

**First Quarter Fiscal Year 2010  
(October 1- December 31, 2009)**

**Office of Inspector General's (OIG) Survey of Farm Credit System (FCS) Institutions  
Regarding the Agency's Examination Function**

**Introduction**

Based on the interface FCS institutions had with the Agency's examination function during the period October 1, 2009 – December 31, 2009, the Office of Examination (OE) identified 14 FCS institutions that were in a position to provide meaningful survey responses.

The OIG sent surveys to those 14 institutions on January 27, 2010. All 14 institutions responded.

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

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

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

There is also an available response of "6" (Does Not Apply) for each survey statement.

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

**Survey Results – 1st Quarter FY 2010**

The average numerical responses to survey statements 1 - 9 ranged from 1.8 to 2.1.

The average response for all survey statements was 1.9.

The majority of narrative comments to survey statements 1 - 9 were positive. However, there were several negative or somewhat negative comments (color coded in red) that should provide opportunities for you to refine examination methodology and communications, and examiner training.

Survey item 10a asks for feedback on the most beneficial aspects of the examination process. Consistent with prior quarters' responses to this survey item, many very positive comments were provided about the examiners and the examination process.

Survey item 10b asks for feedback on the least beneficial aspects of the examination process. These comments should also provide opportunities for you to refine examination methodology and communications, and examiner training.

Survey item 11 asks for any other comments. All comments were positive.

## **Responses to Survey Statements 1–9**

### **Examination Process**

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

**Average Response:** 1.8

**Comments:**

- Review was detailed and correct.
- Don't necessarily agree with a cookie-cutter approach to examinations for all institutions.
- The examination was very appropriate considering our institution's size and the economic uncertainties.

**Survey Statement 2:** The examination process helped the institution understand its authorities and comply with laws and regulations.

**Average Response:** 1.9

**Comments:**

- Examiner was helpful and effective.
- Our relationship with the examination team is one of complete transparency and "no surprises." Discussions with examiners help us understand agency views and interpretations.

**Survey Statement 3:** The results and recommendations of the examination process covered matters of safety and soundness, and compliance with laws and regulations.

**Average Response:** 1.9

**Comments:**

- They were very timely.
- Some suggestions involved best practices and these suggestions will be helpful.

**Survey Statement 4:** Examiners were knowledgeable and appropriately applied laws, regulations, and other regulatory criteria.

**Average Response:** 1.9

**Comments:**

- The 2009 examination team was much more knowledgeable than past exam teams.
- Professional and detailed.
- Vickie Cosentino and Linda Jew are experienced reviewers and know California agriculture. Discussions onsite and offsite have been a useful “value added” benefit.
- **Redundancy when FCA IT examinations cover areas we believe were already thoroughly covered by other expert processes, such as SOX. Also, IT exams seem to us to be broad-based, rather than focused on existing conditions and controls specific to our organization or areas of specialization.**

**Communications and Professionalism**

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

**Average Response:** 1.9

**Comments:**

- Very good/professional communication with EIC before, during and after the onsite exam.
- Our institution personnel were complimentary about the approach and follow up of the examiners.
- We have a very open relationship with the exam team, which we believe is beneficial to both the institution and the agency. Our regular quarterly meetings help us understand the agency’s upcoming areas of concern or emphasis and provide us the opportunity to discuss our plans and opinions.
- Communications were better than ever.

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

**Average Response:** 1.9

**Comments:**

- Excellent presentation with good solid recommendations.
- The written communications are clear. The face-to-face discussions are a good practice that helps us comply with and understand any concerns.
- Our audit committee is very active and the communications between examiners and the committee were appropriate and helpful.

**Survey Statement 7:** The examiners were organized and efficiently conducted examination activities.

**Average Response:** 2.0

**Comments:**

- The exam team had to re-visit several loans due to initial incomplete field work.
- Time was well spent.
- Redundancy when FCA IT examinations cover areas we believe were already thoroughly covered by other expert processes, such as SOX. Also, IT exams seem to us to be broad-based, rather than focused on existing conditions and controls specific to our organization or areas of specialization. [Same commenter as bullet 4 under statement 4.]

**Survey Statement 8:** Examiners fairly considered the views and responses of the board and management in formulating conclusions and recommendations.

**Average Response:** 2.0

**Comments:**

- Professional and positive.
- Findings were discussed in detail and conclusions were made after discussions.

**Survey Statement 9:** FCS-wide examination guidance from the Office of Examination (e.g., examination bulletins, informational memoranda, etc.) was timely, proactive and helpful.

**Average Response:** 2.1

**Comments:**

- There were no misunderstandings.
- Exam bulletins and Informational Memorandums are becoming quite prolific. FCA needs to make sure that when it requires items to be discussed with the institution Board that it actually warrants that importance.
- Not sure the institution fully understands or agrees with the [FCA] Chairman's position on mergers. The regulations should be focused on the safety/soundness and not take away from the Board of Directors, and more importantly, the stockholders, the ability to determine the future of the cooperative structure of their Farm Credit entities.
- Sometimes difficult to see the applicability to our institution.
- Timely sharing of concerns and information is very much appreciated.

## Responses to Additional Survey Items 10a, 10b, and 11

**Survey Item 10a:** What aspects of the examination process did you find **most** beneficial?

- Timely communication with EIC throughout the examination cycle.
- One on one loan discussions.
- Professional approach and positive recommendations.
- Experienced auditors with proactive suggestions.
- As Audit Committee Chair, I comment only on the areas in which I was part of the process. I felt the exit conference to be very informative and revealing on the scope and specific preliminary findings.
- The examination process keeps the institution up to date on policies, procedures and Regulation interpretations and compliance.
- Credit philosophy applications.
- Provides measurement of safety and soundness.
- Onsite and ongoing communication with examination staff.
- Regular, ongoing discussions between examination team and executive management. Annual discussions with the Audit Committee of the board.
- Ongoing direct communication with the Examiner-in-Charge during and between exams improved clarification, priorities and interpretation of regulations and supervisory communications for board members and management.
- As our institution has become larger, new and in some cases different concerns were shared. Because of timely sharing of these concerns, we have been able to be proactive.

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

- I would like the Audit Committee to be more aware of the specific areas that the examiners are concerned about. [There needs to be more communication between examiners and the Audit Committee.]
- Time consuming.
- The time delay between the onsite examination and the final report.
- IT examinations. [Same commenter as bullet 4 under statement 4.]

**Survey Item 11:** Please provide any additional comments about the examination process and related communications.

- Time well spent which will help make our institution more effective.
- Overall good people doing a good job.
- The examination process and related communications are very thorough and on point relative to risk, safety and soundness, and compliance.