

OFFICE OF  
INSPECTOR GENERAL

## SURVEY REPORT

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

Second Quarter Fiscal Year 2018  
(January 1, 2018 - March 31,  
2018)

Issued June 21, 2018



FARM CREDIT ADMINISTRATION



# Executive Summary

## Survey of Farm Credit System Institutions Regarding the Agency's Examination Function Fiscal Year 2018 Second Quarter Summary Report (January 1 – March 31, 2018)

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

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

The survey asks respondents to rate eight survey statements as:

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

Each fiscal year (FY) quarter the Office of Examination (OE) identifies several Farm Credit System (FCS) institutions that were in a position to provide meaningful survey responses for that period. The OE identified 12 FCS institutions to survey for the period January 1 – March 31, 2018. The Office of Inspector General (OIG) sent surveys to those institutions in May 2018. Ten of the twelve institutions completed the survey (an 83% response rate). The OIG did not receive any responses from prior quarters for this report.

For the second quarter of FY 2018, average numerical ratings ranged from 1.9 to 2.2 (with "1" reflecting a positive rating and "5" reflecting a negative rating). The total average numerical rating for all survey statements was 2.0. For comparison, we provide data from the prior three quarters below.

FY Quarter	Average Numerical Rating Range	Total Average Numerical Rating
2 <sup>st</sup> Quarter FY 2018	1.9 – 2.2	2.0
1 <sup>st</sup> Quarter FY 2018	1.5 – 2.6	1.9
4 <sup>th</sup> Quarter FY 2017	1.6 – 2.4	2.1
3 <sup>rd</sup> Quarter FY 2017	1.4 – 2.2	1.8

Consistent with prior quarters' responses, we received more positive than negative comments about the examiners and the examination process.

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## ACRONYMS

FCA	Farm Credit Administration
FCS	Farm Credit System
FY	Fiscal Year
OE	Office of Examination
OIG	Office of Inspector General

## BACKGROUND AND METHODOLOGY

Each fiscal year (FY) quarter the Office of Examination (OE) identifies several Farm Credit System (FCS) institutions that were in a position to 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) provides a survey report for FY quarters ending December 31, March 31, June 30, and September 30. The fourth quarter report includes FY summary data.

When outstanding responses from prior quarters are received, they are included in the next quarterly report.

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 1-8 and, for comparison, the prior two FYs’ data.

Survey statements 1-4 pertain to the examination process and statements 5-8 pertain to communications during the examination. Statements 9-11 are general questions about the overall process. Respondents may submit comments for each of the 11 survey statements.

Narrative responses are provided verbatim, except any identifying information has been removed and grammatical, punctuation, and spelling errors are usually corrected. Any bracketed text is for the purpose of removing information that identifies an institution or an examiner or providing clarification to a response. Perceived negative comments of any degree are color coded in red.

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. This quarter, no respondents requested the OIG to contact them.

## 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**

<b>FY</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>FY Average</b>
<b>FY 2018</b>	1.8	<b>1.9</b>			1.9
<b>FY 2017</b>	1.8	1.6	1.8	2.1	1.8
<b>FY 2016</b>	1.6	1.8	1.9	1.7	1.8

**Comments:**

- On task and in line with Agency guidance and risk focus areas.
- Scope focused on areas applicable to the institution.
- Part of the exam seemed focused on "Hot Buttons" that propose very little risk to the institution.
- It is important that the examination process continue to recognize the differences across the spectrum of institutions.
- Note that there is a change in "best practices" being eliminated and all criticized and suggested items were lumped together. This review highlighted more noncritical and cursory items.

**Statement #2**

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

**Average Numerical Ratings by FY Quarter**

<b>FY</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>FY Average</b>
<b>FY 2018</b>	1.8	<b>2.0</b>			1.9
<b>FY 2017</b>	1.8	1.7	1.8	2.1	1.9
<b>FY 2016</b>	1.9	1.8	2.1	1.8	1.9

**Comments:**

- Justification for 2 exam areas (LGD determination & cost of restructure vs. cost of foreclosure) was lacking and not well founded.
- FCA examiners are thoughtful in considering how the regulations apply to our institution.
- Generally agree, but significant discussion was required before overly strong language was replaced with language consistent with the examination guidance.
- Some communication came after auditor's opinion was formed and documented to supervisors.

**Statement #3**

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

**Average Numerical Ratings by FY Quarter**

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
<b>FY 2018</b>	2.6	<b>2.1</b>			2.4
<b>FY 2017</b>	1.8	1.8	2.2	2.4	2.1
<b>FY 2016</b>	2.1	2.2	2.1	2.0	2.1

**Comments:**

- We had no required actions this year, however, recommendations were helpful.
- Not always clear on how to address recommendations and requirements and then come back later and made comments it was addressed was adequate.
- Some of the risk areas as identified by FCA are not applicable to our institution due to our size and portfolio composition. A more balanced approach to risk would be appropriate.
- Some duplication in policy procedures occurred from recommended actions.

**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
<b>FY 2018</b>	1.5	<b>2.1</b>			1.8
<b>FY 2017</b>	1.8	1.5	1.4	1.6	1.6
<b>FY 2016</b>	1.5	1.5	1.8	1.3	1.5

**Comments:**

- Top notch exam team!
- While onsite staff were professional, one of the presenters at the Board meeting was confrontational on a variety of topics not included in the written examination report.
- The examiners were professional in their interaction with the Board and management. We had a number of examiner trainees that impacted efficiency.
- Examiners expressed that previous team had been "light" in reviewing.

**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
<b>FY 2018</b>	1.8	<b>2.1</b>			2.0
<b>FY 2017</b>	1.6	1.5	1.7	2.0	1.7
<b>FY 2016</b>	1.8	1.7	1.8	1.6	1.7

**Comments:**

- Well done!
- Examiners were helpful in answering our follow up questions on requests if not clear.
- Shortly after the onsite visit both the Examiner In Charge and Senior Portfolio Manager left FCA. **This turnover resulted in periods of several weeks without communication and in the examination report being delayed. The report was completed by staff who had not been onsite during the examination and who did not have prior experience with the institution. The new individuals appeared to have somewhat different views than the onsite examination staff.**
- Communications were appropriate and timely.
- **Several pieces could have been cleared during field work, rather than at report draft stage.**

**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
<b>FY 2018</b>	1.8	<b>1.9</b>			1.9
<b>FY 2017</b>	1.8	1.6	1.7	2.1	1.8
<b>FY 2016</b>	1.7	1.7	1.6	1.6	1.7

**Comments:**

- The exam team was focused on creating understanding. Well done.
- The written report was helpful. **The confrontational nature of one of the presenters on a variety of topics not included in the written report was not helpful.**
- All relevant information was communicated to the Board.
- To be determined - based on future exams.

**Statement #7**

**Examiners fairly considered the views and responses of the board and management in formulating conclusions and recommendations.**

**Average Numerical Ratings by FY Quarter**

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
<b>FY 2018</b>	1.9	<b>2.2</b>			2.1
<b>FY 2017</b>	1.6	1.8	2.1	2.1	1.9
<b>FY 2016</b>	1.9	1.8	1.9	1.8	1.9

**Comments:**

- Always very open throughout the exam process. Pre-exam meeting with Board Chair and Audit Committee Chair was much appreciated.
- Examiners were open to our input.
- The written report reflected consideration.
- Supervisor handled this very well.
- **The FCA exam scope and areas of risk are applied without regard for the Board's level of comfort or management's sound knowledge of our borrowers and our institution.**
- Generally, fairly considered. **Once in the draft, not much change was made, even when verbal agreement was reached that contradicted the report.**

**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
<b>FY 2018</b>	1.9	<b>2.0</b>			2.0
<b>FY 2017</b>	2.0	2.0	1.9	2.3	2.1
<b>FY 2016</b>	1.7	2.2	2.2	1.8	2.0

**Comments:**

- We appreciate the timeliness and clarity of the information distributed.
- Portions were helpful. **However, lots of verbiage to sift through to find beneficial tidbits.**

## GENERAL QUESTIONS

### Statement #9

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

- Pre-exam meetings and the Report of Examination closeout were very helpful. Great System-wide perspective was provided at the closeout. Good reinforcement and validation. Also, helpful to hear that the Agency is supportive of sticking with customers that have long-term success opportunities during this period of low commodity prices. . . encouraged the institution to be comfortable changing FIRS level if necessary to serve the market/LSA.
- The dialogue and exchange with examiners is most beneficial.
- The process enhances the institution's understanding of the various regulations.
- Final Closing meeting.
- Executive session with the board was very beneficial.
- Interaction with examiners in conference call and board setting.
- Discussions with the EIC were more productive than past experience.
- The parts directly applicable to regulations and statutes.

### Statement #10

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

- Timing of the examination is the most difficult part of the process.
- The condescending nature of one of the FCA staff members toward the Board and management.
- Testing of the whistle blower program.
- None.
- We continue to be criticized for our top 10 attribution hold percentage and the level of loans we hold in our portfolio despite reducing our risk exposure in this area.
- Extensive verbiage and closed mind when younger auditors reported up to more seasoned managers.
- The process took a lot of time to complete.

### Statement #11

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

- Board and management feel FCA costs are high in relation to overall size of our organization.

- **Would be nice to have more differentiation in Exam findings between institutions.** We always strive to rise to a higher level than "satisfactory" or "adequate".
- The Board appreciated the flexibility from FCA in allowing the exit exam to be held via conference call versus in person. This created efficiency and cost savings for both FCA and Farm Credit Foundations.
- **Board critique delivered in an unprofessional manner which overshadowed legitimate concerns of the audit.**
- Overall it was a pretty good experience.
- We appreciated having a new examination team out to our institution. The new EIC and Senior Portfolio Manager seemed to listen to the Board's responses.
- **Lack of tenure for many of the auditors/reviewers, including "examiner in charge."**
- No comment.

### **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?**

This quarter, no institution indicated they would like a call from the OIG.

**FARM CREDIT ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL**



**REPORT**

**Fraud | Waste | Abuse | Mismanagement**

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