

MANAGEMENT CHALLENGES

October 12, 2023



**Farm Credit Administration
Office of Inspector General**

MANAGEMENT CHALLENGES

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



**Regulating
and
Supervising
a Complex
Farm Credit
System**

**Innovation
at FCA and
the Farm
Credit
System**

**Agility in
Adapting to
a Fast-
changing
Information
Technology
World**

**Recruiting
and
Retaining a
Talented and
Diverse
Workforce**

CHALLENGE ONE: *Regulating and Supervising a Complex Farm Credit System*

As the Farm Credit System (System) becomes more complex, FCA will continue to face challenges in addressing evolving risks, threats, and conditions. The System continues to be impacted by changes and uncertainties in interest rates, labor markets, the collective farm debt, cybersecurity threats, and climate. This varied and unpredictable environment impacts needs for examination and supervision resources. Further, technology, data analytics, fintech, and risk management systems and approaches in the System continue to become more sophisticated. FCA will be challenged to maintain forward-looking plans and ensure adequate staffing with specialized skills required to provide effective oversight.



Regulating and Supervising a Complex Farm Credit System

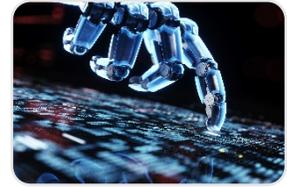
Restructuring and consolidation of institutions also impacts complexity across the System. Continued merger activity creates both benefits and risks and FCA will be challenged to better understand these risks to foresee and address safety and soundness concerns. Risk management tools, specialized training, and institutional knowledge will also become increasingly important as the Agency is responsible for evaluating larger and more complex institutions. Effective supervision and oversight will require a nuanced understanding of the impact of changes in geographic diversification, risk concentration, and organizational structure of the System as a whole.

Diversity across System institutions and lending also impacts oversight needs and challenges. System institutions vary significantly in size, organization, structure, industries served, and geographic factors. The complexity of these factors is further increased by the unique issues that impact agricultural lending. Ensuring the System meets the credit needs of rural America, including underserved communities, is essential to the success and growth of the System. The Agency will be challenged to ensure the System is positioned to serve and support the increasingly diverse needs of agriculture while maintaining safety and soundness requirements. These complexities will also impact the development of effective policies, guidance, and standards. Designing risk-based oversight strategies and systems that keep pace with the diverse lending landscape will prevent adverse impacts.

Overall, changes across the System will place greater demands on Agency resources. Timely and thorough identification of corrective actions and appropriate follow-up are critical to preventing the escalation of issues and maintaining safety and soundness. The Agency also needs to be proactive to foresee and respond to challenging scenarios. The impact of internal and external factors can lead to significant changes in conditions in short periods of time that must be managed efficiently. The Agency will be challenged to find the appropriate resource balance and maintain a thorough and robust oversight plan while preparing for unique, difficult, and unexpected oversight scenarios. The Office of Examination's FY 2024 National Oversight Plan includes five focus areas: cybersecurity threats and a changing operational environment; capital markets loan growth and increased risk in large, shared assets and commodity segments; long-term financial stewardship; stress analysis in a period of heightened volatility and uncertainty; and standards of conduct.

CHALLENGE TWO: *Innovation at FCA and the Farm Credit System*

FCA faces significant regulatory and oversight challenges with the expansion of technology and innovation in financial products and services (financial technology). These challenges will require FCA to innovate its business practices to ensure the effective and efficient development of policy, examination practices, and oversight of the System.



The field of financial technology encompasses a broad range of products and services, which can be offered by System institutions directly or in partnership with financial technology companies. Examples of types of financial technologies include generative and predictive artificial intelligence, digital lending and credit, distributed ledger technology (including block chain), automated advisors, and regulatory technology (Regtech).

Innovation at FCA and the Farm Credit System

The Agency is challenged in ensuring that policy and examination staff have the necessary technological knowledge and expertise to provide effective and efficient regulation and oversight of System institutions. From the policy development perspective, in order to develop policies that regulate the use of financial technologies, it is important that staff be knowledgeable about the technology, how the System utilizes the technology, and the extent to which those practices are safe, sound, and consistent with leading practices. From an examination perspective, understanding the various financial technologies each System institution uses is paramount to conducting effective examinations of System institutions.

Introducing new and evolving technology could bring efficiencies to Agency processes through further automation; improving the prediction of risk, access and analysis of data; use of predictive analytical tools; and the facilitation of remote examinations. However, the identification of current skills and skill gaps, development of needed skills, and recruitment to fill gaps, all pose challenges to the Agency as innovative tools increase both internally and in the System.

The Agency has begun adopting innovative practices that increase the efficiency and effectiveness of its regulatory and oversight processes. In FY 2020, the FCA Board of Directors approved the creation of the Office of Data Analytics and Economics (ODAE), which includes a staff of 4 data scientists. ODAE has taken steps to implement the innovative use of technology by drafting an analytical policy outlining the usage and guardrails for implementing machine learning techniques and artificial intelligence. Additionally, in FY 2023, the Agency created an innovation working group to focus on using innovation to increase the efficiencies and effectiveness of its internal processes and its role as a safety and soundness regulator of the System.

CHALLENGE THREE: *Agility in Adapting to a Fast-changing Information Technology World*

FCA's information technology security program faces significant challenges in balancing a robust, strategic information security program with the need for timely, effective changes. Cybersecurity threats and vulnerabilities present significant challenges to information technology security. These challenges require a security program that is responsive, agile, and forward-looking.



The Federal Information Security Modernization Act of 2014 requires an annual review to independently assess the effectiveness of FCA's information security program and practices using the metrics identified by the Department of Homeland Security. The audit also assesses progress toward achieving outcomes that strengthen federal cybersecurity, including implementing government-wide priorities and best practices. For Fiscal Year 2023, FCA received an overall rating of effective, but challenges remain to keep the information security program at an effective level. Two domains were rated at below an effective level: information security continuous monitoring and supply chain risk management. FCA remains behind on the implementation of certain requirements in meeting continuous monitoring standards. These requirements involve costly resources to ensure successful implementation.



Security events and breaches across the world highlight the prevalence of cybersecurity threats and risks and the importance of robust detection and prevention processes. The Cybersecurity and Infrastructure Security Agency stated the following in an overview of cyber threats: "By preventing attacks or mitigating the spread of an attack as quickly as possible, cyber threat actors lose their power. Any cyber-attack, no matter how small, is a threat to our national security and must be identified, managed, and shut down." The Agency will continue to be challenged on meeting all the requirements of an information technology security program as more and more requirements are added in order to maintain robust, safe systems.

FCA is challenged to implement needed processes while maintaining the ability to pivot and work quickly in certain scenarios to adapt to changing threats. As a small agency with limited resources, there are difficulties in balancing the resources needed for a properly controlled and secure environment with having an agile workforce that can make changes to internal processes, policies and procedures, and technologies in a responsive, efficient manner.

Overall, information technology and security requirements and guidance frequently change. It is imperative that FCA's systems are able to adapt and change as needed. FCA has new efforts and resource allocations planned that could enhance its ability to improve the everchanging information security program. Forward looking, the Agency needs to consider the baseline skills and abilities of staff and contractor resources to understand gaps needed to advance the program into a more agile, responsive model. However, implementation in these areas is not easy and will continue to challenge the Agency.

CHALLENGE FOUR: *Recruiting and Retaining a Talented and Diverse Workforce*

The Agency faces another significant management challenge in recruiting and retaining a talented and diverse workforce. An ever-present concern that is not unique to FCA, human capital management is imperative to fulfillment of the Agency's mission. FCA's success will depend greatly on its capacity to identify current and future staffing needs, taking into account the various disciplines and skillsets needed in its McLean, Virginia headquarters and field offices, and to meet those needs through recruitment and retention.



Recruiting and Retaining a Talented and Diverse Workforce

This task is complicated by a difficult labor market, where FCA must compete with private-sector employers and other Federal agencies for a limited pool of highly qualified workers, as well as inflationary pressures. Such circumstances will require nimble action on the Agency's part to ensure that it can offer compensation and benefits that are suitably competitive to attract candidates for employment. In this regard, FCA is well-served by its authority to maintain comparability with other financial regulatory agencies. The Agency's recruitment efforts will also benefit by educating potential employees on the importance of FCA's mission to the nation's vitality and security.

Training and development opportunities can also help ensure that FCA maintains a workforce that meets its needs. Programs such as job sharing, rotational details, intra-office assignments, and mentorships can promote career development as well as cultivate a sense that FCA is an employer rich with career opportunities.

Priorities across the government and in the private sector, diversity, equity, inclusion, and accessibility are critical aspects to the Agency's recruitment and retention efforts. The Agency must continuously assess and implement strategies, such as evaluating FCA's recruiting data, to meet its strategic goals and ensure its employees feel valued and included. The Agency will need to identify and reduce barriers that may exclude certain groups from full participation, while continuing to foster appreciation in its workforce with programs that celebrate and promote diversity, equity, inclusion, and accessibility.

Calendar year 2023 has seen FCA take a number of steps to grapple with this ever-present challenge. Of particular note, the FCA Board voted in January to reorganize the Agency's Office of Equal Employment Opportunity and Inclusion, including establishing the head of the office as an office director position and creating a position in the office specifically focused on outreach and employment. These changes sought to elevate the office's profile and reaffirm the Agency's commitment to advancing diversity, equity, inclusion, and accessibility. In May, the Board also approved a workforce benefits package that included a leave buyback program, an expanded student loan repayment program, and an enhanced childcare subsidy program. These incentives sought to maintain comparability with other federal bank regulatory agencies and better enable the Agency to recruit and retain employees.