

OFFICE OF
INSPECTOR GENERAL

Survey Report

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

Third Quarter
Fiscal Year 2017
(April 1 - June 30, 2017)

Issued September 29, 2017



FARM CREDIT ADMINISTRATION

**Office of Inspector General's Survey of Farm Credit System Institutions
Regarding the Agency's Examination Function
Third Quarter Fiscal Year 2017 Summary Report
(April 1 - June 30, 2017)**

Introduction

During the period April 1 – June 30, 2017, the Office of Examination identified eleven Farm Credit System (FCS) institutions that were in a position to provide meaningful survey responses.

The Office of Inspector General (OIG) sent surveys to those institutions in August 2017. Nine of the eleven institutions surveyed submitted completed surveys (82% 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 a report to you based on each Fiscal Year (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 2017 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
Does Not Apply (not included in averages)	6

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 2017

Average numerical responses to survey statements 1–8 ranged from 1.4 to 2.2 for the third quarter.

Average Numerical Response Range to Survey Statements 1–8

3 rd Quarter FY17	2 nd Quarter FY17	1 st Quarter FY17	4 th Quarter FY16
1.4 – 2.2	1.5 – 2.0	1.6 – 2.0	1.3 – 2.0

The average numerical response for all survey statements was 1.8 for the third quarter.

Average Numerical Response for all Survey Statements

3 rd Quarter FY17	2 nd Quarter FY17	1 st Quarter FY17	4 th Quarter FY16
1.8	1.7	1.8	1.7

In this quarter, there were more positive than negative narrative comments to survey statements 1–8. (Perceived 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. This item elicited several thoughtful responses from full boards, which was the objective of the question.

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 2017	1.8	1.6	1.8		1.8
FY 2016	1.6	1.8	1.9	1.7	1.8
FY 2015	2.4	1.8	1.9	1.9	2.0
FY 2014	2.0	2.2	2.4	1.9	2.1

Comments:

- We believe the scope of the examination appropriately addressed material areas of risk.
- Discussions with the examiners regarding stress testing were unduly challenging as the examiners were reluctant to fully assess the models in light of the specific characteristics of the portfolio. As a result, the focus was not appropriate to the risk profile and inefficient.
- We felt the exam was designed to appropriately address the institution's risk. We also feel that the findings were appropriate and helpful to the institution.
- Exam areas were as expected based on early communications with the FCA and were generally risk based.

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

Average Response: 1.8

Statement 2	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 2017	1.8	1.7	1.8		1.8
FY 2016	1.9	1.8	2.1	1.8	1.9
FY 2015	2.0	1.7	1.5	1.8	1.8
FY 2014	1.8	2.1	1.9	1.8	1.9

Comments:

- All findings were sufficiently documented with regulatory grounds for specific recommendations.
- Findings can sometimes be more like "best practice" recommendations, but appear to be a regulatory violation in the report.
- New capital regulations were a focus and the examination team's findings and suggested changes were appropriate and further supported the institution's implementation.
- Examiner's recommendation to use forward looking information in our allowance for loan loss analysis is not GAAP compliant. Examiner has been insistent that our auditor is okay with institution using the forward looking information but our discussions with our auditor have confirmed that this is not appropriate under current GAAP.
- The examination team appeared to work from checklists based from the exam manual. We had no concerns in this area.

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: 2.2

Statement 3	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 2017	1.8	1.8	2.2		1.9
FY 2016	2.1	2.2	2.1	2.0	2.1
FY 2015	2.1	1.8	2.0	2.3	2.1
FY 2014	1.7	2.0	2.1	2.1	2.0

Comments:

- Recommendations were helpful and add value to management's goal of maintaining a sound financial condition.
- The findings and recommendations were appropriate and helpful.
- FCA has micromanaged and second guessed board decisions regarding HR related issues of the institution.
- Our institution received only two required actions, neither of which had material impact on the risk of the institution.

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

Average Response: 1.4

Statement 4	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 2017	1.8	1.5	1.4		1.6
FY 2016	1.5	1.5	1.8	1.3	1.5
FY 2015	1.5	1.6	1.9	1.5	1.6
FY 2014	1.4	2.2	1.8	1.6	1.8

Comments:

- Examiners were very professional. The majority were of a lower tenure but conducted themselves very well and demonstrated a respectful approach with a high level of conscientiousness.
- Much of the exam was handled off site and this I feel improved efficiency for the agency and the institution. The examiners were very professional and accommodating.
- We appreciate the good working relationship we have had with our EIC and their supervisor.

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 2017	1.6	1.5	1.7		1.6
FY 2016	1.8	1.7	1.8	1.6	1.7
FY 2015	1.5	2.0	1.7	1.8	1.8
FY 2014	1.6	2.2	2.0	1.7	1.9

Comments:

- Communications were clear and timed appropriately. Requests for information were well coordinated and did not seem overwhelming. It was apparent there was an effort to understand files before questions were asked. Reasonable expectations of response times were also helpful.
- **Management has difficulty distinguishing between recommendations and requirements in examination report. It seems that virtually all recommendations eventually become requirements.**
- Communication was very open and well received by both parties.

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 2017	1.8	1.6	1.7		1.7
FY 2016	1.7	1.7	1.6	1.6	1.7
FY 2015	2.0	1.8	1.7	1.9	1.9
FY 2014	2.1	2.2	1.8	1.9	2.0

Comments:

- Presentations gave enough detail to support recommendations and provided suggestions to assist the Board and Audit Committee in setting expectations for staff.
- Communications were accurate and professional, but did not provide new or different information relative to information we receive from the bank, management, and Internal Audit.

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

Average Response: 2.1

Statement 7	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 2017	1.6	1.8	2.1		1.8
FY 2016	1.9	1.8	1.9	1.8	1.9
FY 2015	1.8	1.6	1.9	2.1	1.9
FY 2014	1.8	2.2	1.9	2.1	2.0

Comments:

- Questions from management were heard and responses were respectful. There was very little debate or disagreement with the Agency's findings.
- Examiners tend not to consider the cost benefit of their recommendations which often makes discussions with them unproductive. This results in unnecessary inefficiencies in the institution's operations and cost structure.
- Examiners were firm but fair.
- FCA has micromanaged and second guessed board decisions regarding HR related issues of the institution. [same response to statement #3]
- The exam team was very open to communication and discussion of potential issues.

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 2017	2.0	2.0	1.9		2.0
FY 2016	1.7	2.2	2.2	1.8	2.0
FY 2015	1.9	1.9	2.0	2.2	2.0
FY 2014	2.0	2.2	2.0	2.1	2.1

Comments:

- Focus areas are always appreciated and are helpful but should already be on minds of the board and management.
- When asked questions regarding new Capital regulation oversight activities planned, our EIC facilitated a conference with FCA team members with specific expertise in this area.

GENERAL QUESTIONS

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

Comments:

- Board appreciates the in person visit that included a report of examination presentation and an executive session.
- The ongoing interaction between staff and examiners is generally beneficial. It assists staff in understanding regulatory perspective and enhances their risk management perspective.

- Determining where the institution may have some areas of risk that may need more attention given by the institution that has not been considered.
- Overall discussion of perceived risks in the portfolio and the environment in general.
- We appreciate good dialogue throughout the examination process and feedback on best practices.
- Overall guidance was helpful for management. The FCA examiners were professional and helpful.
- The preparation by our team for the exam.
- The Audit Committee appreciates the communication with your staff and their ability to give perspective related to our peers in System and regulatory expectations.

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

Comments:

- Recommendations and requirements that have little or negative cost benefit.
- Time consuming for staff (an examination can last months); sometimes info requested more than once from different people.
- The exam team included trainees. The trainees struggled with some nonaccrual details because of complexity. The uncertainty caused some confusion with our staff.
- FCA's recommendation on our allowance for loan loss calculation is in contrast to what our auditor is telling us. We end up caught in the middle between our regulator and our auditor on the topic.

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

Comments:

- Generally, the examination process went well, and we consider our relationship with the regulator to be good.
- Report addresses the risks areas that has direct impact to the institution and help them in meeting their fiduciary responsibilities as a board.
- Board responses in general mirror the responses above.
- The exam was proactive but excessive in some areas.
- Given the increased efforts, focus, and expectations around the ICFR process, the Board would appreciate feedback in that area. Our institution has committed significant time and resources in this area.