FCA's workforce is brought to the forefront during the COVID-19 pandemic. The Agency's success depends greatly on its ability to recruit, retain, and develop a capable workforce, and keep its workforce safe during challenging times such as the current pandemic. Because FCA is a relatively small agency with nationwide responsibilities, changes in the workforce—such as the retirement of management and senior employees—must be accounted and planned for to avoid undue disruption to Agency functions.

The need for succession and human capital planning was highlighted in the past year by the retirement of multiple senior Agency leaders. Planning ensures that institutional knowledge and experience are passed on, and the Agency is less dependent on specific individuals.

Workforce training and developing takes a significant investment of resources, but the use of several tools can ensure that FCA maintains a vital, experienced staff. For example, data analytics can help the Agency identify training gaps. Job sharing, rotational details, and micro-assignment opportunities can be used to promote career development. Mentoring programs can prepare employees for management positions.

Diversity is another important aspect of human capital. A diverse staff brings different perspectives to problem-solving, enriching the Agency's ability to regulate and supervise the System. The Agency must continually assess

and deploy strategies to reach its goals for diversity and inclusion. It can do this by using various tools that identify and reduce potential barriers to diversity and inclusion, enhance outreach, evaluate the Agency's recruitment data, and heighten awareness through programs that support diversity and inclusion.

### **Agency Progress**

FCA mandated telework for most of its workforce on March 16, 2020, and quickly pivoted to accomplishing its mission through the use of technology and telework protocols. FCA's Emergency Response Team, composed of the FCA Board and senior managers, meets regularly and continually monitors COVID-19 case trends, local school status, and government status at the Federal, state and local levels for its McLean, Virginia headquarters and four field offices in various parts of the United States. The Agency implemented several programs to promote employee safety and wellness during the pandemic, including a weather and safety leave program and an annual leave payout and restoration program. The Office of Agency Services created pulse surveys to gauge employee feedback on a variety of issues, including the Agency's response to the COVID-19 pandemic.

FCA developed a strategic framework to safely return its employees to the workplace, including continuing maximum telework flexibility for employees who are members, or are caring for dependents who are members, of a high-risk population, or who have childcare or transportation needs; conducting contactless temperature checks at all office locations; ensuring that employees wear a face covering and practice social distancing while in the office; and continuing building cleaning services and ensuring there are sufficient supplies (including hand soap and sanitizer) to support reopening FCA offices.

The Agency's Strategic Plan evidences a commitment to maintaining a diverse and capable workforce. Strategic objectives address maintaining a skilled, motivated workforce; ensuring adequate succession planning and knowledge transfer; and encouraging an engaged, diverse, and ethical workforce. FCA measures its success towards human capital goals based on employee outreach efforts and the results of the annual employee satisfaction surveys. The Agency also provides benefits and employee programs to attract and maintain a talented diverse workforce, including a Student Loan Repayment Program. FCA's learning office also provides numerous online and in-person training resources to support technical skills, work/life balance, and managerial competencies.

### **Relevant OIG Work**

The OIG has performed several reviews that have touched upon the subject of human capital in recent years, including an inspection of FCA's implementation efforts for its 2017-2018 Fairness and Inclusiveness Assessment and an audit concerning the effectiveness of FCA's process of obtaining background investigations for contractor personnel. Other reviews include a benchmarking evaluation comparing the structure and organization of FCA's Office of Examination with comparable offices of other financial regulatory agencies, an inspection of FCA's travel compensation program, and an audit of the Agency's human capital planning. OIG plans to conduct an evaluation of the effectiveness of Agency programs in response to the COVID-19 pandemic.

### **CHALLENGE FIVE: *SECONDARY MARKET OVERSIGHT***

A significant management challenge for FCA is to ensure that it effectively and impartially regulates the Federal Agricultural Mortgage Corporation (Farmer Mac) through the Office of Secondary Market Oversight (OSMO).

Farmer Mac is a stockholder-owned, federally-chartered corporation. Farmer Mac was established by the federal government in 1988 to provide a secondary market for credit by increasing access to, and reducing

the cost of, capital to American agriculture and rural communities. Although Farmer Mac is part of the FCS, its secondary market mission is unique among FCS institutions. Farmer Mac's customer base includes commercial and community banks, insurance companies, non-bank lenders, agricultural funds, rural utilities, and other FCS institutions.

OSMO examines, regulates, and supervises the activities of Farmer Mac to ensure its safety and soundness and the accomplishment of its public policy purpose as authorized by Congress. OSMO also ensures that Farmer Mac complies with applicable laws and regulations, and it manages FCA's enforcement activities with respect to Farmer Mac. Under the Farm Credit Act of 1971, as amended (Act), the OSMO Director reports directly to the FCA Board rather than the Chief Operating Officer. The Act also provides that the supervision of the powers, functions, and duties of Farmer Mac is performed, to the extent practicable, by personnel who are not responsible for the supervision of the banks and associations of the FCS. To fulfill its duties, OSMO uses examiners who also examine FCS banks and associations. Therefore, OSMO is challenged to ensure that it fulfills the oversight role free of conflicts of interest or undue influence from those also responsible for the supervision and regulation of the FCS banks and associations.

OSMO conducts the oversight and examination activities with a relatively small staff (4 employees with additional rotational staff), while balancing resources sourced from FCA's OE, which is responsible for supervision of FCS banks and associations. OSMO staff must have the necessary knowledge, skills, and training to understand the unique and complex mission, secondary market activities, and business model and capitalization of Farmer Mac. Further, because Farmer Mac is a publicly-traded company, OSMO staff must understand the market forces and reputational risks that can potentially affect Farmer Mac's safety and soundness. Other changing areas, such as the LIBOR phase out, will continue to increase the complexity of Farmer Mac. Advancements in data gathering, technology, and analytics that aid OSMO with risk measurement, management, and assessment, coupled with appropriate specialized training, can enhance FCA's ability to oversee Farmer Mac as it grows in scale and complexity. This will be particularly important in an environment that may present more challenges to farmers, ranchers, rural communities and their lenders. As the complexity of Farmer Mac increases, OSMO will need to ensure it maintains appropriate readiness to evaluate safety and soundness. To achieve its mission, OSMO may require increased resources and technical skills, which will present additional challenges for the Agency.

Farmer Mac has experienced many changes in its organizational structure, which includes new members of its executive management team that result in disruptions in Farmer Mac operations. OSMO's oversight role is made more difficult in ensuring the continued safety and soundness of Farmer Mac in the face of its large board representing diverse interests and the changes to its executive management.

In addition, the COVID-19 global pandemic provides an additional challenge to OSMO and Farmer Mac leadership given the needs of employees, safety concerns, and forward-looking business models. The pandemic presents an ever-changing environment that requires flexibility and agility in business. For OSMO, the COVID-19 pandemic increases the need for highly qualified examiners and analysts to maintain vigilant oversight during these unprecedented and volatile times.

### **Agency Progress**

OSMO provides guidance and implements regulatory and other changes related to Farmer Mac. These changes are made in addition to OSMO's supervision and safety and soundness reviews of Farmer Mac. All FCA employees, including OSMO staff, were able to quickly transition to full-time telework status in March 2020 in response to the COVID-19 pandemic.

In anticipation of resource needs during the 2021 and 2022 examination cycle, OSMO added rotational staff. OSMO reports that its consulting arrangements can also provide highly qualified resources needed during the pandemic.

The FCA Board adopted Policy Statement 35 in January 2020, which provides the general strategy and direction of OSMO for the examination, regulation, and supervision of Farmer Mac. Policy Statement 35 also established OSMO reporting requirements to the FCA Board, including an annual oversight and examination plan and any proposed or amended regulations. OSMO also issued an IM outlining the 2020 examination focus areas as: capital, asset quality, management, earnings, liquidity, and sensitivity to interest rate risk.

As a result of the COVID-19 pandemic and national emergency, OSMO created and issued guidance documents to Farmer Mac. On March 24, 2020, OSMO issued a memorandum that encouraged Farmer Mac to prudently work with its lending and servicing partners to provide flexibility and assistance to borrowers experiencing financial challenges due to COVID-19. OSMO also developed an IM that specifically addressed Farmer Mac's position as a secondary market provider working with servicing partners to administer its Farm and Ranch portfolio.

In addition, OSMO enhanced its oversight of Farmer Mac through additional reporting requirements to ensure potential risks were monitored and identified. Since the COVID-19 outbreak was declared a national emergency, OSMO established daily reporting requirements for funding, liquidity, and investments and developed the weekly funding and market reports. Weekly reporting requirements of loan servicing actions related to COVID-19 were also established.

### **Relevant OIG Work**

In 2018, the OIG completed an audit to assess staffing arrangements and the reporting process for OSMO. Our review included recommendations to improve OSMO's processes and increase transparency. The OIG plans to review other aspects of OSMO in future years.