

OFFICE OF
INSPECTOR GENERAL

Survey Report

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

Third Quarter
Fiscal Year 2015
(April 1 - June 30, 2015)

Issued Sept. 15, 2015



FARM CREDIT ADMINISTRATION

**Third Quarter (April 1 – June 30, 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 April 1 – June 30, 2015, 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 July 22, 2015. Of the 16 institutions surveyed, 15 submitted completed surveys (94% 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 – Third Quarter FY 2015

Average numerical responses to survey statements 1–8 ranged from 1.5 to 2.0 for the third quarter of FY 2015.

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

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

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

Statement 1	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	2.4	1.8	1.9		2.0
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:

- Focus was on Credit Administration, Credit Quality, general safety and soundness, compliance, and governance. Based on economic conditions of customers and the institution, this seemed appropriate.
- Exam team focused on high risk areas, had strong technical knowledge and broad FCS knowledge. Good input on various improvement opportunities.
- The examination focused on areas that were appropriate.
- We thought the focus was generally appropriate. **The new requirement for association independent credit analysis on _____ was thought to be duplicative considering the expertise of _____.**
- Activities focused on risk areas.

- Scope was consistent with exam guidance. The exam team was in the early stages of identifying key internal control focus areas thus scope of the exam was evolving during the exam.
- Sample size generally appropriate to the institution, we believe the focus should continue to evolve to risk and control based testing as opposed to substantive testing as measured by size of scope.
- Examiners did a good job of evaluating our institution.
- **We do not feel like there was enough distinction made for the size of the institution.**
- The most recent FCA examination of the institution focused on material safety and soundness issues, internal controls, portfolio management, and regulatory compliance. These are areas we would anticipate for review.
- As a result of the risk assessment, the examination focused on board governance, planning, funding operations, financial reporting, and IT controls pertaining to the Data Warehouse. To complete the risk assessment, FCA considered the institution's policies and procedures, strategic plans, financial information and any recent changes.

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

Average Response: 1.5

Statement 2	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	2.0	1.7	1.5		1.7
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:

- Exam work was effectively tied to relevant laws and regs.
- Believed to be so, somewhat difficult to ascertain from our perspective.
- Generally agree, **but had one issue with a reg that is vaguely worded. The examiner consulted legal regarding the providing of a "complete" borrower list to the Nominating Committee. This list will include "ineligible" borrowers and may well lead to unnecessary speculation from the NC, and embarrassment for the ineligible member, as to why a certain potential nominee is ineligible. We question the wording of the reg and the reason for offering the NC a list that includes ineligible borrowers. It should read a list of "eligible" borrowers for the protection of confidential information of those ineligible members, real or perceived. If an ineligible person cannot run for a Board position, why should their name be on the list?**
- **However, examiners often apply personal interpretations which results in over-regulation and the agency delving into direct management of the institution.**
- In general, the "required actions" noted in our exam report that were directly tied to regulatory criteria as would be viewed as appropriate by our institution. **However, in a couple instances it was not clear to us that findings were based on regulation, but rather were more reflective of examiner preference.**
- The FCA supported their examination findings and conclusions by citing the relevant FCA regulations in their report.

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

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

- Exam team's observations were valuable in highlighting operating risks for management and the board.
- **Institution Board and Management did not agree with some findings that lead to recommendations in the Examination Report.**
- Limited recommendations and required actions.
- Limited recommendations were provided to the institution during the current year. However, FCA worked collaboratively with the institution in managing difficulties with a troubled institution, and was very effective in addressing risks and supporting remedial actions associated with that institution.
- The examiners do identify certain risks however, **over a three or four year time span they reversed their requirements a couple of times on how to correct one issue which is very frustrating to management and board because policies and procedures have to be changed, as well as retraining of personnel and the administration of certain loans. Some findings had little to do with safety and soundness and more with regulatory requirements. FCA has not assisted as much as criticized. More emphasis should be made to help resolve problems.**
- Required and recommended actions noted in the exam report were reviewed by board and management and agreed to be appropriate processes or practices, and of benefit for the institution. In each case (required and recommended) actions are being taken as prescribed by FCA.
- The control enhancements presented provided management and the Audit Committee with reasonable assurance that the control objectives will be achieved in the future.

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

Average Response: 1.9

Statement 4	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	1.5	1.6	1.9		1.7
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:

- Examiners were always very professional and interacted well with institution management and staff.
- **The examiners did not complete review on site of larger and more complex credits which lead to some misleading conclusions.**
- The EIC, [name withheld], completed his final year with the institution. He has established a very professional, productive and effective arms-length working relationship with the institution. As lead reviewer, the institution found [name withheld] to be professional, independent, constructive, and balanced in his approach. The bank appreciated his efforts and approach.
- **On average, in-house examiners, other than the EIC, had too little experience and training. Senior institution staff feels they have to train them.**
- FCA examiners were in each instance professional and courteous. **The exam process was noted as less efficient than previous experience in two manners; one being the overall start-to-finish time line of the examination process (more than 5 months) seemed excessive. A second point to note was that the off-site review process included unscheduled calls which would get into detailed/specific questions with little opportunity for our staff to prepare or research responses.**
- The examiners were very professional demonstrating discernment and good judgment.

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 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	1.5	2.0	1.7		1.7
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:

- Reporting was clear and timely. Lead examiner keeps in close contact during the year. Sufficient time was provided regarding notice of the examination, as well as the time needed for the receipt of request letter items. There was a great deal of information required upfront. It is important that FCA staff is given sufficient time prior to the examination to review this information prior to being onsite.
- Focus areas were consistent with exam guidance to the System which is appreciated.
- Very clear, accurate and timely communications with both board and management. We would ask that examiners consider the amount of time spent with individual directors. While we welcome the direct contact and directors are always happy to assist, we would ask that their roles and time be considered prior to them being contacted.
- **FCA suffers from a lack of communication within their own institution. Our communication to the agency is not always being communicated up or down the "ladder", as a result the institution and agency suffers the consequences. Also the report of examination was**

misleading and inaccurate on one item. It stated the institution failed to do something that it had done, but because it was not accomplished as timely as the agency interpreted, the report misled the readers.

- EIC [name withheld], Supervisor [name withheld] and staff were good at raising questions to ensure clarity and understanding of situations before making conclusions. We appreciate the opportunity to discuss situations with questions.
- The Office of Examination staff effectively communicated with the institution staff during meetings and interviews. Strong listening and interpersonal skills helped with relationship development.

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

Statement 6	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	2.0	1.8	1.7		1.8
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:

- It was apparent that whatever happened in _____ had an impact on the reviewers onsite. They were not at liberty to discuss yet you could see the impact on the scope of the audit. It would have better to all involved if there was more transparency in the Farm Credit System. Pretty difficult to learn and improve if you don't know the issue!
- Examination report was clear with the right level of detail for the board and audit committee.
- However, we did disagree with some of the recommendations.
- Audit and Board Executive committee was involved in the exit discussion.
- Complete and detailed discussion in final examination document, as well as, interim letters.
- They were helpful and answered all questions.
- Exam communications, both verbal and written, during the exam process that management was able to communicate to the Board and Audit Committee, and the exam report findings that were communicated by FCA directly to the Board and Audit Committee were all viewed as adequate and appropriate.
- The staff delivered an informative and concise report to the Board of Directors. The discussion included a description of the process for ensuring that management takes appropriate corrective action on suggestions made in internal audit report.

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

Average Response: 1.9

Statement 7	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	1.8	1.6	1.9		1.8
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:

- The exam team appropriately considered management’s positions when drafting their report.
- While the team listened to us, **they made no changes in areas we believe were misleading.**
- Board of directors had minimal views or responses for the examiners to consider in formulating their conclusions and recommendations. Exam team and EIC had significant discussions with management as appropriate before finalizing recommendations.
- Generally true and we engaged in good dialogue.
- **Most examiners are not nor have ever been involved in agriculture or worked in an institution. As board members or management it is difficult to have a "common-sense" conversation with examiners whose knowledge levels of agriculture and ag business are only textbook and so practically lacking.**
- In each case of finding, FCA examiners brought to our attention questions or observations that allowed for management response before FCA conclusions were made. We appreciated that opportunity.
- During the exit interview, together the Office of Examination staff and management reviewed the draft report. FCA staff received clarification on areas examined and incorporated management's comments into their final report.

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

Average Response: 2.0

Statement 8	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 15	1.9	1.9	2.0		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:

- Updates have been timely and relevant.
- Generally we agree, **but sometimes issues are not relevant to our business structure (small institution).**

- OE staff met with _____ members to discuss guidance. These informal discussions were very helpful in understanding direction and requirements.
- IMs and other materials are of help in enabling and understanding compliance issues.
- Yes, there was good dialogue during the course of the exam between the institution and FCA staff on the varied topics and issues that arose during the course of the exam.
- The Office of Examination staff is always ready to share their knowledge of System policies and procedures.

Responses to Survey Items 9–11

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

Comments:

- Team was very professional, business-like in their approach. Good team, no issues. Did appreciate the openness of the team to discuss wide variety of pertinent issues.
- Their input regarding security is always valuable, as are their suggestions related to technology in general. Direct interaction with the examiners, understanding their views.
- The communication with the examiner in charge was positive and he provided good communication throughout the examination process.
- Expansion of the Whistleblower Program to include borrowers and agents was probably a good thing. This should give more confidence to FCA and other concerned parties that fraud prevention efforts are very serious.
- Dialogue with individual auditors.
- On site communication with institution Officers was satisfactory.
- Bringing a third party view of the organization.
- Discussions on views of individual credits.
- The evaluation of risk.
- Face-to-face conversations.
- **Some questions of Audit Committee Chairman seem to be micro managing.**
- I especially appreciated the approach of those involved in the examination, taking the time to ensure questions were answered thoroughly and providing for a level of confidence for the board that the scope was comprehensive and thorough.
- Portfolio Management.
- Hearing from FCA on broader perspectives of system-wide business activity and practices is always beneficial.
- FCA's assessment of the business risks faced is very beneficial to management and the Board in understanding the internal control implications.

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

Comments:

- **Again, it was apparent that whatever happened in _____ had an impact on the audit team. Would have been good for corporate FCA to send defined direction early.**
- **The request letter information was substantial and took a lot of resources and time to collect. The open-ended request allowed for overload, and I am not certain the examiners gained full value of institution practices because of that.**
- Nothing comes to mind.

- Assessment of the institution risk identification on loans.
- While we value a third party view of the organization, we do not "depend" on it to provide front end guidance to run the organization.
- **Some inexperienced examiners with perhaps insufficient oversight served on review teams and asked questions that were less meaningful.** With that said, we recognize the need for training and note improvement from the prior year.
- **The extent of detail. Sometimes we feel as if the examination team is trying to manage the institution. "Best practices" are presented in a way that we believe they will likely become "required actions" in the next exam.**
- **The added costs of requirements such as additional independent audits imposed by the agency is crippling. These are not necessary where overlapping audits have already determined there is no imposing risk to safety and soundness. This ultimately reduces patronage to stockholders making farm credit less competitive. Examiners do not seem to have any realization or even care that this aspect of the business is an issue.**
- I am not sure that I found anything "least beneficial", I felt very comfortable with the total examination.
- The review of the governance area.
- As noted in response 4, **the overall examination process was overly drawn out. The time provided at the end of the process for institution management to review the draft exam report prior to finaling (sic) was very limited (only a few hours).**

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 appreciates the manner in which the audit was conducted and appreciates being able to meet with them in person for the closeout.
- Our document called "Corrective Actions" (to exam findings) which is updated on an ongoing basis for Audit Committee review is probably most indicative that the Board is responsive to direct management to correct and improve as needed.
- The Board felt the process went well and the institution was given a fair assessment with qualified auditors. The Board also felt the executive session was beneficial.
- This survey would typically be a committee action rather than a matter for the "board as a whole." For our institution, this is best directed to the Audit/Risk Committees although we invited input from all directors.
- Our Board will not meet prior to submission. The AC Chair and management team completed the survey.
- **The agency seems to lack an ability to prioritize areas of importance. No one is more concerned with TRUE safety and soundness issues than we are however, the examiners waste a huge amount of time, and our time and money, on areas that are of no serious concern, and they do not seem to be able to define or comprehend what TRUE safety and soundness even is.**
- We appreciate the opportunity to meet with the examination staff to discuss the examination findings in detail.
- Board comments were very complimentary of the process.
- We found the exam process to be helpful and are pleased with the current tone of examination.
- The Board was pleased with the examination process and results.