

FARM CREDIT
ADMINISTRATION
OFFICE OF
INSPECTOR GENERAL

SURVEY REPORT

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

Third and Fourth Quarters
Fiscal Year 2022
(April 1 - September 30, 2022)
and Fiscal Year Summary

Issued February 2, 2023



Farm Credit Administration
Office of Inspector General

Executive Summary

Survey of Farm Credit System Institutions Regarding the Agency’s Examination Function Third and Fourth Quarters Fiscal Year 2022 (April 1 – September 30, 2022)

The System institutions we 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 were added in 2021 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 Office of Examination (OE) identifies Farm Credit System (System) 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. This report includes the response data for the third and fourth quarters of FY 2022, as well as some historical data for comparison. This report also includes a summary of FY 2022 numeric ratings.

OE identified a total of 25 System institutions to survey for the third and fourth quarters of FY 2022 (April 1 – September 30, 2022). OIG sent surveys to those institutions and 18* institutions completed the survey (72% response rate).

The table below shows quarterly average numerical rating ranges and total average numerical ratings for survey statements 1-10. A “1” reflects a positive rating and a “5” reflects a negative rating.

Average Numerical Ratings

FY22 Quarter	Average Numerical Rating Range	Total Average Numerical Rating
Fourth	1.5 – 2.3	1.8
Third	1.8 – 2.5	2.1
Second	1.5 – 2.3	1.9
First	1.6 – 2.2	1.9

OIG lists comments with any perceived negative feedback separately for survey statements 1-10 and 13 in this report. We include statistical information about the negative comments in a new report section.

*One institution stated its response represented two institutions surveyed. OIG did not count the numerical ratings from the institution twice.

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ACRONYMS and ABBREVIATIONS

EIC	Examiner-in-Charge
FCA	Farm Credit Administration
FCS	Farm Credit System
FY	Fiscal Year
MRA	Matter Requiring Attention
OE	Office of Examination
OIG	Office of Inspector General

BACKGROUND AND METHODOLOGY

Each fiscal year (FY) quarter the Farm Credit Administration (FCA) Office of Examination (OE) identifies Farm Credit System (FCS or System) institutions that can provide meaningful survey responses for that period. The criteria for including a System 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 third and fourth quarters of FY 2022.

The survey asks respondents to rate ten 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.

For survey statements 1-10, we provide the quarterly average numerical ratings. For comparison, we provide the two most recent FYs for which survey data was collected (FY 2019 and FY 2021 for this report). Statements 11-13 are not numerically rated.

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 that specific information identifying the institution or examiners has been removed (e.g., institution and examiner names). Additionally, we corrected spelling and punctuation errors and spelled out some acronyms or abbreviations. We include bracketed text to show where we removed identifying information or to provide clarification to a response. We list comments with any perceived negative feedback 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 institution’s 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
2022	1.9	2.2	2.3	2.2	2.1*
2021	N/A	1.9	1.8	1.7	1.8
2019	1.7	2.3	2.0	1.8	2.0

*FY 2022 average was calculated using aggregated response data. Prior FY averages were calculated using the average of the quarterly averages shown in the table.

Comments:

- The scope of the examination was comprehensive, targeting primary risk, operational and performance areas within the [institution]. In addition, the depth of scope provided a sound basis for determining organizational performance and regulatory compliance as well as Board oversight leadership and management execution.
- The scope of examination activities appeared to be comprehensive and appropriately considered the risks within and facing the organization. Our institution continues to make considerable investments to 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.

- As an aside, we appreciate FCA's recent work on regulatory burden for low risk [institutions]. We hope that we can benefit from that work in terms of the scope of examination activities.
- We are a small institution with low credit risk.
- Agree. As one of the smaller [institutions] in the System with ample capital and a straightforward business model, we very much appreciated the FCA listening to us and beginning to take a more differential approach to some issues (e.g., audit coordinators, etc.).

Comments perceived with negative feedback:

- Institution size (small) or complexity (low) did not seem to be a factor at all. Risk to the System is very low, however a complex review was completed over several months.
- Generally, the exam was risk-focused and appropriate for the size and complexity of [the institution]. However, some specific areas such as internal/operational audit seemed to focus more on "form over substance." The focus on those seemed less risk-focused.
- Some areas of focus seemed [a] little in-depth for our size, but overall appreciate the focus.
- It was not clear the size of our [institution] was considered in the exam.
- Some areas seemed overly burdensome for an [institution] of our size and complexity. Particularly in areas of audit.

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
2022	2.2	1.9	2.0	1.8	2.0*
2021	N/A	1.7	1.9	1.5	1.7
2019	1.8	2.1	2.1	1.6	1.9

*FY 2022 average was calculated using aggregated response data. Prior FY averages were calculated using the average of the quarterly averages shown in the table.

Comments:

- Examiners had a good understanding of regulations and other regulatory guidance including informational memorandums, book letters and the examination manual. They also demonstrated good judgement in the application of these various sources, considering the [institution's] risk profile, operational processes and business practices. However, the examiners stayed true to ensuring compliance with regulation and statutes, first and foremost.
- The examiners were thorough and fair.
- Regulations were followed, however the exam manual seemed to be the primary guidance used based on our exam results.
- Agree. As noted above, we have respectfully disagreed with the FCA on the grounding and cost [versus] benefit for some new areas of review, particularly for smaller institutions. With that in mind, appreciated the willingness to work with us on these issues.

Comments perceived with negative feedback:

- Examiners appropriately applied laws, regulations, and other regulatory criteria to exam findings and conclusions. However, when the examiners received direction from others outside the Office of Examination, those agency representatives did not consistently communicate the underlying purpose and objectives for the interpretations being applied. Applying new interpretations without full understanding of the potential adverse outcomes can result in actions 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.
- In some cases, examiners took a hard line of noncompliance with the regulations on matters where safety and soundness were not at risk. The [institution] was already addressing the underlying issues and a constructive dialogue would have compelled change within [institution] operations rather than choosing to make a [rigid] ruling and a much less efficient route to compliance.
- Examiners mostly applied regulations correctly, but insisted on alerting the Board directly of a mistyping of one digit in a policy regulatory reference that could have instead been addressed with management. Lengthy and repetitive conversations about Exam Manual interpretations were held, although few [matters requiring attention] (MRAs) were required.
- Materiality of some of the findings did not warrant an MRA and certainly did not warrant classifying Board and Management as "unsatisfactory."

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
2022	2.1	2.3	2.4	2.3	2.2*
2021	N/A	2.0	1.7	1.7	1.8
2019	2.0	2.4	2.4	1.9	2.2

*FY 2022 average was calculated using aggregated response data. Prior FY averages were calculated using the average of the quarterly averages shown in the table.

Comments:

- The [MRAs] led to the [institution] further documenting existing processes, practices and responsibilities within policies and/or procedures. The MRAs did not identify any risk weaknesses in the [institution], but through documentation did lead to a better resource trail regarding the specific issues raised.
- The exam team provided detailed explanations of the MRA items and they were presented in a constructive manner. The exam team was more than willing to meet multiple times with management and [audit committee]/board to go through the MRA items and offer explanations.

- The MRAs give a dashboard of sorts that can be used as a guide for Board and management to focus on the coming months post-exam.
- The examination included no MRAs.
- Agree. Though we disagreed with the need for some of the recommended actions, we both appreciated the FCA and exam team working with us on these issues and thought that other recommendations were directly on point and will help us improve the [institution].

Comments perceived with negative feedback:

- [Some] of our [MRAs] are overly picky of an institution [of] our size and it felt as if examiners were just looking for ways to add [to] the matters requiring attention list.
- 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. That said, we have prudently adjusted our lending practices to respond to [a] rapidly evolving agricultural and rural marketplace. Accordingly, going forward we are concerned that a practice of expecting clear authorizing language within a dated statute would not allow the System’s mission [of] service to evolve along with the rapidly changing needs of agriculture and rural America.
- While actions taken by the FCA will result in remediation of identified risks, the risks do not affect safety and soundness. As expressed above, the board was already underway in addressing areas of concern and we voiced that to the examination team; however, rather than give the [institution] an opportunity to act on our own, the decision was made to impose heavier regulatory burden.
- Significant and extensive challenging of Audit Coordinator and Audit framework, despite low risk. Multiple MRAs in this area, although audit function is robust for size and complexity of the institution.
- Most of [the] MRAs were around a group of 30 year election practices that did not have any relation to risk and have NEVER been addressed in previous reviews.
- The guidance around our MRAs was vague. We were left unsure of the best way to address some audit areas. Particularly the level of audit necessary in our audit universe.

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
2022	1.8	1.5	1.9	1.5	1.6*
2021	N/A	1.2	2.0	1.4	1.5
2019	1.6	1.5	1.8	1.3	1.6

*FY 2022 average was calculated using aggregated response data. Prior FY averages were calculated using the average of the quarterly averages shown in the table.

Comments:

- The examiners were professional and efficient in all areas including interaction with Board, management and staff members (with loan review). In addition, senior examiners were

effective at involving junior examiners and trainees, giving them exposure to the examination process and working directly with [institution] staff.

- FCA staff were very professional and productive. Additionally, the FCA deployed skilled resources with a [breadth] of backgrounds (finance, credit, technology, operations risk, assurance, management, etc.) that were able to effectively and efficiently evaluate the risks within the organization. A few new examiners were added to the team and were able to get up to speed. Also, we witnessed that additional succession planning has been implemented where prior examination staff were training new-to-team staff, which should assist in the transition process from one examiner to the next.
- The exam was conducted remotely but the [Examiner-in-Charge] (EIC) and staff were efficient and established consistent times for communication between the exam team and [institution] staff.
- The examiners were very patient and professional. They were adamant to not impede on our operations while simultaneously conducting their exam; it was much appreciated.
- The examination process was more efficient and professional than previous exams.
- Very much agree. The exam team did a good job: professional, efficient, friendly, listened, flexible, etc.

Comments perceived with negative feedback:

- Our EIC, Senior Examiner and Supervisory Examiner were professional and kind. We did have one examiner that was abrupt, arrogant and misrepresented our response to [the examiner's] questions to our EIC.
- The examination team was mostly professional although certain protocol needed improvement in our view. By way of example, following a verbal discussion with board and management about findings in one area contained within the scope of the examination, the EIC asked the governance committee chairman if he would commit to address the areas discussed. The board and management should not be asked to commit to something based on a verbal discussion. The board and management should only be asked to commit to address findings after they are presented in writing.

The examination team spent hours on a technical issue that the [institution] agreed to address at the first meeting with examiners. With the time spent, the final report contained references to FCA regulations that we could never locate on FCA's official website. The issue was not a violation of any FCA regulations.

- Auditors were professional, but efficiency is questionable given timeframe of four and a half months of auditing for a small institution.
- We found the examiners to be very professional in conducting examination activities. Efficiency was impacted due to the transition of our EIC and examination staff during the examination.
- Examinations are much more time consuming today than 10 years ago. Advance letter issued on [date removed], exit on [date removed] [almost four months after the advance letter was issued], and Board presentation on [date removed] [more than three months after the exit]. Over 250 emails, phone calls and video conferences were [held] over that 4-month period. This is a lot of time required for a limited staff of a \$1B organization.

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
2022	1.8	1.7	2.1	1.6	1.8*
2021	N/A	1.7	2.0	1.7	1.8
2019	1.6	2.3	1.9	2.0	2.0

*FY 2022 average was calculated using aggregated response data. Prior FY averages were calculated using the average of the quarterly averages shown in the table.

Comments:

- Communications were very good, specifically with the CEO and COO on the scope of the examination and initial examination results and findings. Communication with [institution] senior management and subject matter experts was also effective regarding discovery within a specific scope area and presenting the examiner's preliminary results and findings.
- The communication between exam staff and [institution] staff was always timely and clear.
- I particularly appreciated the use of [virtual meetings]. I think it's an effective medium for all.
- Very professional group!
- Communication has been more appropriate since a new EIC was assigned to the [institution].
- Again, agree. Good work by the exam team on communicating with the [institution]. The team listened to feedback from the Board [regarding] communication and adjusted communication accordingly.

Comments perceived with negative feedback:

- Multiple members of our leadership team have scheduled recurring monthly or quarterly 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, communications with others in FCA could be improved as it relates to examination conclusions. Since many of the regulatory interpretations involve others in the Agency, we would appreciate additional dialog with the decisionmakers to present the basis for our interpretations and fully understand their interpretations. Also, when interpretations evolve over time it would be beneficial to allow for a flexible response applied prospectively. A regulatory environment of restrictive interpretations creates a difficult operating environment to fully meet our institution's mission.

Additionally, specific to [institution name removed], the examination team and [institution] management meet on a quarterly basis to provide updates on [institution] sales, [institution] credit quality, [institution] operations, [institution] infrastructure and technical items, and any legal matters. In addition, the examination team utilizes this time to obtain updates on past discussions and any upcoming FCA activities/interaction. These meetings have been very effective and also helped set an examination scope that was appropriate.

- The [date removed] [Report of Examination] was delivered [date removed] [almost four months later].
- It was apparent several layers of examiners were involved, and each level of review reiterated similar conversations with just a small tweak. Each conversation involved many examiners and staff members.

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
2022	1.6	1.9	1.8	1.9	1.8*
2021	N/A	1.4	1.8	1.4	1.5
2019	1.8	2.0	1.9	2.0	1.9

*FY 2022 average was calculated using aggregated response data. Prior FY averages were calculated using the average of the quarterly averages shown in the table.

Comments:

- Communications with the Board and Audit Committee was effective including the Report of Examination presentation and executive sessions, which provided good insights to [institution] performance, areas of emerging risk and focal points of the Agency.
- 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.
- The [Report of Examination] and other verbal and written communications from the exam team were always presented constructively and were helpful to the [institution] staff, Board, and committees.
- Agree. The exam team communicated openly with the Board and Management. They listened and engaged in active discussion on issues.

Comments perceived with negative feedback:

- On two separate occasions, the audit committee requested specific regulations, and the examiners responded that they would produce the regulations. In both cases, FCA never responded.
- Final report was useful, but audit committee and staff were exhausted with the lengthy process.
- Based on size and risk [the] amount of information may be excessive.

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
2022	1.9	1.6	2.5	2.0	2.0*
2021	N/A	1.7	1.8	1.5	1.7
2019	1.5	1.9	2.3	1.7	1.9

*FY 2022 average was calculated using aggregated response data. Prior FY averages were calculated using the average of the quarterly averages shown in the table.

Comments:

- Very much agree, as mentioned with the response to Question 2, the examiners demonstrated good judgement in the application of these various examination sources, and considered the [institution's] risk profile, operational processes and business practices when concluding on [institution] performance.
- Examiners engaged in open dialog on various regulatory interpretive areas and fairly considered the views of the Board and management, particularly when they were allowed to apply their own judgment and not bound to follow guidance coming from other divisions of the Agency. In some cases, additional dialog with the agency representatives providing that guidance would be appreciated.
- The examiners were great to listen to our response and provide appropriate feedback.
- We appreciated having the opportunity to have open and productive conversations with examiners. Examiners were willing to consider and discuss the views of the Board and management.
- Agree. As noted above, the [institution] appreciated both the exam team and the FCA overall listening to both it and other System [institutions] in regard to the impact of some exam areas and the recommended remedies on smaller [institutions]. Would like to note the flexibility of the exam team who was working with us during the same time some of these issues were being discussed by the overall System and FCA – they did a good job of working in a changing environment.

Comments perceived with negative feedback:

- There was no leeway given a minor regulation matter that could have been handled outside of an MRA.
- Formulation of MRAs is deemed to have been mostly fair and appropriate. However, the [institution] was not allowed to demonstrate performance on the MRAs before the FCA invoked further regulatory oversight.
- Generally, the exam team gave consideration to [institution] views and responses. However, we believe that some of the conclusions relating to internal/operational audit MRA items were overly burdensome to a small [institution] like [institution name removed]. Some MRA items could have been communicated as a recommendation [versus] MRA, especially when it's part of a Safety and Soundness Exam. I would say the views were considered but maybe not entirely fair for a small [institution].

- Sometimes.
- Examiners were open and listened but they seemed to have little room for consideration or judgement of materiality.

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
2022	2.0	2.2	2.3	1.8	2.1*
2021	N/A	1.8	2.0	1.9	1.9
2019	1.9	2.4	2.1	2.0	2.1

*FY 2022 average was calculated using aggregated response data. Prior FY averages were calculated using the average of the quarterly averages shown in the table.

Comments:

- Most of the examination focused on the [institution's] performance to the scope items; however, when FCS perspective was given, it was helpful. The [EIC] was asked to research FCA's examination approach with Standards of Conduct for agent notification and certification because of possible inconsistencies within the FCS.
- Our Board and management team takes all guidance from FCA seriously and attempts to fully comply. However, we encourage the FCA to increase staff interactions with System institutions prior to the issuance of new and potentially burdensome or restrictive guidance. This interaction results in more widely understood regulatory guidance while minimizing uneven application and misunderstanding.

Communication regarding changes in guidance or new guidance is primarily delivered via subscribed email blasts. This methodology works for the most part, but would encourage the examination team to ensure that awareness of changes to or new guidance that is put in place, be brought to the attention directly to the organization. The quarterly management meetings could be utilized for this.

- Agree, the guidance was helpful and topical – it was an interesting exam cycle because the small [institution] guidance was being discussed with the FCA at the same time we had the exam. As noted elsewhere, the [institution] thought the exam team did a good job of working with the [institution] in this changing environment.

Comments perceived with negative feedback:

- Examination manual was applied with little room for discussion or consideration of true risks. Written guidance does not allow examiners room to adjust based on size or complexity. Written guidance matters because examiners regularly say, "The Exam Manual says..."
- While the FCA-wide guidance is proactive and helpful, we believe that a "one size fits all" approach to [institution] oversight is overly burdensome and costly to small [institutions] and may not be necessary for small, well-capitalized [institutions].
- Some of the guidance is broad and open for interpretation.

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
2022	1.7	1.7	1.9	1.5	1.7*
2021	N/A	1.3	2.0	1.6	1.6
2019	Not applicable – statement added in FY 2021				

*FY 2022 average was calculated using aggregated response data. FY 2021 average was calculated using the average of the quarterly averages shown in the table.

Comments:

- On-site presence was missed, but understood due to COVID, etc. Prior to the start of the examination, training was held with examiners on accessing systems; no material disruptions occurred during the examination. Virtual meetings with the examiners resulted in good discussions and the ability to share documents. With that said, having FCA examiners on-site adds value as it tends to lead to more interactive discussions and provides the examiners [with] a better sense of organizational culture.
- Management did not note any issues regarding the completion of the exam via fully remote FCA procedures. The use of technology ([virtual meetings], etc.) supported an effective examination. In many ways, the remote examinations have been more efficient than the in-person examinations.
- Most of the extended exam was conducted remotely, and that worked okay.
- The exam team communications were timely and effective.
- The offsite exam works especially by having frequent updates via [virtual meetings].
- Remote communications are very effective.
- Very much agree. Our exam was completely remote and it worked very well ([notably], exam team attended final Board meeting, which was appreciated).

Comments perceived with negative feedback:

- Our exam would have been better had the team been here in person. My relationship with my EIC would improve if we can discuss areas face-to-face. [Virtual meetings] work for the current times we are in, but I have noticed that remote exams tend to get me more MRAs that are not significant to the success of [the institution].

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
2022	1.6	1.8	1.8	1.5	1.7*
2021	N/A	1.3	2.1	1.8	1.7
2019	Not applicable – statement added in FY 2021				

*FY 2022 average was calculated using aggregated response data. FY 2021 average was calculated using the average of the quarterly averages shown in the table.

Comments:

- The answer closely resembles that provided with [Statement] 9. The examiners made good use of virtual options to conduct the examination in a timely and efficient manner, but on-site presence would have been an added value.
- See comments associated with [Statement] 9 regarding the effectiveness and efficiency of communications. [Institution's response to Statement 9:] Management did not note any issues regarding the completion of the exam via fully remote FCA procedures. The use of technology ([virtual meetings], etc.) supported an effective examination. In many ways, the remote examinations have been more efficient than the in-person examinations.
- The exam team communications were timely and efficient.
- Same comment as above - worked well.

Comments perceived with negative feedback:

- Remote conversations were not as efficient as face-to-face conversation could have been for several topics.
- Remote communications are very efficient; however, because they are easy to set up there can be a tendency to overuse and consume unnecessary time.

GENERAL QUESTIONS

Statement #11

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

Comments:

- Examiners explained where they were taking a deep dive, FCA hot topics, and helpful information they were seeing across other exams.
- Having quarterly meetings with the [EIC] over the past two years has resulted in the EIC having a better understanding of the [institution], ranging from Board and management oversight to operational performance and processes. Plus, these meetings have led to stronger communication and open discussions between the Agency and [the institution]. This best practice was key to an overall effective examination.

With regards to the rotational examination, updates on the status of the examination and potential findings were helpful. This allowed the [institution] to research issues raised and make certain that full disclosure of business processes and practices, or individual loan conditions, was made.

- Our EIC was helpful in explaining MRA and being a neutral go between management and the examiners. Myself and [the] board appreciated [their] willingness to work with us on a due date for completion of an MRA.
- Opportunities to collaborate on the various risks facing the organization and the System as a whole. Also FCA's recognition that our institution operated safely and soundly in all material respects.
- MRAs are helping the [institution] to improve in areas where improvement is needed.
- Time with examiners onsite when we were able to tour our territory, meet with our customers and help examiners understand why we do what we do. Our customers are the reason our institution and the System exists.
- The exam team being willing to meet multiple times remotely to discuss the results and MRA. The team was always very courteous and a pleasure to work with. The exam as a whole was very helpful to the [institution].
- The time the examiners took for [questions and answers]. I know our Board was also appreciative of the dialogue.
- We appreciate having examination activities conducted remotely as this is less disruptive to our staff.
- One-on-one discussions with the examination team.
- We have a great relationship with FCA that we have built over the years. We appreciate their feedback and proactively incorporate not only MRAs but verbal best practice recommendations into our action plans to further enhance the [institution].
- Remote usage.
- Feedback working through the process of loan review and process review was beneficial in general.
- The quarterly calls with management to provide updates on [institution] operations and conditions and to allow the EIC to communicate FCA focus areas.
- The progress we made on issues relating to the audit and review function.

Statement #12

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

Comments:

- We had to provide a lot of follow-up on questions that were already addressed in our policies and procedures provided in advance of the review.
- The absence of being on-site and not having a better 1:1 experience.
- The remote review and the time it took from start to finish was [specific months removed] [approximately four months].
- Narrow regulatory interpretations that limit System institution's ability to fully serve its mission.
- Placing the [institution] under increased regulatory burden before giving the [institution] an opportunity to address the MRAs that the board and management had agreed to address, and in fact that the [institution] was already in process of addressing.

- Extensive conversations of best practices imposed by individual examiners which were not ultimately supportable enough to be included in the final report, but which will still be used to evaluate our ongoing operations.
- This is a Safety and Soundness Exam; therefore, the "form over substance" feel and "one size fits all" approach when it comes to a small, well-capitalized [institution], especially in areas that aren't associated with much risk or seem to be a matter of preference. The feel of being nitpicked down to a single word in a document and that resulting in an MRA.
- Probably just the build up to the exam, information gathering, etc.
- At times during the examination, the end of day lists of questions or requests for information are time consuming for [institution] staff to address in a timely manner.
- The conference call with audit chair was inconvenient and [the] chair did not receive [the] link timely.
- Due to the [institution's] limited consumer loan portfolio, aspects of the compliance audit aren't necessarily relevant. We partner with [name removed] to assist us in meeting our mission to provide rural home loans to our territory since we do not have that expertise.
- Time of review. See [Statement] 4. [Institution's response to Statement 4:] Examinations are much more time consuming today than 10 years ago. Advance letter issued on [date removed], exit on [date removed] [almost four months later], and Board presentation on [date removed] [more than three months later]. Over 250 emails, phone calls and video conferences were [held] over that 4-month period. This is a lot of time required for a limited staff of a \$1B organization
- Audit process review.
- Not applicable.
- Neither the Board nor Management thought any aspect of the exam was not beneficial. Frankly, we find value in having a third party examine and discuss each aspect of the [institution] (even areas where there is clearly no potential weakness). Both the Board and Management think they do a good job of running the [institution] and take pride in the result – getting to discuss the result of that work with a third party is welcome.

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 review was satisfactory.
- The examination was conducted professionally and engaged the Board at an appropriate level. We enjoyed the direct and candid discussions in executive session, with and without the CEO. The [institution] has worked to improve the relationship with FCA, which was a Board directive. We appreciate the efforts taken by FCA with this as well – communication is a two-way street. We look forward to a continued effective and productive relationship.
- The Board appreciates the opportunity to engage with the FCA during the examination process. We concur with management's feedback and are particularly focused on clarity around regulatory matters and enhanced consultation and communication throughout the System.
- Appreciated hearing the positive feedback.

- They indicated our Exam team was approachable and they felt less intimidating, engaging and asking questions to the team when appropriate.
- The Board felt that the scope of the examination was appropriate and fairly considered the risk profile of the [institution]. We also appreciated that FCA staff presented the Report of Examination in person to the entire Board.
- The Board challenged the Exam Team on the areas where it disagreed with the potential benefit to the [institution] versus the associated cost for some actions. It appreciated the willingness of the exam team to engage in these discussions constructively, to listen to the Board's concerns and attempt to work to a mutually beneficial solution.

Comments perceived with negative feedback:

- The final report of examination omitted several areas that were included in the scope of the examination where the [institution] was found to be fully in compliance. When asked why those areas were omitted, the EIC responded by saying, in an effort to deliver focused and streamlined reports, they do not always include all areas from the scope of the examination. The board and management view this approach as being inconsistent with providing a fair and balanced report of examination.
- As a Board we feel the impact of regulatory burden. Our staff provided updates for several months and it was evident that the staff time and resources devoted to the examination pulled them away from other duties for longer than seemed necessary.
- The Board would like to see a type of response from an exam be a "recommendation" [versus] MRA. Some items can be viewed as preference or subjective [versus] something needing immediate attention and causing higher risk until remediated.
- As a Board, we realize the importance of regular, thorough reviews. The need is obvious and it's not necessary to revisit that here. The examiners conducting the review are professional, intelligent, and courteous. They take their job seriously and the Board recognizes and appreciates this.

Given this forum and opportunity, the Board would like to comment on two things:

[1.] The time involved, detailed earlier in this document, seems egregiously long. With reviews at the interval currently set, there is little time on the calendar when our staff is not dealing with a review, all the while attempting to serve our customers efficiently, as is our mission mandated by charter. The toll the reviews take on our staff is substantial.

[2.] As for this particular review, the MRAs had nothing to do with serving our customers, our credit condition, capital, Human Resources, IT security; none of the parameters that make an [institution] strong. The MRAs had to do with decades old practices regarding director elections. This has nothing to do with risk. And for this practice, deemed lacking after countless other reviews, caused our [institution] to receive a [Financial Institution Rating System] [number removed] rating. Employee, staff, and Board morale is a real thing and to receive this rating based on the aforementioned conditions is borderline ridiculous. This is not a reflection on the reviewers themselves; the parameters they are bound with are lacking.

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.

STATISTICAL INFORMATION ON NEGATIVE COMMENTS

Below is statistical information on the negative comments provided by the 18* institutions that responded to the survey for the third and fourth quarters FY 2022. OIG lists separately comments with any perceived negative feedback for survey statements 1-10 and 13 in this report. Ten institutions, or 56%, provided at least one negative comment in their narrative responses. We note that many of the negative comments appeared to be from smaller-sized institutions.

Number of Institutions Providing Negative Comments

Number of Negative Comments Provided	Number of Institutions	Percentage of Institutions
No comments provided	2	11%
0	6	33%
1-2	4	22%
3-4	3	17%
5-6	0	0%
7-8	2	11%
9+	1	6%

*For the above statistical information, we did not double count the comments provided by the institution that stated its response represented two institutions surveyed.

SUMMARY OF NUMERICAL RATINGS FOR FISCAL YEAR 2022

The table below provides FY 2022 cumulative data for the numerical ratings for survey statements 1-10. (Statements 11-13 are not numerically rated.) During FY 2022, the OIG sent surveys to 51 FCS institutions and received 39* responses. This is a 76% response rate, up two percentage points from FY 2021's response rate of 74%. For FY 2022, the overall average rating for survey statements 1-10 was 1.9 and 83.4% of the ratings were either "completely agree" (1), or "agree" (2).

*One institution stated its response represented two institutions surveyed. OIG did not count the numerical ratings from the institution twice.

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 ^o (6)		Average Numerical Rating
	Count	Percentage	Count	Percentage	Count	Percentage	Count	Percentage	Count	Percentage	Count	Percentage	
1	6	15%	24	62%	7	18%	2	5%	0	0%	0	0%	2.1
2	7	18%	27	69%	4	10%	1	3%	0	0%	0	0%	2.0
3	6	15%	20	51%	8	21%	2	5%	1	3%	2	5%	2.2
4	20	51%	15	38%	3	8%	0	0%	1	3%	0	0%	1.6
5	16	41%	16	41%	6	15%	1	3%	0	0%	0	0%	1.8
6	13	33%	21	54%	5	13%	0	0%	0	0%	0	0%	1.8
7	11	28%	20	51%	6	15%	2	5%	0	0%	0	0%	2.0
8	8	21%	22	56%	8	21%	1	3%	0	0%	0	0%	2.1
9	15	38%	22	56%	1	3%	1	3%	0	0%	0	0%	1.7
10	16	41%	20	51%	3	8%	0	0%	0	0%	0	0%	1.7
Total Responses	118	30.3%	207	53.1%	51	13.1%	10	2.6%	2	.5%	2	.5%	1.9

^oRatings of "6" (Does Not Apply) were not included in average numerical ratings.



Farm Credit Administration
Office of Inspector General

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