

**Third Quarter Fiscal Year (FY) 2014 Summary Report
(April 1 – June 30, 2014)**

**OFFICE OF INSPECTOR GENERAL'S (OIG) SURVEY OF FARM CREDIT SYSTEM (FCS)
INSTITUTIONS REGARDING THE AGENCY'S EXAMINATION FUNCTION**

Introduction

During the period April 1 – June 30, 2014, the Office of Examination identified 11 Farm Credit System institutions that were in a position to provide meaningful survey responses.

The OIG sent surveys to those 11 institutions on July 25, 2014. Of the 11 institutions surveyed, 6 submitted completed surveys. When outstanding responses from prior quarters are received, they are included in the next quarterly report. Two responses to the survey issued for the second quarter of FY 2014 were received and are included in this third quarter FY 2014 report. Therefore, this report includes a total of 8 responses.

The OIG will continue to provide an email report to you based on each fiscal year quarter-end, i.e., December 31, March 31, June 30, and September 30, so that you may timely take whatever action you deem necessary to address the responses. The fourth quarter report as of September 30 will continue to include fiscal year summary data.

The survey asks respondents to rate the eight survey statements from "1" (Completely Agree) to "5" (Completely Disagree). The rating options are as follows:

Completely Agree	1
Agree	2
Neither Agree nor Disagree	3
Disagree	4
Completely Disagree	5

There is also an available response of "6" (Does Not Apply) for each survey statement. These responses are not included in averages.

Narrative responses are provided verbatim, except identifying information has been removed and any grammatical or punctuation errors may have been corrected. Any narrative in "brackets" is explanatory information provided by the OIG based on conversations with institution management.

Survey Results – Third Quarter FY 2014

Average numerical responses to survey statements 1 – 8 were 1.8 to 2.4.

Average Numerical Responses to Survey Statements 1 – 8		
3 rd Qtr	2 nd Qtr	1 st Qtr
1.8 – 2.4	2.0 – 2.2	1.4 – 2.1

The average response for all survey statements was 2.0.

Average Response for all Survey Statements		
3 rd Qtr	2 nd Qtr	1 st Qtr
2.0	2.2	1.8

In this quarter, there were more positive than negative narrative comments to survey statements 1–8. (Negative comments of any degree are color coded in **maroon**.)

Survey item 9 asks for feedback on the most beneficial aspect of the examination process. Consistent with prior quarters' responses to this survey item, many very positive comments were provided about the examiners and the examination process.

Survey item 10 asks for feedback on the least beneficial aspect of the examination process. While most were negative, as would be expected, several comments provide a perspective that should prove constructive.

Survey item 11 asks for any additional comments from the Board as a whole. It elicited a number of thoughtful responses from full Boards, which was the objective of the question.

Responses to First Quarter Survey Statements 1–8

EXAMINATION PROCESS

Survey Statement 1: The scope of examination activities was focused on areas of risk to the institution and appropriate for the size, complexity, and risk profile of the institution.

Average Response: 2.4

Question 1	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	Average
FY 14	2.0	2.2	2.4		
FY 13	2.0	1.7	1.9	2.0	1.9
FY 12	1.9	2.1	2.1	1.8	2.0
FY 11	1.8	2.0	1.8	1.8	1.9

Comments:

- We always appreciate the scope of the examination to include an evaluation of risks in our organization, particularly the loan portfolio and credit risk. This year those areas were covered, but the focus was on standards of conduct and business continuity.
- **As a "financial" institution, it was discouraging to see the examination place such little focus and emphasis on credit risk. There was far too much focus on standards of conduct, board elections, etc.**
- EIC properly focused the exam team to our satisfaction and the institution's benefit.

Survey Statement 2: Examiners appropriately applied laws, regulations, and other regulatory criteria to examination findings and conclusions.

Average Response: 1.9

Question 2	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	Average
FY 14	1.8	2.1	1.9		
FY 13	1.9	1.6	1.8	2.3	1.9
FY 12	1.8	1.8	1.9	2.0	1.9
FY 11	1.9	2.1	1.7	2.4	2.1

Comments:

- Examiners appeared to have applied a written check-list approach. We heard more than once – your process is not wrong and complies with FCA regulations but it is not like everyone else does it.
- The certification process the agency has implemented has produced some talented, knowledgeable, and professional examiners. We are impressed with their knowledge of our business operations as well as laws and regulations.
- The examiners were well versed on regulation, however, not very familiar with agriculture, credit, and credit risk.

Survey Statement 3: The recommendations, required actions, and any supervisory agreement with FCA assisted the board and management in addressing the risks of the institution.

Average Response: 2.1

Question 3	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	Average
FY 14	1.7	2.0	2.1		
FY 13	2.0	2.0	1.8	2.2	2.0
FY 12	2.1	2.0	2.4	2.0	1.8
FY 11	1.5	2.0	1.7	1.9	1.8

Comments:

- The required and recommended actions were a laundry list and difficult for the Board to determine materiality.
- Our Audit Committee and Board always embrace the examination process. We view examinations as another risk management tool. The examiners make their findings easy to understand and they respond appropriately to our questions. We agree with the examination findings and recommendations.
- Again, there seemed to be a disproportionate focus on standards of conduct instead of what truly constitutes “risk” to our institution.

Survey Statement 4: The examiners were professional and efficiently conducted examination activities.

Average Response: 1.8

Question 4	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	Average
FY 14	1.4	2.2	1.8		
FY 13	1.5	1.3	1.4	2.0	1.6
FY 12	1.7	1.7	1.6	1.8	1.9
FY 11	1.9	2.2	1.8	1.9	2.0

Comments:

- Examiners were very professional but it seemed to management there was minimal time for the examiners to understand the “why” behind institution practices.
- The examiners are always professional. The planning of on-site work is well coordinated and results in little disruption to our ongoing activities.
- The senior examiner on-site was exceptionally professional and level headed. The rest of the examination team could use a large dose of polish, common sense, and experience.

COMMUNICATIONS

Survey Statement 5: Communications between the Office of Examination staff and the institution were clear, accurate, and timely.

Average Response: 2.0

Question 5	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	Average
FY 14	1.6	2.2	2.0		
FY 13	1.9	1.5	1.4	2.1	1.8
FY 12	1.7	1.9	1.9	2.0	1.8
FY 11	1.4	2.0	1.9	1.8	1.8

Comments:

- There were numerous conversations but it appeared to the institution team the examination process did not allow the examiners sufficient time to understand the “why” behind the institution operating processes.
- The communications between examiners and our audit staff, management and board of directors is efficient and effective. There are never any surprises and that is good.
- Discussions that were held face-to-face on site did not translate well to the written report.

Survey Statement 6: Examination communications included the appropriate amount and type of information to help the board and audit committee fulfill their oversight responsibilities.

Average Response: 1.8

Question 6	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	Average
FY 14	2.1	2.2	1.8		
FY 13	1.7	1.6	1.6	1.9	1.7
FY 12	1.7	1.8	2.3	1.9	1.8
FY 11	1.7	2.0	1.5	1.7	1.8

Comments:

- The in-person meeting between FCA EIC and Director, along with institution Board and management was a good dialogue and exchange of ideas. Communications took place during the in-person meeting.
- We really appreciate the time the examiners allow for entrance and exit conferences with our staff and directors. The examination's results presentation with the Audit Committee is very well organized and professional. In fact, the information presented is very easy to understand and the examiners provide valuable information and insight into their findings.

Survey Statement 7: Examiners fairly considered the views and responses of the board and management in formulating conclusions and recommendations.

Average Response: 1.9

Question 7	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	Average
FY 14	1.8	2.2	1.9		
FY 13	1.8	1.6	1.6	2.0	1.8
FY 12	1.8	1.9	2.1	1.9	1.9
FY 11	1.5	2.0	2.1	2.1	1.9

Comments:

- FCA EIC and Director listened and had an exchange of ideas with the institution Board during our meeting.
- The interaction between examiners and management and board is excellent. The reasons for a concern or finding is communicated clearly and our questions are always answered in a way that we understand.
- Agree, however, this was done after reports and findings were issued instead of on the front end. **Better communication while conducting the examination instead of after the report is issued would be most beneficial.**

Survey Statement 8: FCS-wide guidance from the Office of Examination was proactive and helpful.

Average Response: 2.0

Question 8	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	Average
FY 14	2.0	2.2	2.0		
FY 13	2.6	2.4	1.9	2.1	2.3
FY 12	2.0	1.9	2.3	2.1	1.9
FY 11	1.8	2.0	1.7	1.5	1.8

Comments:

- The focus areas distributed from FCA Office of Examination are beneficial to the institution Board and management.
- The National oversight activities are shared with the Audit Committee so our organization can learn from the reviews conducted elsewhere in the country. Many times the business issues being reviewed are appropriate and specific to our organization and sometimes the findings are related to activities that we are not experiencing or the activity is minimal for our organization.

GENERAL QUESTIONS 9, 10, and 11

Survey Item 9: What aspect of the examination process did you find **most** beneficial?

- The discussion with the FCA EIC and Director.
- We are always looking for feedback concerning risk in our organization and how well we are managing that risk.
- All beneficial.
- Face-to-face discussions with the senior examiner that was on site was very beneficial. The supervising officer that assisted in presenting the exam to the Audit Committee was great as well.
- The examiners were beneficial in providing some understanding of FCA regulations.
- Ratification of the institution's business practices, candid discussion with examiners regarding best practices within the system, and open discussion with examiners regarding internal processes to make valuable improvements.
- Borrower Rights Requirements/Guidance.

Survey Item 10: What aspect of the examination process did you find **least** beneficial?

- It appeared to institution management the "matrix" approach utilized to form the examination teams contributed to a cumbersome examination process. The examination process/timeframes seemed to have examiners rushed and minimal time to talk with institution leaders when a process did not exactly match the FCA check-list. While examiners were onsite they were working on prior institution examination section summaries plus trying to do onsite work for the examination. Once the team left onsite there were many calls and emails asking questions. It seemed difficult for examiners -- while working offsite -- to

grasp answers to questions if the response did not conform to the FCA checklist.

- There is great diversity among institutions across the country. At times we are made aware of activity or situations that transpire in other parts of the country that have not occurred here or are unlikely to occur here. Many times the response from the agency is to address or respond to specific local issues with a system wide response rather than address the issue where the activity took place.
- Many misunderstandings of questions and answers from the EIC and his staff. It would have been very beneficial to have had a draft of the final report in advance to clear up the misunderstandings and confusion.
- Evaluation and testing of items that are compliance-related (regulatory not consumer lending compliance) but are immaterial to business operations and pose low risk to our customers and the Farm Credit mission.
- Although necessary for FCA, the large number of new trainees was somewhat cumbersome on institution staff and senior management.

Survey Item 11: Please provide any comments from the **Board as a whole** regarding the examination process not provided in the preceding responses.

- The institution Board felt that the examiners listened to their comments and that discussion was encouraged and appreciated.
- It would be helpful if more clarity would be provided with regards to examination activity when new regulations are implemented. With the examination modules coming long after effective dates of regulations, it makes it very challenging to ensure compliance.
- The board thanks FCA for its guidance and assistance.
- As Audit Committee Chair, the examination process seemed to be effective and beneficial to the institution as noted above. The reporting by the examination team was clear and helped the board to understand the areas reviewed and the recommendations that resulted with clear context and reasoning. Further, our EIC was receptive to suggestions and ideas to improve the examination in the future.
- The Board felt it was a little cumbersome having the summary of examination done by conference call with the entire Board AND in person at a regular Board meeting.