

OFFICE OF
INSPECTOR GENERAL

Survey Report

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

First Quarter
Fiscal Year 2015
(Oct. 1 - Dec. 31, 2014)

Issued March 26, 2015



FARM CREDIT ADMINISTRATION

**First Quarter (October 1 – December 31, 2014)
Fiscal Year (FY) 2015 Summary Report**

**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, 2014, the Office of Examination identified 10 FCS institutions that were in a position to provide meaningful survey responses.

The OIG sent surveys to those 10 institutions on February 10, 2015. Of the 10 institutions surveyed, 8 submitted completed surveys (80% response rate). When outstanding responses from prior quarters are received, they are included in the next quarterly report. The OIG did not receive any responses to prior surveys; therefore, no additional responses are included in this report.

The OIG will continue to provide an email report to you based on each FY 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 will include FY 2015 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, punctuation and spelling 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 2015

Average numerical responses to survey statements 1–8 ranged from 1.5 to 2.4 for the first quarter of FY 2015.

Average Numerical Response Range to Survey Statements 1–8			
1st Quarter FY15	4th Quarter FY14	3rd Quarter FY14	2nd Quarter FY14
1.5 – 2.4	1.6 – 2.1	1.8 – 2.4	2.0 – 2.2

The average response for all survey statements was 1.9 for the first quarter of FY 2015.

Average Response for all Survey Statements			
1 st Quarter FY15	4 th Quarter FY14	3 rd Quarter FY14	2 nd Quarter FY14
1.9	1.9	2.0	2.2

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 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: 2.4

Statement 1	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	2.4				2.4
FY 14	2.0	2.2	2.4	1.9	2.1
FY 13	2.0	1.7	1.9	2.0	1.9
FY 12	1.9	2.1	2.1	1.8	2.0

Comments:

- The Board felt the scope of examination was appropriate and comprehensive.
- Consistent with the strength of our institution, financial, credit, and management.
- The institution's main risk is credit risk. **Acknowledging the institution's loan portfolio is exceptionally strong right now, it seems this main risk area got very little attention, instead focusing resources on areas of low risk.**

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

Average Response: 2.0

Statement 2	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	2.0				2.0
FY 14	1.8	2.1	1.9	1.8	1.9
FY 13	1.9	1.6	1.8	2.3	1.9
FY 12	1.8	1.8	1.9	2.0	1.9

Comments:

- We agree that examiners were correct in their application of laws and regulations.
- **Conclusions and recommendations on standards of conduct were based on questionable interpretation of the 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: 2.1

Statement 3	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	2.1				2.1
FY 14	1.7	2.0	2.1	2.1	2.0
FY 13	2.0	2.0	1.8	2.2	2.0
FY 12	2.1	2.0	2.4	2.0	1.8

Comments:

- The recommendations were appropriate and reasonable.
- Risk arising from the issues was minimal at most.
- The institution's main risk is credit risk. **Acknowledging the institution's loan portfolio is exceptionally strong right now, it seems this main risk area got very little attention, instead focusing resources on areas of low risk.** [same response to statement 1]

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

Average Response: 1.5

Statement 4	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	1.5				1.5
FY 14	1.4	2.2	1.8	1.6	1.8
FY 13	1.5	1.3	1.4	2.0	1.6
FY 12	1.7	1.7	1.6	1.8	1.9

Comments:

- On-site and electronic examination activities were all handled professionally and efficient.
- Examiners were professional, provided good explanations for their conclusions (we just did not agree with all conclusions) and made their best efforts to avoid disrupting operations during the exam.
- Examiners were good to work with. **However, not sure how efficient they were.**

COMMUNICATIONS

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

Average Response: 1.5

Statement 5	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	1.5				1.5
FY 14	1.6	2.2	2.0	1.7	1.9
FY 13	1.9	1.5	1.4	2.1	1.8
FY 12	1.7	1.9	1.9	2.0	1.8

Comments:

- Overall communications were clear, accurate and timely - particularly with the EIC.

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: 2.0

Statement 6	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	2.0				2.0
FY 14	2.1	2.2	1.8	1.9	2.0
FY 13	1.7	1.6	1.6	1.9	1.7
FY 12	1.7	1.8	2.3	1.9	1.8

Comments:

- Communications were both informative and helpful.
- More information for the basis of standards of conduct conclusions by FCA would have been helpful.
- **Communications were adequate but were often not regarding high risk areas.**

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

Average Response: 1.8

Statement 7	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	1.8				1.8
FY 14	1.8	2.2	1.9	2.1	2.0
FY 13	1.8	1.6	1.6	2.0	1.8
FY 12	1.8	1.9	2.1	1.9	1.9

Comments:

- Examiners were open to dialogue in all areas prior to formulating conclusions.

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

Average Response: 1.9

Statement 8	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	1.9				1.9
FY 14	2.0	2.2	2.0	2.1	2.1
FY 13	2.6	2.4	1.9	2.1	2.3
FY 12	2.0	1.9	2.3	2.1	1.9

Comments:

- Guidance is readily available and helpful for most areas.
- OE communications through informational Memorandums, bookletters, and other correspondence is helpful.

Responses to Survey Items 9–11

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

Comments:

- Good communications and dialogue with [name withheld] and [name withheld].
- Professional appearance and conduct as well as open communication approach exhibited by all FCA staff members assigned to this institution's recent examination.
- Open and clear communication with the EIC prior to and during the exam process.
- Confirmation our controls are adequate.
- Being able to ask questions during the exit meetings was helpful.
- The overall communication process between management, the Board and the examiners was beneficial to the institution. Discussions about the focus areas of FCA and the challenges facing the institution and the System were also beneficial.
- Exam for this year was best in years from an examiner in charge perspective. Clear communication and a willingness to understand local practices.

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

Comments:

- Heavy focus on Standards of Conduct.
- **The time needed to devote to the overall examination can be burdensome.**
- **Regulatory overreach.**
- Amount of time spent on low risk areas.
- We are not aware of any areas that might be characterized as "least beneficial." We honestly did not identify areas of the examination that we considered unproductive.

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

Comments:

- Comments from the Board as a whole reflect appreciation for depth of review in regards to the institution's policies and procedures as well as asset review.
- The Board considered the overall examination to be informative, candid and helpful to our institution.
- This survey was reviewed by the Board during its February 2015 meeting. **The Board continues to be concerned about costs related to the FCA examination as annual costs to the institution go up every year. It seems the amount of resources used to complete the audit did not compare well with the level of benefits received.** Reflecting over the years of Board experience, the number of audit exceptions which affected the institution's safety and soundness has been very low in comparison to the number of very technical suggestions for changes to policies and procedures. **The Board routinely asks questions during the FCA exam presentations to the Board as to what the institution might consider doing differently to enhance the institution, basis the FCA's experience through examinations of other institutions, but has never received any suggestions. The FCA appears to be taking more of a micro-management approach than an auditing or regulator approach.** During post-audit conversations between the Board and FCA, examiners have said that a high level of scrutiny will be applied in the next year due to a change in management, even though the management team in their new positions has significant experience and training and the institution spent several years specifically planning for the transition. In general, the FCA staff was professional while dealing with the Board.