

**First Quarter Fiscal Year (FY) 2014 Summary Report
(October 1 – December 31, 2013)**

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

Introduction

During the period October 1 – December 31, 2013, the Office of Examination identified 14 Farm Credit System institutions that were in a position to provide meaningful survey responses.

The OIG sent surveys to those 14 institutions on January 23, 2014. Of the 14 institutions surveyed, 10 submitted completed surveys. When outstanding responses from prior quarters are received, they are included in the next quarterly report. One response to the survey issued for the fourth quarter of FY 2013 was received and is included in this first quarter FY 2014 report. Therefore, this report includes a total of 11 responses.

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

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

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

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

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

Survey Results – First Quarter FY 2014

Average numerical responses to survey statements 1–8 were 1.4 to 2.1.

The average response for all survey statements was 1.8.

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

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

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

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

Responses to First Quarter Survey Statements 1–8

Examination Process

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

Average Response: 2.0

Comments:

- I am an outside director of this institution and had over 30 years experience in the securities and the banking industry. I cannot believe an audit was done without speaking to the audit committee or at least checking with the chair of the audit committee.
- Exam team focused on high risk areas, had strong technical knowledge and broad Farm Credit System knowledge. Good input on money movement controls.
- The focus and scope of the review was relative to the size of our institution. Our institution is highly reliant upon portfolio-level data to manage a loans portfolio in the billions of dollars. The FCA examination team does an appropriate level of review at both the customer and portfolio level. As risk/business practices continue to evolve through new and more advanced technology, methodologies, and data management practices, FCA will need to continue to focus on the level of understanding of these practices and the skill set of the staff to evolve their perspective as well.
- We most generally feel that a focus on asset quality should outweigh the ancillary issues.

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

Average Response: 1.8

Comments:

- Generally agree – examiners seem to vary in their interpretation of the regulations. Some seem to interpret with their own personal bias as to how it should be.

- Exam work was effectively tied to relevant laws and regulations.

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

Average Response: 1.7

Comments:

- Exam team's observations were valuable in highlighting operating risks (especially in money movement area) for management and the board.
- While the most recent exam had overall positive results, the exam team's suggestions for further focus and/or enhancements to our current risk processes were reasonable and appropriate.

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

Average Response: 1.4

Comments:

- As I said in response to question no. 1, I never met them, never talked to the..., very inappropriate in my opinion.
- Examiners were always very professional and interacted well with our institution's management and staff.
- The examination teams serving our institution have consistently provided a professional service to our functional team members and our senior leadership.

Communications

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

Average Response: 1.6

Comments:

- This comment refers only to the presentation that was made via phone to the entire board.
- Reporting was clear and timely. Lead examiner keeps in close contact during the year.
- The examination team appropriately communicates with the institution leadership prior, during, and post exam.
- Generally agree but **timeliness could be improved.**

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: 2.1

Comments:

- No communication between the audit committee and exam.
- Examination report was clear with the right level of detail for the board and audit committee.
- The Board appreciates the onsite presentation of the examination.

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

Average Response: 1.8

Comments:

- The exam team appropriately considered management's positions when drafting their report.
- FCA exam team has been open to spending the time to understand the institution's issues and perspectives while still carrying out the key role of a regulator.
- They listened to the Board's comments and questions with interest and consideration.

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

Average Response: 2.0

Comments:

- Updates have been timely and relevant.
- The Office of Examination's current level of communication has been positive. Efforts to coordinate with the System's Risk Management Workgroup has led to appropriate levels of collaboration in finalizing loan administration modules, and the deliberate communication of exam focus areas has enabled better understanding of key issues facing the System — from a regulator's standpoint.

General Questions 9, 10, and 11

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

- The people doing the audit work were experienced and seemed to understand the role of the institution.
- Credit Review.
- Input related to money movement was valuable and, as always, their tech knowledge gives us valuable feedback.
- Dialogue with the examiners.
- The meeting with the auditors at our board meeting was beneficial in explaining what areas we needed to be more informed and where the board needed to be more involved.
- Examiners provided good feedback when deficiencies were noted.
- The examination team's pre-exam coordination/communication process.
- Asset review.
- Best practice information provided by the examiners.

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

- **No contact between audit and the examiners: no pre meetings to discuss scope of the audit and to have that scope examined for appropriateness.**
- Recommendations re: board policies may be more appropriate to the establishment of operating procedures.
- **Regarding ALL, the auditors suggested we need to increase ALL, however they didn't tell us how much to increase it. We realize this is subjective, and since we have had very little loan loss it is difficult to determine.** Other than that, all aspects were beneficial to the bank.
- **Minor discrepancies in Director bios.**
- **Time and staff resources are challenged for a small institution during the exam process.**

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

- [Same answer given to Item 10] Recommendations re: board policies may be more appropriate to the establishment of operating procedures.
- **During the board close out presentation it was felt to be not appropriate the way a question of insurance rebating when there was no complaint filed by a competing insurance agency, no facts had been requested from management nor had there been any previous discussion with management. While it was appreciated by some that the examiners asked the question to allow them to gain knowledge of their own in regards to the issue, the method and manner of when and how it was raised created defensiveness. This question and matter was not part of this examination scope.**
- Audit was adequate.

- The board was impressed with the auditors communicating well with us, and the auditors' willingness to assist us with audit scope concerns for our institution.
- We feel the examination is a necessary process to help our institution operate in a safe and sound manner.
- The Board believes the opportunity for an executive session with the examiners in delivering the report is an essential part of the process.