

OFFICE OF
INSPECTOR GENERAL

Survey Report

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

Second Quarter
Fiscal Year 2015
(Jan. 1 - Mar. 31, 2015)

Issued June 5, 2015



FARM CREDIT ADMINISTRATION

**Second Quarter (January 1 – March 31, 2015)
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 January 1 – March 31, 2015, the Office of Examination identified 14 FCS institutions that were in a position to provide meaningful survey responses.

The OIG sent surveys to those 14 institutions on April 29, 2015. Of the 14 institutions surveyed, 12 submitted completed surveys (86% 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 – Second Quarter FY 2015

Average numerical responses to survey statements 1–8 ranged from 1.6 to 2.0 for the second quarter of FY 2015.

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

The average response for all survey statements was 1.8 for the second quarter of FY 2015.

Average Response for all Survey Statements			
2 nd Quarter FY15	1 st Quarter FY15	4 th Quarter FY14	3 rd Quarter FY14
1.8	1.9	1.9	2.0

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: 1.8

Statement 1	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	2.4	1.8			2.1
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:

- [Name withheld] (EIC) appeared to consider our overall institution performance history in developing the exam scope.
- Our board is concerned with the cost of the FCA audit activities since as a _____ we are audited by two different independent auditors, and all of our owners are audited by the System external auditor and most have either an internal audit function or contract for internal audit services. The scope of the FCA audit plan might be much less detailed and less costly, given our institution’s established controls and governance structure/processes, combined with the audit services we purchase. These would seem to satisfy any safety and soundness issues that would impact the System.
- The institution has been under _____ with FCA for some time now. The Risk Supervision Division has been tolerant with the challenges facing the institution which

are basically non-controlled (*sic*) by it. The institution is under the expectation that once a Service Agreement is reached with another institution in order to reduce operating costs and efficiencies of the institution, the supervision and the expense and effort required of it will be reduced and downgraded to _____.

- The exam scope was appropriate. There is continued concern that the examination focus is geared to larger institutions with little latitude for smaller, more agile, associations.

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

Average Response: 1.7

Statement 2	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	2.0	1.7			1.9
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:

- IA quality assessment not necessarily FCA regulations but best practice within IA guidelines.
- In the isolated instances where this did not happen, [Name withheld] appropriately redirected his examiners.
- We have found the FCA examiners to be thoughtful in considering how the regulations apply to our institution.

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: 1.8

Statement 3	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	2.1	1.8			2.0
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	2.1

Comments:

- **Recommended and required actions addressed FCA's current issues but did not necessarily assist the board or management in addressing the risks of the institution.**
- Findings and recommendations were consistent with internal and bank audits.
- Increased knowledge of the equipment finance business and especially leasing would aid the examiners with providing additional insights to the institution.
- Care should be taken to avoid transposing “best practices” observed in large institutions across the board to smaller institutions who may not need them in the first place.

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

Average Response: 1.6

Statement 4	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	1.5	1.6			1.6
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	1.7

Comments:

- Fairly efficient but **IA examiner asked the same questions a couple of different times just in a different way.**
- [Name withheld] managed the exam team in an efficient manner and did not overly burden senior management. He also was respectful of our schedules by working around conflicts to the extent possible.
- **The EIC repeatedly brought up issues that we felt were solved.**

COMMUNICATIONS

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

Average Response: 2.0

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

Comments:

- [Name withheld] did an excellent job communicating with senior management throughout the exam process.
- **Communication with Human Resources occurred several months after the review and was initiated by our HR department as they were concerned because the HR manager was retiring at the end of 2014.**

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: 1.8

Statement 6	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	2.0	1.8			1.9
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	1.9

Comments:

- FCA discussion on FIRS ratings in the area of management provided little insight as this component seemed to use asset quality and capital ratings as a proxy for the management rating.

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

Average Response: 1.6

Statement 7	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	1.8	1.6			1.7
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:

- [Name withheld] kept an open mind in our discussions and displayed common sense in his conclusions.
- The dialogue between the institution's senior leadership and the FCA examiners was constructive. Having the FCA examiners better understand the institution's go to market and risk strategies would result in enhanced conclusions and recommendations.
- We felt the examiners listened to the Boards concerns and gave them consideration.

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			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	2.1

Comments:

- Guidance on exam focus assisted in allowing focus on prep work.
- We appreciate the timeliness of the information distributed FCSwide.
- **Typically reactive, not helpful or proactive.**
- With fewer small institutions each year (due to mergers), guidance can trend toward issues and solutions directed at larger institutions. Please try to maintain a healthy balance that recognizes the distinct difference.

Responses to Survey Items 9–11

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

Comments:

- Appreciated FCA's use of our new efile system in reviewing credit files.
- Best practice ideas.
- The ability to discuss preliminary findings with the exam team before the final report was completed.
- Discussion of the issues we face as an organization- closing meetings.
- Exit conference with board. Having the opportunity to visit and give and receive feedback face to face. As a director having the opportunity to have the teleconference between the examiners and the Executive committee. This was followed by an onsite visit from the examiners with the entire board.
- It is always helpful to self-examine; this process encourages those behaviors.
- As far as the Board is concern, the interaction and exit and interim meetings with the Examiners was conducive to a clear understanding of the issues.
- On site presence of FCA staff and close out meeting with the institution's leadership.
- Having examiners with a variety of experience and different points of view.
- Interaction, often informal, with seasoned exam staff.

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

Comments:

- **Discussion on using available capital to assist struggling dairy industry seemed odd when compared to FIRS discussion on capital asset quality.**
- **Some comments are unrealistic- diversity etc.**
- **Concentration on diversity and inclusion when it is obvious we have very little opportunity to address this in our territory.**
- **Will not answer questions "matter of factly". Too political and give canned answers.**
- **Components of exam modules that do not apply to smaller institutions.**

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 appreciated the level of communication and the professional Report of Examination presentation.
- The board appreciates the consistency and common sense of the examiners, as well as [Name withheld] and [Name withheld] meeting in person to discuss the final report.
- The Board appreciates the efforts the FCA dedicated to the exam and the recommendations to improve the institution's safety and soundness.
- **The EIC was very focused on specific areas and at times does not consider the big picture.**
- Focus on safety and soundness and not as much on SOC and AIMS. Implement regulations as they exist and enforce them.
- The board values the face-to-face meeting to present examination results.