

**Third Quarter Fiscal Year (FY) 2013 Summary Report
(April 1 – June 30, 2013)**

**Office of Inspector General's (OIG) Survey of Farm Credit System (FCS) Institutions
Regarding the Agency's Examination Function**

Introduction

During the period April 1 – June 30, 2013, the Office of Examination (OE) identified 12 FCS institutions that were in a position to provide meaningful survey responses.

The OIG sent surveys to those 12 institutions on July 30, 2013. Of the 12 institutions surveyed, 8 submitted completed surveys. If the outstanding responses are received, they will be included in the next quarterly report. One response to the survey issued for the second quarter of FY 2013 was received subsequent to the second quarter report being issued and is included in this report. Therefore, this report includes a total of 9 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. 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.

Survey Results – Third Quarter FY 2013

Average numerical responses to survey statements 1 - 8 were 1.4 to 1.9.

Average Numerical Responses to Survey Statements 1 – 8		
3 rd Qtr	2 nd Qtr	1 st Qtr
1.4 – 1.9	1.3 – 2.4	1.5 to 2.6

The average response for all survey statements was 1.7.

Average Response for all Survey Statements		
3 rd Qtr	2 nd Qtr	1 st Qtr
1.7	1.7	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.

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 (second quarter was 1.7, first quarter was 2.0)

Comments:

- While areas examined are important, some of the main examination areas such as Standards of Conduct, Business Plan, and Diversity and Inclusion seem like areas of lower risk. Credit quality in the institution is excellent so this may have resulted in focus in these other areas. **Amount of stress testing being demanded may be excessive in relation to the size, complexity and risk profile of the institution.**

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

Average Response: 1.8 (second quarter was 1.6, first quarter was 1.9)

Comments:

- One required action required a literal dollar amount versus a percentage from which a dollar amount could be calculated. **Seems we met the intent of the law by stating a required percentage.**

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 (second and first quarters was 2.0)

Comments:

- Recommendation from the review will help the institution to comply with FCA regulation.
- Majority were helpful. However, some recommendations regarding loan penetration studies seem to have questionable usefulness.

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

Average Response: 1.4 (second quarter was 1.3, first quarter was 1.5)

Comments:

- All but one of the examiners were professional and very good to work with. Unfortunately, one of the examiners was not professional, including raising his voice and pounding his fist on the desk. Also did not seem capable of understanding the loan file documentation. Quite often went off on tirades without knowing what he was talking about. [Follow-up underway]

Communications

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

Average Response: 1.4 (second quarter was 1.5, first quarter was 1.9)

Comments:

- No comments submitted.

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 (second quarter was 1.6, first quarter was 1.7)

Comments:

- The Report of Examination was extremely well written. Our compliments on the very difficult task of condensing a lengthy and multi-faceted exam into a clear, concise, and meaningful document for the board.
- Exam communications were adequate, but sending three examiners to present to the board what was already communicated in the report was not

necessary or cost effective, when a phone presentation would have been adequate. We acknowledge the on-site visit was possibly for training purposes.

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

Average Response: 1.6 (second quarter was 1.6, first quarter was 1.8)

Comments:

- The examiners' interaction with staff, receptiveness to dialogue, exercise of sound judgment, and the focus on the issues of materiality.
- Most examiners were good to request feedback and took our responses into consideration.

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

Average Response: 1.9 (second quarter was 2.4, first quarter was 2.6)

Comments:

- Some of the guidance issued in the form of Informational Memos and contained in the examination guidance could benefit from a more robust debate, which is normally the case in the regulation rule making process.
- Always open to suggestions on how we can improve.

General Questions 9, 10, and 11

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

- I have always had an exit conference with the examiners and their questions and suggestions to be greatly beneficial.
- Good communications between the EIC, management, and board.
- Open communication with our board chairman and CEO particularly as issues or questions arose.
- [same answer given for No. 7] The examiners' interaction with staff, receptiveness to dialogue, exercise of sound judgment, and the focus on the issues of materiality.
- Outside validation of internal review process.
- Communication between the examiners and the Board and management was beneficial.
- Exam pointed out several places where our policies, procedures, and other documents were out of sync with updated regulations.

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

- We found no aspect of the examination to be anything other than beneficial.
- Training program examination is time consuming.
- Make good loans is the most important thing an institution can do. While the exam did review loan files, it seems the exam was focused on less important areas than credit administration.

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

- Standards of Conduct are still subject to examination team interpretation. *While we support the intent of the regulation on this matter, more guidance is needed from the agency. Directors should not be expected to know certain business relationships other than those they have direct involvement in.*
- I and the Board believe in the team approach. On this team we may be in charge but we cannot do our job without input and feedback from our FCA examiners, PWC auditors, ICR reviewers, SOX and Internal Control Auditors. All these people tell us if we are doing our job and where we may need to focus efforts.
- Good communications exist between the Board Chair and the EIC.
- The Board is a staunch supporter of the FCA examination process, and deeply values its independent and objective findings and conclusions. This is a critical component in our governance process over the affairs of the institution.
- The Board was pleased with the overall examination process.