

OFFICE OF
INSPECTOR GENERAL

Survey Report

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

First Quarter
Fiscal Year 2016
(Oct. 1 - Dec. 31, 2015)

Issued March 24, 2016



FARM CREDIT ADMINISTRATION

**Office of Inspector General’s Survey of Farm Credit System Institutions
Regarding the Agency’s Examination Function
First Quarter of Fiscal Year 2016 Summary Report
(October 1 – December 31, 2015)**

Introduction

During the period October 1 – December 31, 2015, the Office of Examination identified 12 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 on January 27, 2016. Of the 12 institutions surveyed, 10 submitted completed surveys (83% 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 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 2016 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 – First Quarter FY 2016

Average numerical responses to survey statements 1–8 ranged from 1.5 to 2.1 for the first quarter.

Average Numerical Response Range to Survey Statements 1–8			
1 st Quarter FY16	4 th Quarter FY15	3 rd Quarter FY15	2 nd Quarter FY15
1.5 – 2.1	1.5 – 2.3	1.5 – 2.0	1.6 – 2.0

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

Average Numerical Response for all Survey Statements			
1 st Quarter FY16	4 th Quarter FY15	3 rd Quarter FY15	2 nd Quarter FY15
1.8	1.9	1.8	1.8

In this quarter, there were slightly 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. 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: 1.6

FY 15	2.4	1.8	1.9	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

Comments:

- The scope of the exam was risk-based and appropriate.
- We agree with this statement.
- The overall scope appears to be appropriate; **however, certain recommendations suggest examiners' activities go well beyond issues having potentially material safety and soundness implications (see question 3).**
- Better scope and focus with this examination than we've had in several years.

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

Average Response: 1.9

FY 15	2.0	1.7	1.5	1.8	1.8
FY 14	1.8	2.1	1.9	1.8	1.9
FY 13	1.9	1.6	1.8	2.3	1.9

Comments:

- FCA issued its IM guidance regarding Cybersecurity August 5, 2015. The institution was in the process of implementation when our exam began in late August. **The institution was held to the**

updated requirements, though the exam timeframe was prior to the issuance of the IM. In addition, the institution was evaluated in the area of Internal Audit using "draft" exam guidance that was not readily available to institutions. In both cases, the guidance was reasonable and the institution was in compliance or in the process of finalizing full compliance, however the time lines were not reasonable for enforcement had there been an issue.

- We did not experience anything to the contrary.
- Generally agree. However, we had one disagreement over the applicability of FCA guidance to one business process. Options afforded an examined institution to appeal such issues seem inadequate.
- In general we feel the criteria was used appropriately. We did have disagreement with one topic on which we feel we have received conflicting information from FCA.
- Examiners have a thorough understanding of the laws and regulations.

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: 2.1

Statement 3	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 16	2.1				2.1
FY 15	2.1	1.8	2.0	2.3	2.1
FY 14	1.7	2.0	2.1	2.1	2.0
FY 13	2.0	2.0	1.8	2.2	2.0

Comments:

- The required action (1) was in process and had been approved by our Board based on internal risk management strategies prior to the exam. The recommendation directed at fraud risk management regarding execution of loan documents was impractical, contrary to customer service goals, and did not consider the institution’s mitigating controls in place for this risk area. We appreciate that these two issues are minor differences with the exam team. We found overall risk and control philosophies were in alignment between FCA and the institution.
- Required actions were appropriate.
- Generally agree. However, several recommendations were related to issues with minor risk implications. The primary concern is that layering on numerous recommendations or requirements related to issues of marginal importance can ultimately result in an inability to focus on the more substantive risk issues. Also, every process, report, etc. comes at some cost, so while the cost of an individual recommendation or requirement may be minor in isolation, the cumulative impact over time can amount to a significant waste of resources.
- In general, the recommendations were valid. We take issue with one recommendation which we do not feel was fully discussed prior to its inclusion in the report.
- The new report format did not summarize recommendations very well. We prefer the old style format with bulleted recommendations.

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

Average Response: 1.5

FY 15	1.5	1.6	1.9	1.5	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

Comments:

- Our exam team was professional and reasonable to work with. They interacted well with our staff and reflected a positive attitude. The examiners demonstrated effort to add value by sharing knowledge and best practices. We appreciated working with them.
- We were pleased with the examiners' professionalism.
- Examiners were professional; however, exam activities drug on for several weeks past the on-site activities. This created undo disruption to the institution.

COMMUNICATIONS

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

Average Response: 1.8

Statement 5	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 16	1.8				1.8
FY 15	1.5	2.0	1.7	1.8	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

Comments:

- Some recommendations in the report were unclearly written, requiring a follow up call to the EIC and corrected language in our response. Most communications were clear, accurate and timely.
- All communication was clear, accurate and timely.
- _____ and her staff were very clear in their communications and gave consideration to management's comments.
- Better than in the past, yet there is still a level of disconnect in communication with our EIC.

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

FY 15	2.0	1.8	1.7	1.9	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

Comments:

- The EIC and team members met with the Audit Committee to present the exam report and answer questions. The meeting was generally helpful, though some verbal recommendations were more related to the examiner's opinion on issues than on regulatory requirements.
- Board communication was at the appropriate level.
- Having both the EIC and the Senior Examiner/Director on-site to present the Report of Examination was beneficial. We experienced outstanding communication from the Compliance Examination team.

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 16	1.9				1.9
FY 15	1.8	1.6	1.9	2.1	1.9
FY 14	1.8	2.2	1.9	2.1	2.0
FY 13	1.8	1.6	1.6	2.0	1.8

Comments:

- Examiners were open to discussion when warranted.
- The written report was more clearly written and focused than past reports have been.
- Generally agree. However, as noted above, there was one area of disagreement in which the "appeal" never got beyond the examination team itself. Although the issue may have been communicated further within the Agency, it does not appear that a full evaluation by an independent group, including interaction with the institution, occurred.
- There were instances where we feel the examiners failed to give management's responses proper attention. In one case, we feel that we were not given the opportunity to fully state our case prior to the examiners reaching a final conclusion.
- Much better than past examinations.

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

Average Response: 1.7

FY 15	1.9	1.9	2.0	2.2	2.0
FY 14	2.0	2.2	2.0	2.1	2.1
FY 13	2.6	2.4	1.9	2.1	2.3

Comments:

- Guidance is always welcome and helps us continue to fulfill our mission.
- The National Oversight Plan provides excellent guidance as well as routine Memorandum of Understanding communication.

Responses to Survey Items 9–11

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

Comments:

- We appreciated discussion surrounding best practices as observed around the system by the examiners. For example, the EIC shared a sample template of the detailed audit universe by enterprise with the DIA, who was working on creating one at the time.
- Senior leadership and Board appreciated the professionalism and opportunity to candidly discuss issues with _____ and _____.
- We felt the dialogue with tenured examiners added value to our organization.
- Two way discussion regarding the types and degrees of risks facing the institution.
- The examination included several required actions we found to be appropriate.
- We appreciate the view provided by a third party with intimate knowledge of regulatory guidance. We appreciate the opportunity to have discussions on regulatory guidance.
- The face to face exit meeting with staff and the Audit Committee Chairman as well as face to face final report presentation to the Board.
- Risk discussion.
- The examination allowed management and the Board to see how required policies and procedures are being carried out in relation to other institutions across the country.

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

Comments:

- FCA's recommendation surrounding the function of our nominating committee was challenging to appreciate in terms of its practicality, benefit to our members, or risk management.
- Some of the recommended actions could have been informal suggestions.
- It is challenging at times to accommodate the basic questions of inexperienced examiners. We do our best, however, it creates time pressures on our staff.

- Process seemed rushed in some areas because of limited onsite time available for examiners and multiple activities had to be completed offsite.
- As noted above, there appeared to be some imbalance between risk and benefit, which leads to activities with limited value.
- While we appreciate the examiners' opinions of our financial position and performance, there was not a great deal of value in the analysis provided in the report.
- The interview meetings where the EIC and/or others used a work-flow type of script and checklist to gather information were tedious, inefficient, and unproductive.
- Nominating committee.
- Very time consuming on institution staff to complete the necessary information required by the reviewers.

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 risk based approach to the examination and the efforts to communicate with the board in terms of the meeting with the audit chair and the report out to the full board.
- The Board appreciates the agency's efforts to keep us safe and sound.
- Follow-up from examiners is pending on questions that arose in the Board Executive Session. Remaining topics were relevant and complete.
- All comments provided - Board presentation went well.
- In regard to the issue where we feel we did not get a thorough hearing from the examiners, the Board fully supports the position management was trying to assert.
- FCA personnel did a satisfactory job in meeting with the entire Board explaining their scope of review, their findings, and recommended actions. They gave the Board plenty of time for questions and comments. Also, meeting with the Board in executive session to allow any comments/questions without management being present.