

**Second Quarter FY 2008  
(January 1 – March 31, 2008)  
OIG Report on the Survey of FCS Institutions  
Regarding the Examination Function**

**Introduction**

Institutions are surveyed generally no more frequently than every 12 months, and no less frequently than every 18 months. During the first 6 quarters or 18 months of surveying with the revamped survey, the OIG sent out 113 surveys. The universe of institutions we survey is 105. Therefore, 8 institutions were surveyed twice, but each survey was at least 12 months apart. Every institution was surveyed at least once.

Based on the interface FCS institutions had with the Agency's examination function during the period January 1 – March 31, 2008, OE identified 22 FCS institutions that were in a position to provide meaningful survey responses.

The OIG sent surveys to those 22 institutions on April 21, 2008. A follow-up e-mail was sent to nonresponding institutions on May 27. Of the 22 institutions surveyed, 20 submitted completed surveys. If the 2 nonresponding institutions subsequently send a completed survey, they will be included in the next quarterly report.

One response to the survey issued for the first quarter of FY 2008 was received subsequent to the first quarter report and is included in this report. As a result, this report covers 21 responding institutions.

The survey asked respondents to rate each survey statement 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 "Does Not Apply" for each survey statement.

Narrative responses are provided verbatim, except that any identifying information has been removed and any grammatical, punctuation, or other such errors may have been corrected. Any information in "Italics" has been inserted by the OIG based on follow-up with the institution.

**Reporting**

The OIG provides a report on survey results 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. A summary report is also issued covering aggregate survey results for each FY ended September 30.

## **Survey Results – Second Quarter FY 2008**

1. Average numerical responses to survey statements 1 - 10 range from 1.7 to 2.2. (For the first quarter FY 2008, the range averaged 1.9 to 2.2; for all of FY 2007, the range averaged 1.7 to 2.2.)
2. The average response for all survey statements is 1.9. (For the first quarter FY 2008, the average response was 2.0; for all of FY 2007, the average response was 1.9.)

One institution rated four survey statements as a 4 (Disagree) and one as a 5 (Completely Disagree), or negative responses to five of the ten survey statements. Survey statements 1, 2, 4, and 5 were rated by this institution as a 4 (Disagree). The first bullet under each of these survey statements is the institution's comment pertaining to each 4 (Disagree) rating. Survey statement 7 received a 5 (Completely Disagree) rating. The first bullet under this survey statement is the institution's comment pertaining to the 5 (Completely Disagree) rating. *I called this institution's CEO to discuss the negative ratings. He made two points. First, he and his Audit Committee chairman felt that asset quality was not adequately reviewed, i.e., "Looked at only 36 loans out of portfolio of over 110,000." Second, they felt the examination team was not well directed and poorly organized.*

Another institution rated survey statements 5 and 7 as a 4 (Disagree). The second bullet under each of these survey statements is the institution's comment pertaining to each 4 (Disagree) rating.

A third institution rated survey statements 7 and 9 as a 4 (Disagree). The third bullet under survey statement 7 is the institution's comment pertaining to the 4 (Disagree) rating. No comment was provided for the 4 (Disagree) rating for survey statement 9. *I called the CEO for clarification as to the 4 rating on survey statement 9. He indicated that the national examination activity reports they have received have not been of much benefit to their particular institution. I asked why. He indicated that the national examination activity reports were not relevant to his institution due to factors such as the type of commodities they finance, the institution's size, etc.*

A fourth institution rated survey statement 7 as a 4 (Disagree). The fourth bullet under survey statement 7 is the institution's comment pertaining to the 4 (Disagree) rating. *I called the CEO regarding this comment. He said it took 4 months from the beginning of the examination process until they received the examination report and felt the process, to use his words, was "strung out."*

Survey item 11a asks for feedback on the most beneficial aspects of the examination process. Many very positive comments were received.

Survey item 11b asks for feedback on the least beneficial aspects of the examination process. The comments received to this question, as well as those provided under the various survey statements, may provide opportunities for you to refine examination methodology and communications, and examiner training.

Survey item 12 asks for any other comments. Most comments were positive. One reflected negatively on the examiners' methodology for conducting the exit conference with the institution's board. *I contacted the CEO. He said the exit conference was done by phone and it was difficult for the institution board and management personnel to hear and to interact effectively with the examiners.*

## **Responses to Survey Statements 1–10**

### **Risk-Based Examination Process**

**Survey Statement 1:** The scope and depth 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 (first quarter 2.0)

**Comments:**

- Looked at only 36 loans out of portfolio of over 110,000.
- The exam team evaluated risk in light of the significant portfolio growth that is occurring. They also reviewed growth in the Capital Markets portfolio which was very much appreciated.
- My only concern would be the level of expectation regarding the Business Continuity issue for an institution of our size. FCA examinations on a differential (size and risk) basis are appropriate.

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

**Average Response:** 2.0 (first quarter 2.1)

**Comments:**

- Nothing new of value.
- The exam team has monitored our compliance with governance regulations and we are pleased with the feedback from the exam team.
- Believe we are fairly well versed within these areas, without feeling a significant gain through the examination process. Hopefully, most entities do not rely on the examination function to increase their authority and compliance knowledge. It helps when examiners reference the process back to regulations.

**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:** 1.8 (first quarter 2.0)

**Comments:**

- Yes, the EIC and team carefully kept the scope and activities focused on compliance with laws and regulations + safety and soundness.

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

**Average Response:** 1.9 (first quarter 2.1)

**Comments:**

- Many new examiners seemed to lack needed knowledge.
- Examiner was very knowledgeable of FCA regs, etc., but did not demonstrate a good working knowledge of our business. This can result in a lack of proper application of FCA regulations. The team this year included some new examiners; however, they were supervised by experienced and professional staff.
- We had a couple of circumstances in which the examiners were not as well versed as could be. One area was regarding asset/liability risk that the institution takes on its own funds position. Another was in regard to a Scope of Lending policy. We received criticism (rightly so) but did not receive strong guidance on establishing appropriate policy parameters.

**Communications and Professionalism**

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

**Average Response:** 1.8 (first quarter 2.0)

**Comments:**

- Communications were timely but exam closeout did not occur until 2 months after exam finished.
- Communications from examiner are typically “last minute” and therefore urgent and hurried. Usually indicates he is behind in work.
- Communications are always very open and candid with the exam staff.
- Our examiner does a good job communicating with the institution. There was an ongoing dialogue between the EIC and the institution.

**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:** 1.7 (first quarter 2.1)

- Discussion concerning audit scope was very clear. We also appreciated the executive session.
- Due to the review being “offsite” there was not as much opportunity for direct communication between examiners and the Audit committee.
- Audit chair received the appropriate letters before and after the examination.

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

**Average Response:** 2.2 (first quarter 1.9)

**Comments:**

- Poorly organized.
- Communications from examiner are typically “last minute” and therefore urgent and hurried. Usually indicates he is behind in work. [The institution repeated their comment (second bullet) to survey statement 5.]
- We only received a copy of the exit conference information about ½ hour before the exit conference which did not give us time to review.
- This is a difficult area to rate. I would say the examiners are very capable. I think the examination process created some inefficiencies. The review took 4 months to complete. I understand the idea is to conduct a proactive review on an ongoing basis going forward and I wholly support this idea. I think it is great to have ongoing communication. In this review, the issue became that we communicated on the same issue over the course of many weeks. I think the examiner is probably working on multiple projects at one time and by stretching the review out over a long period and not putting specific issues to rest in a short time frame causes inefficiencies. Staff commented that we were asked to submit some items more than one time. I would guess that because examiners have multiple projects going on at one time, they misplace information or forget that they had previously requested it. I would suggest that an issue be handled with appropriate recommendations made prior to moving on to another topic. Inefficiencies come from the disruption of starting and stopping on discussions over a single issue.
- The on-site examination process was well organized and conducted with minimal disruption. The off-site work was also well organized and communications were very good. Interviews with us by examination staff were organized and efficiently conducted.
- Appreciate the EIC organization.

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

**Average Response:** 1.7 (first quarter 2.2)

**Comments:**

- While there were minimal comments and recommendations, we consider the exam to be a value added process and we appreciate the comments and recommendations from the exam staff.
- There were no differences of opinion to discuss. We appreciated the FCA Team's willingness to listen to our point. That does not mean we always agreed but the team listened.
- Appreciated the examiners willingness to listen to board and management points of view.

**Best Practices and Regulatory Guidance**

**Survey Statement 9:** The results and recommendations of the Office of Examination's national examination activities (e.g., information technology, finance, credit, etc.) and its reports on identified best practices have assisted your institution.

**Average Response:** 2.0 (first quarter 2.0)

**Comments:**

- Publishing best practices is beneficial.
- The feedback from the national activities has been very specific and valuable. Given the diversity in association operations, the feedback requires some interpretation.
- It has been very helpful.
- I like the information we receive from these activities. We were involved in the consumer compliance project and would question the efficiency of this method. We have such limited activity in this area and we had a team (don't remember if there were 3 or 4 people) come visit us and they were here for only a couple of hours. The same story was told about a visit to another institution. While the information is valuable, I am not sure about the efficiency of the projects. Also, some of the guidance issued is much more appropriate for a larger institution. And, one begins to wonder if the smaller institutions will be asked to meet the same requirements of the mega institutions. We do not have the money or the human resources to do all that the business continuity letter suggests.

**Survey Statement 10:** FCS-wide guidance from the Office of Examination (e.g., bookletters, informational memoranda, etc.) was timely, proactive and helpful.

**Average Response:** 1.8 (first quarter 1.9)

**Comments:**

- Over the years, believe the Agency has improved within this area. Of course, agriculture's overall prosperity helps with our association/regulator relationship!

**Responses to Additional Survey Items 11a, 11b, and 12**

**Survey Item 11a:** What aspects of the examination process did you find **most** beneficial?

- All was of equal benefit.
- Much work accomplished off-site.
- Best practices. Important to keep them practical.
- The time spent preparing for the review was reasonable. The followup with the FCA during the year with information reduced the documentation needed for the FCA team to perform the field visit.
- The new approach of rating components based on risk of low, moderate, or high provides a very useful tool to the board and management.
- Having opportunity to describe how our committee structure works, which reinforced our governance logic. At 3/22/07 board meeting.
- Dialog with staff, management, and audit chairman was helpful for future development.
- Credit risk.
- They conducted the examination in a very professional manner with very little disruption to the staff.
- Discussion on items mentioned #10 above.
- Knowing the exam team is a real plus. Communications are much better and the discussions can be very specific and candid.
- The offsite review was smooth and provided the least obtrusive examination we've experienced.
- Open communication with OE staff.
- Overall, all favorable.
- The "differential, risk-based" approach to these examinations is most appropriate. For our sized institution, the off-site review is very convenient, as well.
- Communication to the board on the findings so we can make corrections for the future.
- YBS reviews and reports.
- Credit.
- Dialogue with the examiners was beneficial. Specifically discussing what (best practices) examiners might see in other institutions.
- Advance communications and examination results communicated to the audit chair were excellent.

**Survey Item 11b:** What aspects of the examination process did you find **least** beneficial?

- All was of equal benefit
- Examiner approaches management and staff with an adversarial attitude. Assumes we are breaking the rules, and we have to prove otherwise.
- Responding to the IT business continuity and security recommendations as they related to a 12/29/06 letter seemed to be untimely since the passage of time made finding the letter difficult and it could have been addressed in an earlier examination in my opinion.
- Regs that can be interpreted multiple ways, e.g., is the CEO salary to be included or excluded from the table of salaries of top 5 officers.
- IT
- None comes to mind.
- While most of the information discussed on best practices was beneficial, some of the best practices discussed did not apply to the institution.
- This was a thorough and efficient exam. I can't think of any improvements.
- While we liked the off-site examination, we found it did not provide as much interaction for the Audit committee with examiners.
- Probably the lack of guidance offered in the area of a sound Scope of Lending Policy. We were told ours was not sufficient (and we would agree) but did not feel like we were given good guidance on what would suffice.
- No particular negative observations. While scope and eligibility has not been a problem here, we would continually recommend the Agency approach this area with a "the glass is half full" attitude. Currently, believe that our competitor banks do not have enough liquidity to adequately finance agriculture—the System will have to step up.
- Failure to get an exact answer to a question.
- National Examination Activity information.

**Survey Item 12:** Please provide any additional comments about the examination process and related communications.

- Personnel were very professional and knowledgeable.
- Appreciate professional relationship with our examiner.
- I will say that our examiner was very good to work with and communicate with. I think the issues we had have more to do with the process than the personnel. We do appreciate the open communications with FCA and we like and applaud the idea of a proactive approach. We simply would like to see discussion and resolution on a single topic limited to a shorter timeframe.
- Poor communication in the final exit conference with the Board. This was done by phone and we could not hear adequately.