

**Second Quarter Fiscal Year (FY) 2013 Summary Report
(January 1 – March 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 January 1 – March 31, 2013, the Office of Examination (OE) identified 17 FCS institutions that were in a position to provide meaningful survey responses.

The OIG sent surveys to those 17 institutions on April 24. Of the 17 institutions surveyed, 10 submitted completed surveys. If the outstanding responses are received, they will be included in the next quarterly 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 as of September 30 will continue to include FY 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 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 conversations with institution management. This quarter, one conversation was held with institution management.

Survey Result – Second Quarter FY 2013

Average numerical responses to survey statements 1 - 8 were 1.3 to 2.4. (For the first quarter FY 2013 the range averaged 1.5 to 2.6.)

The average response for all survey statements was 1.7. (For the first quarter FY 2013 the average response was 1.9.)

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.

Although a somewhat lower response rate, the responses were slightly higher compared to the first quarter.

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: 1.7 (first quarter was 2.0)

Comments:

- Scope examination from one year to another is consistent. **Some time was spent on reviewing all the files of a customer when there was no recent activity, leaving a question of appropriate time management.**
- Scope in Credit exam focused on large loans, and participations purchased.
- **Asset Quality, Capital, and Earnings should be the main focus. More time was spent in other areas such as: Business Continuity Planning, Employee Ratings, and Standards of Conduct. We understand that there is a national plan to follow, but let's not lose sight of what is important and where we see the real risk in the institution.**

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

Average Response: 1.6 (first quarter was 1.9)

Comments:

- No conflict between FCA Regulations and examiners' criteria was noted.

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: 2.0 (first quarter was 2.0)

Comments:

- The required and recommended actions will do nothing in assisting the board and management in addressing risks to the institution.
- Reasons and facts are well documented and provide clear direction to the Board and Management.
- No actions required.
- No response was required from Exam report. However, suggestions by the institution EIC, were insightful and helpful to Board and institution Management Team.
- The Board values feedback on the important issues, but ancillary findings need to be presented in that manner. We do not appreciate the “piling on” approach taken by examiners. For example, we just finished our National Compliance Audit and were in the process of researching regulations and policies to address an issue. Due to timing the issue was going to be addressed after year-end, but the EIC insisted on copying and pasting the issue into the Exam. This happens too frequently with our other independent reviews too. Management and Directors should be allowed time to respond to audit findings.
- Provides comfort to the board having another set of eyes reviewing.

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

Average Response: 1.3 (first quarter was 1.5)

Comments:

- Well organized and efficient use of time onsite.
- The examination team and its leadership were very professional and pragmatic in their approach to this year's exam.
- Examiners acted in a positive manner.
- Examiners demonstrated professionalism and were accessible to institution personnel.
- Our examiners were professional and did a nice job. We question the need to fly people in from four different areas of the country to complete our exam. One seasoned examiner only looked at one loan for the entire week when they were on site. [Less of inexperienced, new examiners compared to last year.]
- Very open and easy to discuss issues with. Executive sessions helpful.
- All interactions with the exam team were professional and respectful. Interruption to staff duties/schedules was kept to a minimum.

Communications

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

Average Response: 1.5 (first quarter was 1.9)

Comments:

- Examination team did a nice job listening to understand the institution's approach to identified risks in its portfolio.
- Excellent communication demonstrated by EIC. [Name removed] also attended Board meeting when report was presented, which was helpful and appreciated by the institution board and management.
- They did a much better job of communicating (grouping thoughts and questions together and only calling once or twice a week) during this examination cycle.

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: 1.6 (first quarter was 1.7)

Comments:

- Information was pertinent to Board and Audit Committee. Executive session was offered to the Audit Committee following personal presentation of the exam report, however, because FCA's presentation was so thorough, executive session was not necessary.
- They provided some information to help us understand the findings.
- **Report was lengthy. Somewhat difficult to identify areas of larger concern from smaller issues.**
- Communications were good on-site during the exam. **The recommendation on the credit plan was somewhat vague and there was some misunderstanding between FSO segmentation and market segmentation.**

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

Average Response: 1.6 (first quarter was 1.8)

Comments:

- Exit review and discussion was beneficial.
- This was done especially well this year and appreciated!
- Examiners were very open to discuss concerns and evaluate resolutions.
- The EIC and other examiners listened to institution management and asked questions regarding their views and opinions.
- They did listen and consider our thoughts and views on the examination.

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

Average Response: 2.4 (first quarter was 2.6)

Comments:

- Sometimes the guidance is too broad or general to provide appropriate assistance.
- Pertinent guidance is always helpful. The EIC regularly volunteers discussion of written communications from FCA.

General Questions 9, 10, and 11

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

- Exit review findings and discussion.
- Having FCA staff on site to interact regarding questions and conclusions.
- The exam team focused on areas of potential risk. They appropriately evaluated the risk and discussed findings with staff. Were open to discussions and reached reasonable and satisfactory conclusions.
- Credit administration review, review of institution stress testing, exchange and communication with the EIC.
- The background information and supporting documentation on some of the findings was helpful. We also appreciated the discussions and phone conversation prior to the report being issued.
- Our institution is assigned to the training track for newer FCA employees. The group that completed our most recent exam did a good job and they represent the Agency well.
- Executive session with examiners.
- Communication level and quality; Participation of lead examiners with Board Audit Committee was beneficial; Exam team very respectful of staff time and availability.

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

- Pandemic Plan and certain disaster recovery area reviews.
- Of the several findings only one really mattered. Pulling resources away from our mission to address ancillary issues is frustrating and time consuming. The regulatory burden placed on our staff because we are in a good credit cycle is becoming too cumbersome. If we had a downturn in the credit cycle, we would have only had one examination finding.
- Length of report, all issues appeared equally important.

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

- This was discussed with the entire board and it had no additional comments.
- Examiners met with the board to report on their findings. This meeting and exam reports were complete and effective.
- Board was satisfied with scope and ease to read and understand the report. The EIC and [name removed] attending Board meeting to present the report was appreciated as well as their professionalism. Personal communication of 2013 oversight areas was meaningful as well.
- Managing an institution with [amount removed] million in assets isn't that much different than managing an institution with [amount removed] million in assets. We are personal lenders, not procedural lenders.
- Pleased with conversation during executive session.