

FARM CREDIT
ADMINISTRATION
OFFICE OF
INSPECTOR GENERAL

SURVEY REPORT

Survey of
Farm Credit System
Institutions Regarding the
Agency's Examination Function

Second through Fourth Quarters
Fiscal Year 2021
(January 1 - September 30, 2021)
and Summary Report for
Fiscal Year 2021

Issued January 21, 2022



Farm Credit Administration
Office of Inspector General

Executive Summary

Survey of Farm Credit System Institutions Regarding the Agency’s Examination Function Fiscal Year 2021 Second-Fourth Quarters Report (January 1, 2021 – September 30, 2021)

The FCS institutions asked to respond to the survey are those institutions that:

1. Received a Report of Examination during the FY quarters; or
2. Had significant examination activity and interface with OE during the same period.

The survey asks respondents to rate ten survey statements as:

- | | |
|----------------------------|---|
| Completely Agree | 1 |
| Agree | 2 |
| Neither Agree nor Disagree | 3 |
| Disagree | 4 |
| Completely Disagree | 5 |
| Does Not Apply | 6 |

The survey contains 13 statements, two of which are newly added to address the effectiveness and efficiency of communications for examinations conducted remotely due to the pandemic.

Each fiscal year (FY) quarter, the Farm Credit Administration (FCA) Office of Examination (OE) identifies several Farm Credit System (FCS) institutions that can provide meaningful survey responses for that period. The Office of Inspector General (OIG) provides a survey report semiannually with two quarters of survey responses. In April 2020, the Office of Inspector General (OIG) suspended the survey due to the onset of the COVID-19 pandemic in accordance with FCA’s more limited examination activity at that time. The OIG resumed the survey for the second quarter of FY 2021. This report includes the response data for the second through fourth quarters FY 2021.

The OE identified 39 FCS institutions to survey for the second through fourth quarters of FY 2021 (January 1 – September 30, 2021). The OIG sent surveys to those institutions and 29 institutions completed the survey (a 74% response rate).

Average numerical ratings and total average numerical ratings for survey statements 1-10 are shown in the table below. A “1” reflects a positive rating and a “5” reflects a negative rating.

Average Numerical Ratings

FY21 Quarter	Average Numerical Rating Range	Total Average Numerical Rating
4 th	1.4 – 1.9	1.6
3 rd	1.7 – 2.1	1.9
2 nd	1.2 – 2.0	1.6

Comments with any perceived negative feedback are listed separately for survey statements 1-10 and 13. We note that many of the negative comments appeared to be from smaller-sized institutions. Also, many negative comments concerned the impact of remote examinations on the efficiency of the process.

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ACRONYMS and ABBREVIATIONS

EIC	Examiner in Charge
FCA	Farm Credit Administration
FCS	Farm Credit System
FIRS	Financial Institution Rating System
FY	Fiscal Year
IIA	Institute of Internal Auditors
MRA	Matters Requiring Attention
OE	Office of Examination
OIG	Office of Inspector General
ROE	Report of Examination

BACKGROUND AND METHODOLOGY

Each fiscal year (FY) quarter, except as noted in the Executive Summary, the Office of Examination (OE) identifies several Farm Credit System (FCS) institutions that can provide meaningful survey responses for that period. The criteria for including an FCS institution in the survey are:

1. The institution received a Report of Examination during the FY quarter; or
2. There was significant examination activity and interface with an institution during the same period.

The Office of Inspector General (OIG) generally provides a survey report semiannually for two quarters of survey responses for the periods extending from October 1 through March 31 and April 1 through September 30. This report includes the response data for the second, third and fourth quarters of FY 2021.

The survey asks respondents to rate eight survey statements from "1" (Completely Agree) to "5" (Completely Disagree), or "6" if the statement does not apply. The rating choices are:

Completely Agree	1
Agree	2
Neither Agree nor Disagree	3
Disagree	4
Completely Disagree	5
Does Not Apply*	6

*We do not include ratings of "6" in rating averages because a "6" will skew the numerical average negatively even though the statement is not applicable to the institution.

We provide the current FY quarter's average numerical rating for survey statements 1-10 and, for comparison, the prior two FYs' data (FY 2018 and FY 2019 for this report).

Survey statements 1-4 pertain to the examination process generally and statements 5-10 pertain specifically to communications during the examination. Statements 11-13 solicit narrative feedback on the examination process. Respondents may submit comments for each of the 13 survey statements.

The report includes narrative responses verbatim, except any information identifying the institution or examiners has been removed. Additionally, spelling and punctuation errors have been corrected and some acronyms or abbreviations have been spelled out. Any bracketed text is for the purpose of removing information that identifies an institution or an examiner or providing clarification to a response. Comments with perceived negative feedback are listed separately for survey statements 1-10 and 13.

At the end of the survey we ask whether the respondent would like the OIG to contact the institution confidentially to discuss the submitted responses.

SURVEY RESULTS

EXAMINATION PROCESS

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 Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2021	N/A	1.9	1.8	1.7	1.8
2019	1.7	2.3	2.0	1.8	2.0
2018	1.8	1.9	1.7	1.7	1.8

Comments:

- The scope and depth were appropriate for the size, complexity, and risk profile of our company. The examiners showed thoughtful awareness of the scope and complexity of our organization.
- Scope of examination activities were appropriate for the institution's size, complexity, and risk profile.
- The exam team was focused on current risks.

- Overall, the areas reviewed by the examiners were appropriate and relevant to management.
- Audit areas were consistent with the Examination Focus Areas provided by FCA.
- Scope was appropriate and relevant.
- The scope of examination activities appeared to be comprehensive and appropriately considered the risks within and facing the organization. Our institution has made a considerable investment to develop and maintain a strong control environment which was appropriately considered by the FCA as part of their examination activities. Additionally, the examiners continue to increase their leverage of the work performed by our institution's 2nd and 3rd lines of defense to better understand risks within the organization and the underlying control environments prior to developing their review plans and during their onsite review activities resulting in effective and efficient examination activities.
- Based on discussions, the key risk areas were addressed.

Comments perceived with negative feedback:

- While the areas covered were appropriate, some of the examination activities were not tailored to the risk profile of the institution. At times, it seemed that the risk profile for all institutions was determined to be the same, not allowing for variability among the institutions. We have also heard feedback from our district institutions that this is an area of concern and that the size, complexity, and risk profile of the institution is not always taken into account when determining the scope of the examination areas for institutions.
- It is noted that there has been an evolved regulatory expectation in a number of areas - as a result, what constitutes "risk to the institution appropriate for the size" has changed significantly over the past few exam cycles. It can be difficult now to have an intuition regarding what constitutes "appropriate for the size and complexity of the institution."
- Ours is a very small institution and sometimes the examination does not reflect that fact.
- The examination focused on the risk of independence in an audit coordinator and given the fact we are hiring independent qualified outside auditors for the [Internal Operations Review] IOR, [Internal Control over Financial Reporting] ICFR, and [Internal Credit Review] ICR, along with the oversight from our Discount Bank, and [PricewaterhouseCoopers] we do not feel the identified risk to the institution is appropriate given the size and complexity of our institution.
- The scope appeared to be the same as for larger institutions. We are not aware of any variations due to size or complexity. We do feel this would be a good practice.
- It's difficult at times and costly to staff to the degree to cover emerging regulatory needs.
- The most recent examination generally focused on material safety and soundness issues and other areas appropriate for the size and complexity of our institution. As in past responses, we continue to be concerned about the breadth of resources outside of regulations and regulatory guidance used in the examination. In addition, being evaluated on guidance prior to publishing or making available to institutions does not seem appropriate.
- Strongly disagree that examination activities were appropriate for the size of our institution. While we do not disagree that there was room for improvement, expectations

around the institutions Model Risk Management and audit coverage were on par with regional commercial banks that are 5-10 times the size of our institution. We feel the expectation for an institution our size is held to by FCA makes for a competitive disadvantage in comparison to local banks of the same size.

Statement #2

Examiners appropriately applied laws, regulations, and other regulatory criteria to examination findings and conclusions.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2021	N/A	1.7	1.9	1.5	1.7
2019	1.8	2.1	2.1	1.6	1.9
2018	1.8	2.0	1.9	1.5	1.8

Comments:

- The examiners clearly communicated the applicability and context of laws, regulations, and other regulatory criteria with regards to findings and conclusions.
- Examiners appropriately applied laws, regulations, and other criteria to noted findings and documented conclusions.
- The exam team was very knowledgeable of current laws, regulations and other regulatory criteria and applied them as appropriate. The team was also committed to working with us to determine a solution for findings that was appropriate for our size institution. This sometimes included an action plan that would allow for implementation of a period of time.
- Agree. At times we have historically experienced some examiners jumping to conclusions and not taking enough time to listen and understand. This does not include our current EIC. Honestly, we have a much better relationship and communication effectiveness with our existing EIC.
- We appreciate that the examination team asks thoughtful questions and encourages discussion especially in the area of allowance, liquidity and capital to confirm alignment of understanding.
- Our regulators are well versed in regulations and are good to share their regulatory guidance.

Comments perceived with negative feedback:

- While examiners appropriately applied laws and regulations, the reference to "other regulatory criteria" was applied very broadly. Examination guidance includes prescriptive practices, which outside parties would characterize as industry best practices, but are applied by examiners as expected business practices. This practice can result in expectations that create operational burdens without providing commensurate risk mitigation. This is of particular concern because guidance that is included in examination

manuals is not subject to the same input and comment period as other regulatory guidance. In addition, our institutions have had similar experiences with their examinations.

- Agree. However, management believes there is an opportunity for the FCA to reassess their application of regulatory criteria regarding the assignment of the [Financial Institution Rating System] (FIRS) management ratings. Also, examiners did not consistently understand or communicate the underlying purpose and objectives for regulations being examined against. Examining against the plain language of regulatory text without full understanding of the desired outcome can result in citation of regulatory violations that are detrimental to a System institution meeting its mission in a safe and sound manner. While regulations are written with good intentions, reasonable interpretations of regulations must be allowed for the System to continue to meet its mission in a constantly evolving marketplace.
- The examiners applied examination manual guidance that was issued during the course of our examination to their findings.
- Although FCA examiners generally applied laws and regulations appropriately, we had one circumstance where the mention of audit standards [Institute of Internal Auditors] (IIA) in an internal document was broadly applied across the functional area. This blanket approach was a concerning application of the standard (i.e., all facets of IIA guidance were deemed acknowledged and applied to the audit function by mention of the IIA standard). However, we do not disagree with the general application of the IIA standard or recent FCA examination guidance that references specific IIA standards.
- The examiners stepped outside of regulatory guidance in various areas. First and foremost, it was inappropriate to suggest to board members who they should vote for as chairman of the board. Further, we feel it is a stretch to dictate changes through MRAs when those items are not regulatory requirements – such as how to document minutes, institution risk tolerance, etc.

Statement #3

The matters requiring attention and any supervisory agreement with FCA assisted the board and management in addressing the risks of the institution.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2021	N/A	2.0	1.7	1.7	1.8
2019	2.0	2.4	2.4	1.9	2.2
2018	2.6	2.1	1.9	1.6	2.1

Comments:

- The examiners engaged appropriately with management during the examination to understand the organization and gain an understanding of risk from that perspective. The

examiners also provided the Board with a review of all matters requiring attention and an opinion on management's plan to address the issues.

- The MRAs from the previous examination were beneficial for the board and management is responding to these items addressed risks for our institution and drove improvements to be made timely. The MRA issued for this examination period will address an open risk area.
- FCA facilitated considerable dialog around matters requiring action and worked to assure agreement on the issues identified.
- The FCA appropriately interacted with various board members throughout the course of the examination cycle as they deemed necessary to support the individual reviews and when they presented their results to the Board. We viewed the current year examination results as very favorable and felt that the related discussions were valuable in the development of our understanding of the related risks. Examination results confirmed closure of prior year MRAs. Additionally, FCA acknowledged that management has appropriately responded to two MRAs identified outside of the normal statutory examination process of which management has taken appropriate and timely actions to address.
- The FCA did not identify any matters requiring attention in their last final report. The institution is not operating under a supervisory agreement.
- Informative discussion that assists in board oversight.

Comments perceived with negative feedback:

- MRAs that were shared in the most recent examination were process improvement opportunities and did not address risks at the institution. The examination, and corresponding MRAs focused on the expectation of a specific form of a process, rather than focusing on whether or not the institution had adequately addressed the related risks. This response is aligned to the comment in question 2, noting that sometimes examiners did not appear to accept deviation from practices outlined in the examination manual, even when risk exposure was very limited.
- We agree with this statement overall, however the urgency sometimes attached to MRAs require the institution at times to assign limited resources to items with a priority that is not aligned to how much risk that matter may be contributing to the current risk environment.
- Since FCA does not distinguish between low, moderate, or high risk, some MRAs that did not address a risk to the institution were still issued as an MRA instead of a "recommendation" for improvement. Overall, MRAs provide insight to management and the board in risk areas of the institution.
- The matters requiring attention were properly identified but we do not feel posed a risk to the institution.
- Most MRAs are helpful to draw attention where needed and improve upon. At times minor MRAs garner the same attention and resources at levels that involve a more serious infraction. This can be confusing for directors.

- Most of the MRAs were technical in nature that were not material to risk. FCA's approach to listing all findings as MRAs overstates risk.
- In general, the matters requiring attention were appropriate and beneficial, however, we experienced matters requiring attention based on typographical errors, which was not helpful in addressing risks to the institution.
- I disagree with this statement. Discussion addressing the risk associated with matters requiring attention happened with management for most (not all) of the findings; however, that opportunity was not given to the board.

Statement #4

The examiners were professional and efficiently conducted examination activities.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2021	N/A	1.2	2.0	1.4	1.5
2019	1.6	1.5	1.8	1.3	1.6
2018	1.5	2.1	1.3	1.4	1.6

Comments:

- [Name removed] and the examination staff were always very accommodating when scheduling meetings with our staff. They also demonstrated professionalism with meeting preparation to ensure specific content was covered and the length of meetings remained within the allotted timelines.
- The examiners were professional, stayed on task, and provided meaningful feedback.
- The examination team was professional in their communications with our institution personnel. Though there was a change in our EIC shortly prior to the start of the examination they were able to get up to speed relatively quickly and not reduce efficiencies too significantly.
- Examiners were professional and open to dialog. Remote meetings using WebEx were effective.
- EIC and the entire FCA team were professional at all times during the examination. They were very responsive to management questions and concerns. A pleasure to work with the FCA examiners.
- The examination team acted in a very professional manner.
- An excellent, professional and collegial approach by the team in the unusual environment of Covid. [Name removed]'s leadership was helpful and well-focused. Good job by all.
- The regulators we deal with are a professional and helpful group.
- FCA staff were very professional and productive. Additionally, the FCA deployed skilled resources with a breadth of backgrounds (credit, technology, operations risk, assurance, management, etc.) that were able to effectively and efficiently evaluate the risks within the organization.

- Examination staff provided questions and agendas ahead of scheduled meetings which helped facilitate productive discussion. Examiners were professional and courteous.

Comments perceived with negative feedback:

- All staff were very professional; however, the audit did not feel efficient due to the overall length of the exam.
- In general, the examination team was organized and efficient in making its document requests of the institution’s management. We observed that although the institution provided documents to the FCA through the portal, many times duplicate requests were made by the FCA staff.
- Our most recent examination began [date removed] 2021, with the loan review, and concluded [date removed] 2021, when the final report was issued. During these four months, there was an excessive amount of back and forth written and oral questions that we felt were unnecessary. We think both our written and verbal communications were clear, concise, and adequately addressed the questions. This was especially troublesome to the staff since we have had the same EIC for the past couple of years. We have experienced the same issue in previous reviews and quarterly updates since being assigned this EIC.
- Examiners were very professional. The review time frame was [three months] [dates removed]. There were numerous spontaneous calls and video conferences during the time frame. Ongoing previously supplied documents to the FCA portal many times must be submitted again during the examination. It would appear that this process could be refined.
- Examination activities took too long, part of the issue was the exam was completed remote due to Covid, which extended the timeline for the exam activities.
- Examiners were mostly professional until final exit conference with the board, where the EIC’s overall tone was demeaning to a board of successful businessmen. Efficiency could use improvement. It is noted the review was completely remote, and likely the examiners’ first time to do a review remotely. That said, in comparison to all internal reviews, and even FCA Horizontal Examination, which were also done remotely, the examination was overall less efficient.

COMMUNICATIONS

Statement #5

Communications between the Office of Examination staff and the institution were clear, accurate, and timely.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2021	N/A	1.7	2.0	1.7	1.8
2019	1.6	2.3	1.9	2.0	2.0
2018	1.8	2.1	1.5	1.6	1.8

Comments:

- [Name removed] and the examination staff were very effective communicators. They also welcomed our questions during the review, and promptly responded to any of our questions that required follow-up.
- The Office of Examination was clear, accurate, and timely in all its efforts, and highly professional.
- The examination team provided clear communications to our institution via emails and follow-up calls.
- The exam team allowed ample opportunity for the institution staff to ask clarifying questions and provided answers that allowed the institution to clearly understand all communications.
- Overall, communication with the EIC and the examiners was good. A suggestion would be to set up brief "touchpoint" calls during the examination to keep the communication flowing and to allow for the examiners to provide a status update and give management the opportunity to ask questions that sometimes are difficult to convey in an email.
- Generally, yes.
- The exam staff were excellent to communicate at every level and event.
- Management felt process went well.
- We appreciate the open discussion and engagement between FCA examination staff and institution staff on questions and issues that arose during the course of the examination process. EIC [name removed] and supervisory examiner [name removed] managed the examination professionally and ensured clarity of understanding.

Comments perceived with negative feedback:

- See 4a above: Our most recent examination began [date removed] 2021, with the loan review, and concluded [date removed] 2021, when the final report was issued. During these four months, there was an excessive amount of back and forth written and oral questions that we felt were unnecessary. We think both our written and verbal communications were clear, concise, and adequately addressed the questions. This was especially troublesome to the staff since we have had the same EIC for the past couple of years. We have experienced the same issue in previous reviews and quarterly updates since being assigned this EIC.
- On occasions, some communications were not entirely timely.
- All the staff were great to communicate with. Would not consider the 3 month time frame to be timely.
- I agree with this statement, with one exception. (One item made it onto the matters requiring attention that had no discussion during the examination and was only briefly mentioned in one of the final calls. During that call it was addressed that the comment would just be a recommendation, not a matter requiring attention). I would like to note that overall, [name removed] did a commendable job in ensuring communication was clear. [They] made it regular practice to repeat back a summarized version of management's responses, allowed management to respond to the summaries, and would ask additional questions to clarify, if needed.

- Multiple members of our leadership team have scheduled recurring monthly update calls with the FCA examiners to ensure the flow of information is clear, accurate and timely. These timely communications have proved to be very effective. The quarterly meetings with executive management allow for timely updates to the FCA regarding organization matters and for the FCA to provide the leadership updates on ongoing examination activities and other agency topics noteworthy of discussion.

However, there was an opportunity for enhanced communications regarding potential concerns with two accounts reviewed and criticized during the asset examination. This did not allow us to fully support our position through discussion and resulted in some incorrect citations of the regulations and Act regarding authorities in their communication of examination conclusions. We have not observed this behavior in the past.

Statement #6

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

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2021	N/A	1.4	1.8	1.4	1.5
2019	1.8	2.0	1.9	2.0	1.9
2018	1.8	1.9	1.7	1.9	1.8

Comments:

- Examination communications were appropriate in both the amount and type of information provided. These communications helped the board and audit committee fulfill their oversight responsibilities.
- Communications via close-out call conversations, the examination report (which contained recommendations and an MRA), and virtual discussions with the Audit Committee and Board were clear and contained information that will help the Board and Audit Committee fulfill their responsibilities as risk areas were identified as needing improvements.
- The board and audit committee were also given the opportunity to participate at the start of, during, and the conclusion of the examination. The presentation of the exam report to the board was in a manner that was appropriate and informative.
- Yes, we believe FCA is genuinely interested in the Audit Committee's growth, understanding, expertise and maturity. We appreciate the suggestions and counsel in this area.
- Generally, yes.
- The majority of the communication occurred between FCA staff and management. The exam team delivered the final exam report to the Board and fielded questions from the directors which was appreciated.
- The EIC and Senior [examiner] were excellent and provided tools necessary to help us grow and improve.

- The FCA provided complete and detailed communications in the form of ongoing verbal updates, close-out meetings with the various management teams, a formal readout of results with executive management, presentation of examination results to the Board, and through the written final Report of Examination.
- Very helpful and productive, entrance and exit meetings.
- Tied in well.

Comments perceived with negative feedback:

- Communications during the exam are generally considered adequate and appropriate. Beginning with the last exam cycle, FCA no longer provides an opportunity for management to review the report before it is published. We believe this review should be reinstated to avoid errors and misinterpretation.
- I mostly agree with this statement; however, additional clarity could have been provided in some instances.

Statement #7

Examiners fairly considered the views and responses of the board and management in formulating conclusions and matters requiring attention.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2021	N/A	1.7	1.8	1.5	1.7
2019	1.5	1.9	2.3	1.7	1.9
2018	1.9	2.2	1.7	1.6	1.9

Comments:

- The examiners were exceptionally professional. The examiners fairly considered the views and responses of the Board and management in formatting conclusions and matters requiring attention.
- The examination team communicated with institution staff via email and phone calls and took into consideration responses given to inquiries and considered any additional evidence submitted. They took time to listen to our team and to understand our processes to determine if a recommendation or MRA would be needed for an area.
- The examination team and leadership were open to dialogue on all matters including MRAs.
- Examiners took into consideration clarifications and circumstances explained by management during the examination. When conversations took place, examiners were open to management views, especially as conclusions were being formulated. FCA was open to clarifying information which resulted in several MRAs being dropped and modified to reflect accurate operational risk.
- The FCA examination team was good at encouraging discussion and listening to detail and explanation.

- Management was provided the opportunity to review and comment on the draft exam report.
- The exam team were good to listen and provide timely responses.
- Good discussion.

Comments perceived with negative feedback:

- As noted in questions 2 and 3, sometimes examiners appeared to be requiring a specific way that the institution would address a risk area, without consideration for the specific risk factors, organizational structure, or overall approach to risk mitigation. The examiners would not always acknowledge that a different approach could adequately address the risks identified. Related MRAs reflected prescriptive guidance as outlined in the examination manual. In most instances, we were able to accommodate the change and recommendation, but this could change in future cases.
- Maybe from a purely perception point of view, the findings or matters requiring attention were communicated in a somewhat harsh or devoid of context.
- There did not seem to be any consideration given to the size of our institution in the items we responded to. It seemed these items were non-negotiable.
- The Board of Directors had minimal views or responses for the examiners to consider in formulating their conclusions and recommendations. However, conversations held between examiners and certain board members throughout the examination were effective. The exam team and Examiner in Charge had significant discussions with management and appropriately considered their views before finalizing recommendations during the statutory examination. However, as addressed under question #5 above, communication regarding conclusions on two accounts during the asset examination were not consistent with our past experience.
- Agree, except for issues noted around application of the IIA standard in question 2 and typographical errors noted in question 3.
- Neither agree nor disagree for the review overall. It was examiner specific. Some were very fair, had great discussion with us around the topic at hand, would do additional research and revisit the discussion. Others appeared to have no interest in management’s responses.

Statement #8

FCS-wide guidance from the Office of Examination was proactive and helpful.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2021	N/A	1.8	2.0	1.9	1.9
2019	1.9	2.4	2.1	2.0	2.1
2018	1.9	2.0	2.0	1.7	1.9

Comments:

- The company appreciates all guidance from the Office of Examination. FCS-wide guidance has helped ensure that we continue the appropriate path in accordance with FCA concerns, intent and perspectives.
- FCA guidance from the Office of Examination was proactive and helpful. In general, other FCA guidance also is helpful in identifying recommended best practices. While it was not an issue in the most recent examination, in the past some examiners have at times treated guidance as mandatory, which should be avoided.
- I agree and appreciate the disclosure of focus areas for the coming year. The timing of the announcement can be burdensome if the institution is in the middle of the review when the new focus areas are released, especially when the new focus areas are a result of some issue or situation that has arisen somewhere else in the system. However, the examination team has made efforts to recognize timing challenges.
- FCS-wide guidance from the Office of Examination in the form of the annual National Oversight Plan, various information memorandums, and other non-formal communication are all very helpful in the understanding of direction and requirements.
- Agree.

Comments perceived with negative feedback:

- We observe some changes to messages and areas of emphasis based on the FCA board disposition and experiences. Not saying this is unwarranted. However, long-term implications and sustainability should be considered.
- Prior to the examination there was no communication with OE, however the FCA Exam Manual is thorough and provides appropriate guidance. One finding was based on an Informational Memorandum (December 13, 2018), which was not available on the FCA's website.
- Can be a bit overwhelming with the volume.
- Most of the MRAs resulted from guidance issued after the examination started. As a result, the institution did not have the opportunity to be proactive.
- In general, we would agree that guidance from the Office of Examination is helpful, however, recently the guidance on model risk management seems to be an overreach and requires smaller institutions to meet expectations that are not required by other regulators of similar sized organizations ([Federal Deposit Insurance Corporation] FDIC, as an example).
- Generally the guidance was helpful; however, as noted above we do not believe the examination should be based on guidance that has not been previously provided.

Statement #9

Communications with FCA examination staff were effective for those examinations that were conducted entirely remotely.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2021	N/A	1.3	2.0	1.6	1.6
2019	Not applicable – new question				
2018	Not applicable – new question				

Comments:

- FCA examination staff were clear, effective, and timely in their communications. Remote communications were handled exceptionally well.
- Communications remained effective for our examination even though the examination was conducted fully remotely. Conversations were able to take place either through email or phone calls to complete the exam.
- Examination staff were well prepared and shared information in advance as warranted. This made the remote discussions more effective.
- Yes, the remote aspect of the review went well. Onsite may provide some additional opportunities for impromptu dialog. However, overall the remote examination activities are very successful. We would recommend a combination of onsite and remote examination activities going forward post pandemic.
- Remote work has helped our staff better manage the time we spend with examination team members.
- The exam team was very effective in utilizing technology to conduct meetings with management.
- No issues.
- Management did not note any issues regarding the completion of the exam via fully remote FCA procedures. The use of technology (WebEx, etc.) supported an effective examination and should be considered for future reviews.
- We appreciate the effective communication between FCA examination staff and institution staff during the remote examination process. FCA examination staff held mini-close out sessions for each section of the examination which facilitated good discussion and engagement on issues surrounding the various examination areas.

Comments perceived with negative feedback:

- The communication issues discussed in number 4a above were also experienced before the pandemic: Our most recent examination began [date removed] 2021, with the loan review, and concluded [date removed] 2021, when the final report was issued. During these four months, there was an excessive amount of back and forth written and oral questions that we felt were unnecessary. We think both our written and verbal communications were clear, concise, and adequately addressed the questions. This was especially troublesome

to the staff since we have had the same EIC for the past couple of years. We have experienced the same issue in previous reviews and quarterly updates since being assigned this EIC.

- Worked well. FCA's video conferencing platforms need to be modernized.
- Overall disagree; however, just as in question 7, this is examiner specific.

Statement #10

Communications with FCA examination staff were efficient for those examinations that were conducted entirely remotely.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2021	N/A	1.3	2.1	1.8	1.7
2019	Not applicable – new question				
2018	Not applicable – new question				

Comments:

- The examination staff completed most of their work remotely due to the pandemic and did an exceptional job using web based technology to conduct productive meetings.
- FCA examination staff were timely and efficient with the remote examinations.
- In many ways the process was more effective because scheduling meetings with the appropriate people was easier to do and more flexible to differing schedules and time zones. This was easier than trying to get all meetings scheduled in a short time frame while examiners were on-site.
- Staff dedicated to the credit administration and other areas were available for management and were very proactive in meeting with the institution to resolve/address examination questions.
- We agree that remote work can be completed in an efficient manner.
- Exam went smoothly and comments from institution staff were very positive.
- Please see above response to #9: The exam team was very effective in utilizing technology to conduct meetings with management.
- No issues; perhaps at times more efficient by allowing everyone to gather at one time to discuss matters via zoom versus one/off conversations that typically arise with in-person meetings.
- Management did not note any issues regarding the completion of the exam via fully remote FCA procedures. The use of technology (WebEx, etc.) supported an effective examination and should be considered for future reviews.
- See response to question 9: We appreciate the effective communication between FCA examination staff and institution staff during the remote examination process. FCA examination staff held mini-close out sessions for each section of the examination which facilitated good discussion and engagement on issues surrounding the various examination areas.

Comments perceived with negative feedback:

- Communications were not as efficient for the fully remote examination versus an in-person examination. Due to the nature of a remote examination the timeline for the examination activities was not as straightforward as they have been in the past. An assigned examiner would start an area and reach out with questions. However, it was not known to our team when these individual areas would be reviewed. It created a time crunch on our end as we would need to quickly respond amid working through other responsibilities. When the examination was onsite the work was more contained to the assigned examination work weeks and would not start and stop as inconsistently as this examination. Overall, things ran smoothly but there were inefficiencies that occurred with the spread-out work period.
- Overall, the communication was effective with the FCA examination staff. A suggestion would be to allocate more time for examiners in the areas of IT and Audit. During the examination, due to FCA examiners' time constraints, it was difficult at times to have meetings between FCA staff and management to address examiners' questions in a more efficient manner.
- The phone interview with the audit committee chair was a challenging process for the chairman.
- Remote communication took more time than an in-person examination, we don't feel it was poorly done, it just takes more staff time.
- Overall disagree; see responses to questions 4 and 5:
 - Examiners were mostly professional until final exit conference with the board, where the EIC's overall tone was demeaning to a board of successful businessmen. Efficiency could use improvement. It is noted the review was completely remote, and likely the examiners' first time to do a review remotely. That said, in comparison to all internal reviews, and even FCA Horizontal Examination, which were also done remotely, the examination was overall less efficient.
 - I agree with this statement, with one exception. (One item made it onto the matters requiring attention that had no discussion during the examination and was only briefly mentioned in one of the final calls. During that call it was addressed that the comment would just be a recommendation, not a matter requiring attention). I would like to note that overall, [name removed] did a commendable job in ensuring communication was clear. [They] made it regular practice to repeat back a summarized version of management's responses, allowed management to respond to the summaries, and would ask additional questions to clarify, if needed.

GENERAL QUESTIONS

Statement #11

What aspect of the examination process did you find most beneficial?

- Professional communication, timely responses to questions, and offsite review was favorable.

- The board and staff found the exit conference to be very informative, especially when discussing the matters requiring attention. The material was presented and discussed in a manner that was very professional and easy to understand.
- The entirety of the examination was beneficial; the depth of knowledge and the insight provided with regards to information security was excellent. Because the examiner was very knowledgeable, it made it very easy to have in-depth conversations about detailed and nuanced challenges in the information security space.
- The most beneficial part of the exam process were the conversations that occurred during the exam with the exam team as questions would come up during their review of an area. A different view of an area may be seen from an examiner's perspective than from an internal perspective. Talking and working through questions together allowed for the creation of more tailored recommendations that can be implemented to more appropriately address a risk area of the institution.
- The EIC and entire exam team were helpful throughout the exam process. They listened to institution concerns and worked with board and management to give enough information and direction to allow for action plans to be developed to address findings.
- It is evident at times that the FCA desires to share common practices and be somewhat open in their dialogue and approach to the examination process. The exam teams appear to have reasonable balance between less experienced and experienced staff—and this balance is necessary for the exam process to be productive and for observations to be risk-appropriate.
- Having video calls with different members of management during the review to address questions was very beneficial and effective.
- The EIC was always very attentive and receptive to management questions. EIC was very organized and made themselves available during the examination when management needed to talk to the EIC. This made a positive impact in the examination process.
- Aspects of the exam relating to credit underwriting.
- The open dialogue on important issues related to organizational operations.
- Professional, communicative approach by the team.
- The fair and cooperative nature of the exam team.
- Post-exam follow-up and findings.
- The face to face discussions.
- The recommendations made in the area of cybersecurity and IT were particularly helpful to management.
- The remote nature of the examination work was the most beneficial aspect. Allowed for more effective process and less interruption of staff's normal duties.
- The verbal interactions with FCA staff.
- The experiences and explanations provided by FCA staff shared with the board and staff.
- We appreciate our examination team's thoughtful feedback during the examination as well as in the interim between exams. We have implemented not only our exam team's MRAs but verbal recommendations and process enhancements/suggested best practices provided in an effort to get out in front of emerging issues. Over the years, our examination team has been a valuable resource to us in terms of proactive management of the

institution and specifically on compliance matters, leading to the overall success and strength of the institution.

- The staff.
- The individual report-outs by each examiner after each major area was completed.
- Opportunities to collaborate on the various risks facing the organization and the Farm Credit System as a whole.
- We appreciated having the examination completed remotely. The remote process is less disruptive to our staff than onsite examinations.
- Sharing of "best practices" from across the System.
- Wrap up/findings and general discussion.
- The examination staff did a good job of pointing out areas of enhancement, even if they did not rise to the level of a matter requiring attention.
- We appreciate the opportunity for discussion and learning of best practices across the Farm Credit System from the lens of the examination function.
- Discussion around model risk management and the annual meeting information statement. Both areas had new guidance since the last examination. Examiners were very helpful in adding clarity to the new guidance and took a team approach in helping the institution ensure practice was in-line with updated guidance.

Statement #12

What aspect of the examination process did you find least beneficial?

- In-person briefing on the Report of Examination to the Board of Directors is preferred when it is safe to travel.
- Though it is known to both be outdated and is currently under revision, it is still worth reiterating that the e-commerce policy is sorely out of step with contemporary views on e-commerce and how it applies to a service organization.
- The least beneficial part of our examination was the switch in our EIC shortly prior to the start of our examination. This required additional conversations that would not have been necessary if the switch had not occurred.
- The exam for this period was entirely remote. The exam team was very efficient and effective given the challenge of performing a remote exam, but it is always better to have an onsite exam.
- The FCA has moved away from making recommendations in favor of containing all regulatory advisement in the examination outcome as an MRA. While we understand this move, it has created a setting in which all matters - without regard to materiality - are represented as MRAs. This approach tends to elevate the sense of urgency on certain matters that may not justify that level of urgent attention - including the need to assign resources that have been limited by the pandemic operating environment and the general expansion of regulatory expectations.
- There is a perceived issue regarding responsiveness in the Agency. We have experienced substantial delays in getting required actions and official communications delivered to us. We perceive there are higher levels and processes that result in the lack of timeliness. Although not communicated directly, we perceive a level of frustration from our frontline

FCA staff including our EIC as well. Truthfully there are subjects that shouldn't take as long as it does.

- The need to react to questions that are promulgated by emerging issues in the system.
- I have no meaningful negatives.
- Not applicable.
- Not applicable. All was beneficial.
- Not applicable.
- We found the examination to be helpful.
- None.
- The Audit Committee Chair felt the phone interview was a difficult process and would have worked much better with an in-person interview. It would have been beneficial if the chairman would have had some knowledge of what to expect in the interview.
- No comments or criticisms here.
- 3 month time frame.
- None to speak of.
- Total length of the examination time frame. . . several months.
- Some compliance discussions with certain regs.
- Although FCA examination staff communicated well throughout the process, the remote examination required more institution staff resources and time than an onsite examination due to the length of the examination activities (nearly 3 months) and need to provide all materials through the FCA portal or institution secure access.
- Attitude and tone set during delivery of findings. While the fully remote examination created a heavy burden on the institution, it was understandable. The attitude, tone set and delivery of findings at the exit conference was adversarial and ruined the opportunity for positive collaboration between the institution and our regulator.

Statement #13

Please provide any comments from the Board as a whole regarding the examination process not provided in the preceding responses.

Comments:

- Overall, the examination process was smooth and appropriate conversations occurred between the exam team, staff, and the board so that there were no surprises when the draft and final reports were issued. Having open, transparent conversations is important to our institution and allows for the best possible response to any issues that may occur during an examination process.
- The Board recognizes the importance that the examination process brings to the organization as a whole. The examination process and results provide critical feedback to the Board as it relates to governance and allows us to focus on areas where risks and improvements are required. The Board very much values the discussion between FCA and directors.
- This survey was discussed with the board at our December board meeting. No comments provided.

- Board members had communication with the Examiner in Charge during the examination process and felt the interaction was helpful for both parties to understand the significant issues and initiatives being addressed by the board.
- Overall the Board viewed this as a quite positive and constructive exam.
- Appreciate the professionalism and feedback. Thank you.
- From the Board's perspective the exam process and resulting report were thorough.
- Our last examination was [date removed], 2020. We also did not have significant interface with the FCA during the quarter. So we did not have anything to report for the second quarter 2021. Not sure why we received this survey but replied with "Does not apply" responses.
- The Board agrees with management's comments and appreciates the openness of our examination team in listening to the concerns of the Board. FCA has been very transparent and has provided constructive feedback and answered any questions the Board has had.
- We appreciate the recognition of our staff's hard work and quick responses.
- The Chairman of the institution's Board of Directors agreed to allow the Audit Committee Chairman to review and discuss this survey with management prior to its submission. Based on the timing of the survey release and the requested due date, a discussion on the responses amongst the full Board was not possible. However, the survey will be appropriately discussed as part of the August 2021 board meetings, specifically with the Audit Committee and a report to the Board as a whole. The Audit Committee Chairman concurs with management's comments.
- Always like and appreciate the "no surprises" and teaching approach used by our examination team. General reminder that it would be good to "cc" the CEO and institution's internal review lead when any contact is made with the Board Chair and Audit Committee Chair. [Names removed] and the entire crew did a great job and are always very professional, responsive and thoughtful.
- Overall good coverage, with a collaborative discussion of the findings.

Comments perceived with negative feedback:

- While this isn't specific to the examination process, we would like proposed rules and guidance that is provided to be relevant and accretive to the mission of the Farm Credit System. Two recent examples of proposed rules that cause some concern in this area relate to the outside director rule that could potentially limit the pool of qualified directors and the proposed rule relating to High Value Commercial Real Estate which could adversely impact the System's ability to meet the capital needs of borrowers.
- The Audit Committee felt there was miscommunication about the frequency and timing of the agency's consideration of management's FIRS ratings.
- The Board feels FCA should take into consideration institution size when evaluating and applying guidance. As a smaller institution we pose less risk to the System than larger institutions do.
- More time should be given (at least a month) to complete the survey, so we can discuss the survey during a regular board meeting. Our due date is September 22nd, and I received the request on August 31st.

- The Board appreciates the relationship and communications with FCA and FCA's willingness to enter into dialogue and debate on key issues. In general, we find the improvements identified to be helpful to the institution. However, the focus of examinations continues to move away from safety and soundness issues and more towards operational issues and compliance with relatively minor regulatory items.
- A more comprehensive view from the board may be found in the letter addressed to [name removed] from [name removed], on behalf of the board. This letter was uploaded to the FCA Portal on [date remove] 2021. The main points the board would like to make is that we want the institution and the entire System to thrive. It would only benefit all parties if FCA and the institution could work together as a team. When an examiner's attitude is condescending, particularly about matters that are outside FCA regulation and guidance, it does not garner the opportunity for positively working together toward a common goal.

Request for OIG Contact

Would you like the Office of Inspector General to contact you confidentially to discuss your survey responses and/or the examination?

One institution surveyed for this report indicated that they would like a call from the OIG.

FISCAL YEAR 2021 SUMMARY REPORT

The table below provides cumulative data for the FY 2021 ratings for survey statements 1-10. During FY 2021, the OIG sent surveys to 39 FCS institutions and received 29 responses. This is a 74% response rate, down 8 percentage points from FY 2019's response rate of 82%. The overall average rating for survey statements 1-10 was 1.7 for FY 2021. For FY 2021, 88.2% of the ratings were either "completely agree" (1), or "agree" (2).

Number and Percentage per Rating Category

Statement	Completely Agree (1)		Agree (2)		Neither Agree nor Disagree (3)		Disagree (4)		Completely Disagree (5)		Does Not Apply* (6)		Average Numerical Rating
	Count	Percentage	Count	Percentage	Count	Percentage	Count	Percentage	Count	Percentage	Count	Percentage	
1	8	29%	17	61%	2	7%	0	0%	0	0%	1	4%	1.8
2	11	39%	14	50%	2	7%	0	0%	0	0%	1	4%	1.7
3	8	29%	15	54%	3	11%	0	0%	0	0%	2	7%	1.8
4	18	64%	6	21%	2	7%	0	0%	1	4%	1	4%	1.5
5	10	36%	15	54%	1	4%	0	0%	1	4%	1	4%	1.8
6	13	46%	14	50%	0	0%	0	0%	0	0%	1	4%	1.5
7	11	39%	15	54%	1	4%	0	0%	0	0%	1	4%	1.7
8	7	25%	15	54%	4	14%	0	0%	0	0%	2	7%	1.9
9	13	46%	13	46%	0	0%	0	0%	1	4%	1	4%	1.6
10	12	43%	12	43%	2	7%	0	0%	1	4%	1	4%	1.7
Total Responses	111	39.6%	136	48.6%	17	6.1%	0	0%	4	1.4%	12	4.3%	1.7

*Ratings of "6" (Does Not Apply) are not included in average numerical ratings.



Farm Credit Administration
Office of Inspector General

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