

**Fourth Quarter (July 1 – September 30, 2014)  
and Fiscal Year (FY) 2014 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 July 1 – September 30, 2014, the Office of Examination identified 16 FCS institutions that were in a position to provide meaningful survey responses.

The OIG sent surveys to those 16 institutions on October 28, 2014. Of the 16 institutions surveyed, 12 submitted completed surveys (75% response rate). When outstanding responses from prior quarters are received, they are included in the next quarterly report. Two responses to the third quarter survey were received and are included in this report. Therefore, this report includes a total of 14 responses.

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. This fourth quarter report includes FY 2014 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 – Fourth Quarter FY 2014**

Average numerical responses to survey statements 1–8 ranged from 1.6 to 2.1.

<b>FY 2014 Average Numerical Response Range to Survey Statements 1–8</b>			
<b>4<sup>th</sup> Quarter</b>	<b>3<sup>rd</sup> Quarter</b>	<b>2<sup>nd</sup> Quarter</b>	<b>1<sup>st</sup> Quarter</b>
1.6 – 2.1	1.8 – 2.4	2.0 – 2.2	1.4 – 2.1

The average response for all survey statements was 1.9.

FY 2014 Average Response for all Survey Statements			
4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter
1.9	2.0	2.2	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.

**Survey Results – FY 2014 Summary**

For FY 2014, the OIG issued 62 surveys and received 50 completed surveys (81% response rate). An FY 2014 Summary Report is provided at the end of this report.

**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: 1.9**

Statement 1	1 <sup>st</sup> Qtr	2 <sup>nd</sup> Qtr	3 <sup>rd</sup> Qtr	4 <sup>th</sup> Qtr	FY Average
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
FY 11	1.8	2.0	1.8	1.8	1.9

**Comments:**

- National Oversight Plan may affect audit plan more than the Bank's performance and issues would warrant.
- Looked at larger credits and Participations purchased, which is appropriate.
- Areas of concern were standards of conduct and other non-loan areas which are today's concerns, and not necessarily of service to the financial well-being of the institution.
- While the purpose of the exam was to focus on areas of “risk” in the institution, it was heavily weighted toward reviewing Standards of Conduct compliance by primarily board members in an institution that has never been found to have any significant findings in previous exams. Scope in this area seemed excessive based on risk and past performance of this institution.

- The board felt the scope of the examination was appropriate.
- The examination activities were thorough, comprehensive and focused on key risk areas.

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

**Average Response: 1.8**

Statement 2	1 <sup>st</sup> Qtr	2 <sup>nd</sup> Qtr	3 <sup>rd</sup> Qtr	4 <sup>th</sup> Qtr	FY Average
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
FY 11	1.9	2.1	1.7	2.4	2.1

**Comments:**

- **Lack of consistency in interpretation of FCA regulations among reviewers.**
- We are generally in agreement with the findings and interpretation of laws, regs, etc.
- **There were some disagreements dealing with interpretations of some of the regulations and/or bookletters.**
- Examiners were pragmatic and thoughtful in their application and interpretation of regulatory requirements.
- Examiners were well versed in laws, regulations and examination modules. Discussions were open regarding concerns and final conclusions were focused on areas requiring attention.

**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 <sup>st</sup> Qtr	2 <sup>nd</sup> Qtr	3 <sup>rd</sup> Qtr	4 <sup>th</sup> Qtr	FY Average
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
FY 11	1.5	2.0	1.7	1.9	1.8

**Comments:**

- Recommendations are largely reasonable and appropriate.
- Areas of note were SOC & Business Planning. For the most part, recommendations and required actions seemed appropriate.
- The recommendations made in this exam were helpful in providing additional efficiencies in two areas of board reporting.
- The recommendations and actions were appropriate and were immediately addressed by the staff.
- The recommendations and required actions were very constructive in focusing on the risk and best practices.
- All recommendations and required actions were focused on key risks faced by the institution.

- In the area of IT the recommendations were excessive in the area of Local Administrative Rights. We were asked to complete a risk assessment (not excessive) and then told that any mitigating procedures would be considered temporary. It is hard to believe that without knowing what the mitigating procedures might be that they are not good enough for our risk environment. We have discussed Local Administrative Rights with other Farm Credit Institutions and none of the Associations we have talked with have eliminated Local Admin Rights. More effort in understanding our IT environment is necessary.

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

**Average Response:** 1.6

Statement 4	1 <sup>st</sup> Qtr	2 <sup>nd</sup> Qtr	3 <sup>rd</sup> Qtr	4 <sup>th</sup> Qtr	FY Average
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
FY 11	1.9	2.2	1.8	1.9	2.0

**Comments:**

- Only on our most recent review.
- Good attitude and willing to be open in communication.
- Examiners were on time and very professional with their interactions with staff.
- Examiners were very pleasant to work with and professional. However, exam efficiencies could be improved by reducing the amount of information required and then not used in the exam process. Also, providing us with longer lead time in their request for documentation would have been appreciated as well. The various exam “segments” could do a better job of coordinating information requests as the process was “strung out” and seemed to lack coordination.
- The examiners were professional, but it seems like we are a training ground for new auditors. Taking time to train new auditors takes away valuable time for our day to day operations for our staff.
- Very good communication skills and professional in their approach. On-site examinations were not overly distracting and staff were complementary about the skill levels and discussions held with the examination teams.
- [REDACTED] professionalism was not always there. He talked as if he was in a hurry, used scare tactics, was pushy and didn’t use collaboration when trying to understand our environment. Other auditors were professional.

## COMMUNICATIONS

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

**Average Response:** 1.7

Statement 5	1 <sup>st</sup> Qtr	2 <sup>nd</sup> Qtr	3 <sup>rd</sup> Qtr	4 <sup>th</sup> Qtr	FY Average
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
FY 11	1.4	2.0	1.9	1.8	1.8

**Comments:**

- Communications were generally clear and delivered timely.
- Communications from Examiners were, for the most part, accurate and on time. **With Co-CEOs some written communication did not get to both CEOs.**
- [same response to statement 4] Examiners were very pleasant to work with and professional. **However, exam efficiencies could be improved by reducing the amount of information required and then not used in the exam process. Also, providing us with longer lead time in their request for documentation would have been appreciated as well. The various exam “segments” could do a better job of coordinating information requests as the process was “strung out” and seemed to lack coordination.**
- Regular quarterly conference calls allow for strong communications between the agency and the institution. Normal discussions surrounding institution developments and examination activities have been professional and thorough, but respectful of everyone’s time.

**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

Statement 6	1 <sup>st</sup> Qtr	2 <sup>nd</sup> Qtr	3 <sup>rd</sup> Qtr	4 <sup>th</sup> Qtr	FY Average
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
FY 11	1.7	2.0	1.5	1.7	1.8

**Comments:**

- Findings were clearly identified and concerns communicated well enough to facilitate an appropriate response.
- The amount and type of information the Board and Audit Committee received from FCA are adequate for our oversight of the audit process.

- Exams of this type only validate, or do not validate, management’s efforts in complying with required laws and regulations. **They provide little in the way of new information that helps the Board and/or Audit Committee in their oversight responsibilities.**
- Results of individual reviews and the overall audit have been shared with the audit committee and they feel adequately informed. The examination team has met with the board to introduce the team and to discuss the 18-month examination cycle conclusions. Information was beneficial to the board in conducting their oversight responsibilities.

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

**Average Response: 2.1**

Statement 7	1 <sup>st</sup> Qtr	2 <sup>nd</sup> Qtr	3 <sup>rd</sup> Qtr	4 <sup>th</sup> Qtr	FY Average
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
FY 11	1.5	2.0	2.1	2.1	1.9

**Comments:**

- Examiners considered and were generally reasonable in their consideration of Bank board and staff responses.
- Willing to consider comments and questions from board and management.
- Examiners listened to institution responses to possible exceptions and provided some leeway to comply, given the extraordinary circumstances currently facing the institution.
- The exam team was willing to listen to management’s rationale and interpretations of various regulations in the completion of their final report.
- Examiners were good about thoroughly investigating potential issues or concerns and listening to the responses. Conclusions appeared to be well-researched.

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

**Average Response: 2.1**

Statement 8	1 <sup>st</sup> Qtr	2 <sup>nd</sup> Qtr	3 <sup>rd</sup> Qtr	4 <sup>th</sup> Qtr	FY Average
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
FY 11	1.8	2.0	1.7	1.5	1.8

**Comments:**

- Information provided was timely. What was helpful was the resource material provided by our examination supervisor [REDACTED].
- Guidance in both the individual examinations and in the 18-month review cycle conclusions was thoughtful and helpful to institution management and the board.

- The Office of Examination could be more specific in the area of IT. If an Informational Memorandum is sent and it references the work of Federal Financial Institutional Examination Council please state whether or not we will be required to implement FFIEC standards.

### **Responses to Survey Items 9–11**

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

#### **Comments:**

- Noted a shift in the reviewers' willingness to consider an institution point of view and logic concerning issues or questions posed during the review process. **This has not been the case in prior reviews** and offered a refreshing change by the agency.
- The exam teams were clear in stating the exam objectives and following a reasonable exam process. Examiners had appropriate interaction with staff to clarify concerns and took staff input constructively. Interim observations allowed examiners and staff to focus on the most critical issues.
- Review and feedback on the risk identification processes utilized by the institution.
- Summary of their findings and discussion in close-out. Good discussion with board also.
- Review of the institution credit functions.
- Meeting with the full board.
- The exam process is adequate. **However, the enormity of the regulations and bookletters that require compliance does not provide any value added systems or efficient business practices for the institution.**
- Great communication on the most relevant issues.
- The time spent with the board reviewing their findings and ways to improve that would be beneficial to the organization.
- The exit sessions were especially helpful because of the ample time for discussion and the additional guidance and recommendations to Board members. The one-on-one discussion (during the exam process) that provided an open dialogue seemed to create the best environment for learning and building both consensus and relationships.
- Examinations were thorough and auditors had a good understanding of institution practices. The examination teams demonstrated excellent communication skills and a willingness to listen and learn as much as possible before drawing conclusions.
- We continue to get added value from our EIC and her supervisor.
- We appreciated the "Best Practices" that were provided by the examiners.

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

#### **Comments:**

- **Individual and inconsistent application and interpretation of FCA regulations, GAAP accounting, and other regulations. This creates an environment lacking confidence in the review process and noted a need for uniform training by the agency.**
- **The scope of the exam seems to be driven more by national focus than by specific concerns with the Bank.**
- Recommendations for enhancements to an existing board report.

- Exorbitant amount of time, energy spent on conduct issues were not helpful and inefficient use of time.
- It appears that the exam team had been directed to strongly urge the institution to find ways to increase the allowance for loan loss even though FASB rules limit this without strong documentation. Encouraging us to do anything different was frustrating.
- The time spent training new auditors.
- Examinations are always time consuming, but we've appeared to develop communication tools and systems with this team to make them as efficient as possible.
- The IT Examination.
- We provided the same information multiple times to examiners. This was time consuming and could be done in a more efficient manner.

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

**Comments:**

- The board feels that the Bank FIRS does not accurately reflect the high level of performance and capacity of the Bank.
- Giving similar weight to the recommendations as required actions.
- Going forward would like to see more time spent on areas that pose risk to the institution and less on conduct and [other] areas [with which] the institution has not had issues, and pose limited to no risk.
- Appreciated candid discussion.
- The notification of review "as of dates" and on-site visit timing was clear. The exam team's visit with the Audit Committee and Board before our exam began was helpful in understanding the areas of emphasis as well as providing a forum for the committee to ask any questions of the exam team. At our close-out, the team seemed to understand our institution issues and the steps we are taking to resolve them.
- Overall, everyone felt the examination was fair, thorough and complete.
- Over the years as board members we have seen an increase in the amount of audits and information that is needed to complete the audits. At times there seems to be an abundance of overlap in audits which seems like auditors auditing other auditors. As a board and staff, we try to watch our costs for our patrons. The increase in audits and audit information causes extra work for our staff which increases the overall cost of operation. As a board we understand that the audits are necessary, but feel they could be streamlined so the audits wouldn't be so overlapping. This would allow our staff to have more time with the day to day operations.

One other concern is the satisfactory and unsatisfactory comment at the end of each finding in the audit. Several of our auditors always point out areas that may need adjustments or improvements to help the overall operations of the organization. Making these adjustments and improvements has made the organization operate more efficiently and effectively. We know that the auditors see lots of other organizations in the audit process. We would like the auditors to express or point out what things we are really doing good at. It is always easy to point out areas of improvement and that is important for the staff and board to address. We would appreciate the auditors also giving us a pat on the back for areas that we are really doing good at. The satisfactory and unsatisfactory ratings are fine, but the board feels that they can reach out a little more beyond those two ratings.



- Our institution was released from a regulatory agreement in January, 2014. During our time under this supervision and through the present, the FCA Staff were very considerate and friendly, but firm, in presenting the required guidance. Throughout the process, they acknowledged our progress and the improvement in the Board and Management of the institution. We appreciate their assistance and acknowledge their contribution to our present level of expertise.

**FY 2014 Summary Report**

Numeric Responses to Survey Statements 1–8

Statement	PERCENTAGE OF TOTAL RESPONSES												Total No. Responses	Average Response
	Completely Agree (1)		Agree (2)		Neither Agree nor Disagree (3)		Disagree (4)		Completely Disagree (5)		Does Not Apply * (6)			
1	6	12.0%	38	76.0%	2	4.0%	2	4.0%	2	4.0%	0	0.0%	50	2.1
2	12	24.0%	33	66.0%	3	6.0%	1	2.0%	1	2.0%	0	0.0%	50	1.9
3	12	24.0%	31	62.0%	4	8.0%	2	4.0%	1	2.0%	0	0.0%	50	2.0
4	21	42.0%	22	44.0%	5	10.0%	1	2.0%	1	2.0%	0	0.0%	50	1.8
5	15	30.0%	30	60.0%	2	4.0%	1	2.0%	2	4.0%	0	0.0%	50	1.9
6	8	16.0%	37	74.0%	2	4.0%	1	2.0%	2	4.0%	0	0.0%	50	2.0
7	10	20.0%	30	60.0%	9	18.0%	0	0.0%	1	2.0%	0	0.0%	50	2.0
8	6	12.0%	36	72.0%	6	12.0%	0	0.0%	2	4.0%	0	0.0%	50	2.1
<b>Total Responses</b>	<b>90</b>		<b>257</b>		<b>33</b>		<b>8</b>		<b>12</b>		<b>0</b>			<b>2.0</b>

Note: Responses of “6” (Does Not Apply) were not calculated in percentages or averages.