

OFFICE OF
INSPECTOR GENERAL

Survey Report

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

Fourth Quarter
(July 1 - Sept. 30, 2016)
and
Fiscal Year 2016 Summary

Issued January 5, 2017



FARM CREDIT ADMINISTRATION

**Office of Inspector General’s Survey of Farm Credit System Institutions
Regarding the Agency’s Examination Function
Fourth Quarter (July 1 - September 30, 2016) and
Fiscal Year 2016 Summary Report**

Introduction

During the period July 1 – September 30, 2016, the Office of Examination identified thirteen 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 October 26, 2016. Eleven of the thirteen institutions surveyed submitted completed surveys (85% response rate). When outstanding responses from prior quarters are received, they are included in the next quarterly report. The OIG received one response to the third quarter survey, which is 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. This fourth quarter report includes 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 – Fourth Quarter FY 2016

Average numerical responses to survey statements 1–8 ranged from 1.3 to 2.0 for the fourth quarter.

Average Numerical Response Range to Survey Statements 1–8			
4 th Quarter FY16	3 rd Quarter FY15	2 nd Quarter FY16	1 st Quarter FY16
1.3 – 2.0	1.6 – 2.2	1.5 – 2.2	1.5 – 2.1

The average numerical response for all survey statements was 1.7 for the fourth quarter.

Average Numerical Response for all Survey Statements			
4 th Quarter FY16	3 rd Quarter FY15	2 nd Quarter FY16	1 st Quarter FY16
1.7	1.9	1.9	1.8

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. It elicited a number of 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: 1.7

Statement 1	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 16	1.6	1.8	1.9	1.7	1.8
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:

- We feel some recommendations made by the team were not very appropriate for an institution of our size.
- This was our third examination. Determining appropriate scope has been a learning process for FCA and for us.
- I found the results of the examination to be informative, fair and adequately scoped.
- The agency tends to take a blanket approach to setting its scope of work for the coming year. In many cases this was developed by recent events in the financial industry or commodity market. That scope of work should be considered and tailored to each individual institution and its current position. We have had to address a number of items that our regulator and other existing third party audit groups should already be aware of. Our examiners should already know how our institution operates instead of us having to complete additional surveys to explain this again. This is very time consuming and costly for our institution.
- A higher degree of reviewing the reviews that have been completed by others, such as the Internal Reviewer, would further utilize FCA resources.

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 16	1.9	1.8	2.1	1.8	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:

- The requirement that our whistleblower hotline link be on the institution's website exceeded regulatory requirements and was essentially the enlargement of regulations by the examination team without following the required rule-making process.
- We have found FCA examiners to be thoughtful in considering how the regulations apply to our institution.
- The interpretation of the Regulations, laws, and criteria vary from EIC to EIC. The various interpretations tend to go beyond the intended scope of the original law.
- Application and interpretation of the rule and regulation can be different from one examiner to another.
- No disagreements.

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 16	2.1	2.2	2.1	2.0	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:

- No material changes will be made in how we manage or govern the institution as a result of this exam.
- The interpretation of the Regulations, laws, and criteria vary from EIC to EIC. The various interpretations tend to go beyond the intended scope of the original law. (same response to statement 2 above)
- Very clean review.

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

Average Response: 1.3

Statement 4	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 16	1.5	1.5	1.8	1.3	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:

- The EIC did an excellent job of managing the exam and with his communications.
- This was an incredibly busy year for us and the examiners were sensitive to that. We were given advance notice when requests for information would be coming in, so we could plan accordingly.
- Noticeable improvements have been made from the prior year.
- Our EIC has been helpful in explaining and addressing any areas of concern.
- Very good leadership and professional staff.

COMMUNICATIONS

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

Average Response: 1.6

Statement 5	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 16	1.8	1.7	1.8	1.6	1.7
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:

- **Exception: Discussion on business continuity plan was very confusing and the agency's expectation was unreasonable.**
- Since our Examiner in Charge was new in that role and new to our organization, she scheduled regular conference calls with us throughout most of the exam process. This was helpful for a mutual learning process, as well as giving everyone an opportunity to ask questions, follow up on items and ensure clear communications. Throughout the exam process, examiners were engaged and helpful in answering our follow up questions on requests if not clear.
- **We will still prefer that some items which the examiners preferred to not put into written form be put into written form for documentation purposes if they are that important.**
- **Timeliness and delivery of the final report prior to a meeting could be improved.**
- Ongoing reviews have supplied regular feedback.

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

Statement 6	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 16	1.7	1.7	1.6	1.6	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:

There were no comments to survey statement 6.

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

Average Response: 1.8

Statement 7	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 16	1.9	1.8	1.9	1.8	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 always open to our input.
- While the Board and management team members were allowed to comment and voice their opinions, the input was obviously not considered in the final conclusion made by FCA.
- The Board appreciated the ability of the examiners to balance their focus on the mission of Farm Credit as well as the compliance to regulations.
- The examiners did consider our views and responses in formulating their conclusions. We still don't always agree with the final determination.

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

Average Response: 1.8

Statement 8	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	FY Average
FY 16	1.7	2.2	2.2	1.8	2.0
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:

- We appreciate the timeliness of the information distributed FCS-wide.
- While the Informational Memos and Book Letters are certainly helpful, **we have encountered situations in which the examiners were reviewing us against standards which had not yet been released and we had not yet received an IM or Letter in order to prepare our institution for the standards.**
- Some guidance is helpful, **we are not in agreement that it is always proactive. In many cases it appears to be reactive and after the fact.**
- **It appears that negative actions in other institutions have brought some over-zealous regulations and scrutiny to all institutions.**

GENERAL QUESTIONS

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

Comments:

- Timely discussion and feedback from examiners is highly valued by the board and management.
- Risk identification.
- Discussions between the EIC and the institution management team.
- Explanations in general were good.
- It is always helpful to self-examine. This process encourages those behaviors. The dialogue and exchange with the examiners was always open and productive.
- Provides some level of comfort on institution operations/independent observations/benchmarking/institution FIRS.
- The one on one conversations and interaction with the board of _____, FCA Portfolio Manager. She was helpful in giving overall guidance to the institution.
- I think, exiting from a SA, the exit meeting with the board was particularly beneficial and frank.
- Examination staff provided helpful and practical guidance for improvements needed.
- The most beneficial aspect is having an additional review and opinion of our operations and governance.
- Verification of internal and other reviews.

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

Comments:

- Nothing to note.
- **Excessive amount of time spent on the content of our business continuity plan's impact analysis.**
- None.
- Timing was unfortunate for us the past six months as we were leading a technology conversion. **The examination added additional workload and stress.**
- It was a bad week timing-wise (for institution management) for the on-site & remote examination work. **While every examination is a resource distraction, this year was more so. FCA was aware of our time constraints on the week that was selected and it was still selected.** That said, staff were very apologetic and as accommodating as they could be.

- None.
- I didn't find any aspect not to be beneficial, from the board's perspective.
- The length of time required to conduct the examination process.
- The time, effort and expense associated with the examination is difficult on a small institution.
- Chattel review appears to be somewhat overzealous for the amount of risk. This causes increased costs to the customer/owners.

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 did not have any further comments.
- Board was concerned with over cost increases attributed to FCA.
- The Board gets the impression that FCA wants the board to micro manage the institution. While the board understands that we are in charge of the institution we believe that management should be provided the opportunity to manage the institution.
- We appreciate the Agency evaluating when/how many examination resources are being utilized, and adjusting our exam fee accordingly.
- Open and professional dialogue made the process comfortable and meaningful.
- Overall very good, professional relationship.

FY 2016 Summary Report

Numeric Responses to Survey Statements 1–8

The table below provides cumulative data for the FY 2016 numeric ratings for survey statements 1-8. During FY 2016, the OIG sent surveys to 51 FCS institutions. Of those surveyed, 44 responses were received, providing an 86% response rate, up 5% from FY 2015. The overall average response for all survey statements was 1.8.

Statement	PERCENTAGE OF TOTAL RESPONSES												Total No. Responses	Average Response
	Completely Agree (1)		Agree (2)		Neither Agree nor Disagree (3)		Disagree (4)		Completely Disagree (5)		Does Not Apply * (6)			
1	15	34%	25	57%	4	9%	0	0%	0	0%	0	0%	44	1.8
2	17	39%	18	41%	5	11%	4	9%	0	0%	0	0%	44	1.9
3	9	20%	25	57%	6	14%	2	5%	1	2%	1	2%	44	2.1
4	25	57%	16	36%	1	2%	2	5%	0	0%	0	0%	44	1.5
5	19	43%	20	45%	3	7%	2	5%	0	0%	0	0%	44	1.7
6	17	39%	25	57%	2	5%	0	0%	0	0%	0	0%	44	1.7
7	15	34%	22	50%	6	14%	1	2%	0	0%	0	0%	44	1.9
8	9	20%	28	64%	6	14%	1	2%	0	0%	0	0%	44	2.0
Total Responses	126	35.8%	179	50.9%	33	9.4%	12	3.4%	1	0.3%	1	0.3%	352	1.8

Note: Responses of “6” (Does Not Apply) were not included in average response numbers.