

FARM CREDIT
ADMINISTRATION
OFFICE OF
INSPECTOR GENERAL

SURVEY REPORT

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

First and Second Quarters
Fiscal Year 2022
(October 1, 2021 - March 31, 2022)

Issued July 18, 2022



Farm Credit Administration
Office of Inspector General

Executive Summary

Survey of Farm Credit System Institutions Regarding the Agency’s Examination Function Fiscal Year 2022 First – Second Quarters Report (October 1, 2021 – March 31, 2022)

The FCS institutions we asked to respond to the survey are those institutions that:

1. Received a Report of Examination during the FY quarters; or
2. Had significant examination activity and interface with OE during the same period.

The survey asks respondents to rate ten survey statements as:

- | | |
|----------------------------|---|
| Completely Agree | 1 |
| Agree | 2 |
| Neither Agree nor Disagree | 3 |
| Disagree | 4 |
| Completely Disagree | 5 |
| Does Not Apply | 6 |

The survey contains 13 statements, two of which were added in 2021 to address the effectiveness and efficiency of communications for examinations conducted remotely due to the pandemic.

Each fiscal year (FY) quarter, the Farm Credit Administration (FCA) Office of Examination (OE) identifies several Farm Credit System (FCS or System) institutions that can provide meaningful survey responses for that period. The Office of Inspector General (OIG) provides a survey report semiannually with two quarters of survey responses. This report includes the response data for the first and second quarters of FY 2022, as well as some historical data for comparison.

The OE identified 26 System institutions to survey for the first and second quarters of FY 2022 (October 1, 2021 – March 31, 2022). The OIG sent surveys to those institutions and 21 institutions completed the survey (an 81% response rate).

Average numerical rating ranges and total average numerical ratings for survey statements 1-10 are shown in the table below. A “1” reflects a positive rating and a “5” reflects a negative rating.

Average Numerical Ratings

FY/ Quarter	Average Numerical Rating Range	Total Average Numerical Rating
FY22/2 nd	1.5 – 2.3	1.9
FY22/1 st	1.6 – 2.2	1.9
FY21/4 th	1.4 – 1.9	1.6
FY21/3 rd	1.7 – 2.1	1.9

Comments with any perceived negative feedback are listed separately for survey statements 1-10 and 13. We note that many of the negative comments appeared to be from smaller-sized institutions.

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ACRONYMS and ABBREVIATIONS

EIC	Examiner in Charge
FCA	Farm Credit Administration
FCS	Farm Credit System
FIRS	Financial Institution Rating System
FY	Fiscal Year
MRA	Matter Requiring Attention
OE	Office of Examination
OIG	Office of Inspector General

BACKGROUND AND METHODOLOGY

Each fiscal year (FY) quarter the Farm Credit Administration (FCA) Office of Examination (OE) identifies several Farm Credit System (FCS or System) institutions that can provide meaningful survey responses for that period. The criteria for including an FCS institution in the survey are:

1. The institution received a Report of Examination during the FY quarter; or
2. There was significant examination activity and interface with an institution during the same period.

The Office of Inspector General (OIG) generally provides a survey report semiannually for two quarters of survey responses for the periods extending from October 1 through March 31 and April 1 through September 30. This report includes the response data for the first and second quarters of FY 2022.

The survey asks respondents to rate eight survey statements from "1" (Completely Agree) to "5" (Completely Disagree), or "6" if the statement does not apply. The rating choices are:

Completely Agree	1
Agree	2
Neither Agree nor Disagree	3
Disagree	4
Completely Disagree	5
Does Not Apply*	6

*We do not include ratings of "6" in rating averages because a "6" will skew the numerical average negatively even though the statement is not applicable to the institution.

For survey statements 1-10, we provide the average numerical ratings for the subject FY quarters and, for comparison, the two most recent FYs for which survey data was collected (FY 2019 and FY 2021 for this report).

Survey statements 1-4 pertain to the examination process generally and statements 5-10 pertain specifically to communications during the examination. Statements 11-13 solicit narrative feedback on the examination process. Respondents may submit comments for each of the 13 survey statements.

The report includes narrative responses verbatim, except information identifying the institution or examiners has been removed (e.g., names). Additionally, spelling and punctuation errors have been corrected and some acronyms or abbreviations have been spelled out. Any bracketed text is for the purpose of removing information that identifies an institution or an examiner or providing clarification to a response. Comments with perceived negative feedback are listed separately for survey statements 1-10 and 13.

At the end of the survey we ask whether the respondent would like the OIG to contact the institution confidentially to discuss the submitted responses.

SURVEY RESULTS

EXAMINATION PROCESS

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 Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2022	1.9	2.2			2.0*
2021	N/A	1.9	1.8	1.7	1.8
2019	1.7	2.3	2.0	1.8	2.0

*FY 2022 average was calculated using aggregated response data. Prior FY averages were calculated using the average of the quarterly averages shown in the table.

Comments:

- Audit seemed somewhat focused on the areas that are relevant to our business.
- Scope appeared to be appropriate.
- The audit seemed appropriately focused on the areas that are relevant to the current business and technology risk areas.
- The exam covered a significant range of areas and was appropriate for our institution. In addition, the topics from the National Oversight Plan for Fiscal Year 2022 (dated October 4, 2021) were within the exam scope.

- The scope of examination appeared appropriate.
- The board feels the focus of the exam was well scoped.
- The scope is adequate for our institution.

Comments perceived with negative feedback:

- We are concerned that FCA is viewing all institutions through a narrow lens with the expectation that the smaller institutions should be staffed and structured like the mega institutions. It would seem logical that the regulator would approach their expectations from a risk approach. When reviewing the ranking of all 67 institutions by loan volume size as of 12/31/21, the 20 largest institutions represent 80.3% of the System's volume. The largest 30 institutions represent 87.8% of the system's exposure. It seems reasonable the operational and credit risk in the largest 20 would be far different than those of lesser size, and therefore, would be structured and staffed accordingly. Obviously, we are not privy to the structure and staffing of other institutions but would encourage FCA to be mindful of the needs of a smaller institution such as ours.
- The scope of examination was generally appropriate for the size, complexity and risk profile of the institution; however, in regards to Audit, the benefit gained from application of [Institute of Internal Auditors] Standard 1100 to a small institution like ours which does not have an internal auditor on staff and which outsources all of its internal audit functions to an independent third party, that has oversight from and reports directly to the audit committee, for the purpose of creating more independence was challenging to understand. We note that the requirement to create and implement an audit coordinator role will increase the cost of doing business at a small institution. While we accept the findings of the exam and will remedy the items included as matters requiring attention (MRAs), we encourage FCA to continue to consider and evaluate the unique risks and challenges that small institutions face, specifically related to regulatory burden and exam compliance. We appreciate the FCA board making small institution challenges a priority in 2021 and creating a Small Association Workgroup in 2022.
- The areas covered were relevant, appropriate and aligned with the National Oversight Plan. However, some of the examination activities did not seem aligned with the size, complexity or risk profile of our institution. For example, FCA's definition of small institutions has been less than \$1 billion for 25 years. FCA should consider modernizing the small institution definition to at least \$3 billion asset size and adjust examination scope accordingly.
- Generally, we agree with this statement but the double capitalization under which we have to operate is inconsistent with the real risk involved.
- While this is true, we feel the FCA has a difficult time in examining institutions that are just over \$1 billion in assets and seem to expect them to operate like a larger (greater than \$5 billion) institution.
- Generally agree, but some aspects of the examination seemed to be perfunctory as opposed to risk-based. In other words, examination scope/focus seems to be programmatic as opposed to tailored to the specific risk profile of the institution.
- It was a little overboard considering our small size but policies are policies.

Statement #2

Examiners appropriately applied laws, regulations, and other regulatory criteria to examination findings and conclusions.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2022	2.2	1.9			2.0*
2021	N/A	1.7	1.9	1.5	1.7
2019	1.8	2.1	2.1	1.6	1.9

*FY 2022 average was calculated using aggregated response data. Prior FY averages were calculated using the average of the quarterly averages shown in the table.

Comments:

- No material exceptions were noted.
- When appropriate the audit cited specific regulations for us to better understand the reasoning for the findings and to help us remediate the findings as well.

Comments perceived with negative feedback:

- This audit applied regulations and regulatory criteria differently from previous exams.
- Examiners clearly communicated the laws, regulations and other regulatory criteria related to the examination finding and conclusions. It would benefit the Farm Credit System to have some time to respond to and/or implement published guidance prior to being evaluated on it. In some cases, we were examined based on guidelines or information that was recently published or had not been published by FCA.
- Several MRAs were not based on laws or regulations but were identified and sourced from recent examination manual language. As a result, there is no current guidance given as to how to address exam manual updates within our processes. In fact, the published workpapers used by the exam team did not reference the exam manual update for which the criticism was sourced.
- We do not completely agree with some comments made by the examiners as they were not able to provide specific referenced guidance for areas that were stated as needing enhancement/improvement; specifically in the audit comment where granularity was recommended.
- While we believe this to be true for the most part, we did have a difference of opinion on one issue. The issue was with regard to whether a carve out tranche of a loan constituted a completely separate loan (as the examiners believed) or was a part of an existing loan (which we believed). The difference of this interpretation determined if additional approval from [institution name removed] was required.
- Generally agree, but regulations and "other regulatory criteria" are in some cases vague or ambiguous, which puts examiners in the position of having to apply judgement. Having to respond to examiner judgement makes compliance difficult, as such judgement might vary from examination to examination and/or conflict with the judgement of management who is better positioned to make the judgment calls.

- With regard to ERM [Enterprise Risk Management], the examiners appeared to be basing their assessment on exam manual updates that were not yet published.
- The examination team has fairly high turnover leading to less tenured interpretation of regulations. This becomes an issue regarding whether an item is really an MRA. There are also different exam teams for the compliance exam (HEA) [horizontal examination activity] versus the safety and soundness exam. The safety and soundness examiners were more seasoned than the HEA examiners.

Statement #3

The matters requiring attention and any supervisory agreement with FCA assisted the board and management in addressing the risks of the institution.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2022	2.1	2.3			2.2*
2021	N/A	2.0	1.7	1.7	1.8
2019	2.0	2.4	2.4	1.9	2.2

*FY 2022 average was calculated using aggregated response data. Prior FY averages were calculated using the average of the quarterly averages shown in the table.

Comments:

- Agree.
- Agreed with MRAs and board believes all matters were sufficiently resolved.
- Members of the Office of Examination participated in a board meeting, in person, to discuss and review the matters requiring management's attention and helped address the reasoning for the findings.
- The MRAs appropriately assisted the board and management in addressing the risks within our organization.
- Yes, the MRAs assisted the board and management in addressing institution risk.
- Good notes and suggestions on any MRAs received.
- We agree that several of the steps in our supervisory agreement will aid us in correcting our deficiencies and we appreciate the cooperative attitude the supervisory committee has.
- Management and the board are aware of the institution's risk profile. MRAs were limited and generally pertained to a need to better document certain risk management activities.

Comments perceived with negative feedback:

- The MRAs were appropriate but were mostly technical in nature (immaterial risk). Our board and audit committee would benefit from an MRA risk rating system (high, medium or low). Listing all findings as MRAs seems to be overstating the risk for some MRAs.
- MRAs rarely, if ever, assist the board and management in addressing risks in their institutions. Well managed and governed organizations should have adequate policies, procedures, SOPs, etc., to proactively, assess, quantify, prioritize, and effectively manage

risk and not rely on regulatory enforcement/required corrective actions as a means of risk mitigation.

- Generally, we agree but think we manage our risks appropriately and some requirements are needlessly restrictive. Further, the MRAs were more observational, which while assisting, did not appear to rise to the level of MRA.
- Although specifically recommending risk items being included as the first level risk; the examiners could NOT provide specific guidance or cite a reference as to why it was being recommended.
- Examination findings/MRAs do not always adequately balance the risk with the implicit and explicit costs involved in addressing the risk.
- As mentioned before, there is high turnover in the FCA exam teams so there was an issue regarding interpretation of regulations from the less seasoned examiners and whether it was really an MRA.

Statement #4

The examiners were professional and efficiently conducted examination activities.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2022	1.8	1.5			1.6*
2021	N/A	1.2	2.0	1.4	1.5
2019	1.6	1.5	1.8	1.3	1.6

*FY 2022 average was calculated using aggregated response data. Prior FY averages were calculated using the average of the quarterly averages shown in the table.

Comments:

- Agree.
- We appreciated their professionalism.
- Everyone was professional in their communications, actions and requests for data. [Name removed] was especially helpful at providing the context necessary for the examination focus and understanding of the technical nature of our Information Technology responses.
- This was our second off-site review and this review was more efficient than the first time. The examination team was well-organized and communicated professionally.
- The exam staff appropriately communicated their activities including issues and findings as their work was completed.
- The [institution] appreciates the partnership it has with the FCA.
- Our exam team is very good to work with. We were pleased with the FCA team’s approach to the audit, professionalism, focus on issues that mattered, and ability to clearly communicate their findings and suggestions for improvement.
- Examiners were professional during the examination.

Comments perceived with negative feedback:

- [Name removed] and [name removed] our co-Examiners in Charge (EICs) were very professional. However, I believe through no fault of their own, the exam/exams process extended from October until January before a close out was completed plus, we underwent a "horizontal compliance" exam from mid-August through mid-September and an IT exam. I understand statutory timing of these things but, it would be nice to spread them out a bit. They take a tremendous amount of time and effort from our staff to work with exam personnel.
- The period the exam was completed was excessive. A typical examination would be a 4-week timeline, however, this exam began in July and continued to be piecemealed through November requiring repeated refocus of our management team on exam criteria. The review team seemed to be disconnected based on past examinations. The final report was provided in December, resulting in a 6-month exam.

COMMUNICATIONS

Statement #5

Communications between the Office of Examination staff and the institution were clear, accurate, and timely.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2022	1.8	1.7			1.8*
2021	N/A	1.7	2.0	1.7	1.8
2019	1.6	2.3	1.9	2.0	2.0

*FY 2022 average was calculated using aggregated response data. Prior FY averages were calculated using the average of the quarterly averages shown in the table.

Comments:

- No problems noted.
- The examination team's communications were clear, accurate and timely.
- [Name removed] and [name removed] did a nice job communicating with us.
- The [institution] appreciates the partnership it has with the FCA.
- Always good communication. We value the relationship we have with our local FCA EIC and supervisor.
- There was professional and timely communication between the examiners and the [institution].
- The exam team was professional throughout the examination process.

Comments perceived with negative feedback:

- EIC communication was different than reflected in the report of examination.
- Communication between exam staff and institution staff was very good; however, we did want to mention the need for timely agendas. We did not receive an agenda for the initial

call with our Audit Chair and another agenda (IT) was received very late. Agendas provided timely are helpful in facilitating meaningful conversations and responses.

- Communications between the Office of Examination staff were clear and accurate. It would be beneficial if more notice was given for their requests, giving us an opportunity to ensure we are providing them with accurate, meaningful and timely data.
- Communication was very open and valuable. One MRA in the Appendix was not communicated as an MRA during the Exit meeting but was then specifically pointed out when the final exam draft was provided for our cursory review. Also, it would have been helpful for our staff to have the exam draft to review for more than a very short period of time (Friday afternoon to Monday close of business).
- The exam team communicated regarding their specific questions, but not in an effort to keep the institution informed of progress.
- While the communications were clear and accurate, the timeliness was considerably lacking. We knew in November they were going to put us under supervision and were told we would have that letter the first of December. That was pushed back to the end of December, then January and finally February. We received the letter in mid-February and one of the conditions required a disclosure in our financials to be approved by the supervisory committee. When we received the letter, we had a week to provide our financials to [name removed] and the [institution name removed]. We provided the footnote for approval within days but FCA took several more days for approval and we did not meet our deadlines. It should never have taken us 3 months after our examination report to receive the supervisory action letter.

Statement #6

Examination communications included the appropriate amount and type of information to help the board and audit committee fulfill their oversight responsibilities.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2022	1.6	1.9			1.8*
2021	N/A	1.4	1.8	1.4	1.5
2019	1.8	2.0	1.9	2.0	1.9

*FY 2022 average was calculated using aggregated response data. Prior FY averages were calculated using the average of the quarterly averages shown in the table.

Comments:

- Agree.
- Members of the Office of Examination participated in a board meeting, in person, to discuss and review the matters requiring management's attention and review their overall findings which helped address the reasoning for the findings.
- The board and audit committee were given the opportunity to participate during the exam. The presentation of the examination report was appropriate and informative.

- Exams primarily serve as an independent review that provides the board and audit committee some level of reassurance that the representations of management concerning the organization's performance and adherence to regulations are accurate.
- Examination reporting adequately provided appropriate information regarding the exam.

Comments perceived with negative feedback:

- The communications were appropriate for the board and audit committee to fulfill their oversight responsibilities; except for the lack of being provided specific reference to some of the citations for the items noted in the MRAs.
- Examination communications were clear/understandable but given the disconnect between the risk and cost as described above [in response to another statement], it is not clear that examination-related communications materially contributed to the fulfillment of board or audit committee oversight responsibilities.

Statement #7

Examiners fairly considered the views and responses of the board and management in formulating conclusions and matters requiring attention.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2022	1.9	1.6			1.8*
2021	N/A	1.7	1.8	1.5	1.7
2019	1.5	1.9	2.3	1.7	1.9

*FY 2022 average was calculated using aggregated response data. Prior FY averages were calculated using the average of the quarterly averages shown in the table.

Comments:

- [The institution’s] management and the board developed responses to items in the exit outline prior to issuance of the report of examination. Examiners formulated conclusions.
- No problems noted.
- The examiners are always willing to engage in in-depth discussions with the board of directors, management team and technology staff, accepting feedback from all parties. They are open to listening and being challenged about specific findings.
- The examination team was open to dialogue, including the MRAs.
- Examiners fairly considered feedback from our board and management in their final exam.
- Our assigned Portfolio Risk Manager and EIC both demonstrated leadership in hearing both sides of discussions and formulating balanced conclusions.

Comments perceived with negative feedback:

- Although the exam team provided an exit conference to management and board members, the exam team initially refused to accept or receive comments from management. Only after management stressed professional courtesy in allowing management responses to exam findings, the exam team agreed to receive a response.

However, the supervisory examiner indicated that management responses would not be considered. Ultimately, management responses were provided and considered by the exam team, and matters requiring attention were modified and/or removed. But again, management had to insist that examiners consider allowing responses. We have never seen this type of behavior before regarding FCA.

- Although there was open communication amongst the examiners and the board/audit committee; there were some unanswered questions as to why the examiners stated certain items without providing specific reference to a regulation for items stated as needing improvement/enhancement.
- There was limited consideration given to the size of our institution and the maturity level of our audit and review program. The MRAs in this area, while appropriate in relation to the spirit of the regulations, seemed rigid for smaller institutions with resource restrictions. Efforts made in this area from the prior examination should have been given more merit.

Statement #8

FCS-wide guidance from the Office of Examination was proactive and helpful.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2022	2.0	2.2			2.1*
2021	N/A	1.8	2.0	1.9	1.9
2019	1.9	2.4	2.1	2.0	2.1

*FY 2022 average was calculated using aggregated response data. Prior FY averages were calculated using the average of the quarterly averages shown in the table.

Comments:

- The pace of regulation has accelerated under this FCA board. FCA issued 90 Exam Manual Updates, Information Memorandums, Proposed Rule and Publications in a twelve-month period.
- The Office of Examination's National Oversight Plan as well as other guidance such as that pertaining to operations during the Pandemic were helpful.
- The annual examination areas of focus are the most helpful to us.
- System-wide guidance from the Office of Examination was helpful.
- Yes, from the perspective of the rules and procedures in which they must operate.
- Yes, receiving this information was very helpful with being proactive with changes.

Comments perceived with negative feedback:

- Inconsistent from past examinations.
- We would like to see more proactive and consistent guidance provided to us and the institutions we serve and not just at examination time.
- The guidance is helpful, but as stated above [in response to another statement] it would be incredibly beneficial for smaller and mid-size institutions to have resources to help them comply with the regulatory expectations. Other governing regulatory bodies provide

small entity compliance guides and/or varied requirements for smaller institutions. A similar practice would be advantageous for the FCA to consider. The regulatory burden is often onerous for smaller institutions.

Statement #9

Communications with FCA examination staff were effective for those examinations that were conducted entirely remotely.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2022	1.7	1.7			1.7*
2021	N/A	1.3	2.0	1.6	1.6
2019	Not applicable – statement added in FY 2021				

*FY 2022 average was calculated using aggregated response data. FY 2021 average was calculated using the average of the quarterly averages shown in the table.

Comments:

- We appreciate full and open communications with FCA. No problems noted.
- While it was effective, we encourage on-site visits as COVID concerns subside. Institution staff is better able to communicate and provide clarity surrounding documents and processes when the exam is held in-person.
- Communications with the examination staff were effective. We do hope that future engagements are performed on-site to help the overall effectiveness of the communications between both parties.
- The FCA exam staff effectively utilized various forms of communication, including video-conference calls while working remote.
- As good as any in-person exam.
- The [institution] appreciates the ability of the FCA to conduct their examination remotely as it causes less disruption on the part of staff.
- Remote works well.
- The examination communications were effective.

Comments perceived with negative feedback:

- EIC resigned from FCA prior to presentation of the report. Uncertain as to communication between the EIC and remaining examiners.
- The examination team was effective in utilizing technology to conduct meetings. In the future, we would appreciate examination staff to abide by a business casual dress code and utilize their cameras [in a virtual environment] to enhance engagement.
- Communication with FCA examination staff was minimally acceptable while completing the examination remotely. Our preference for future examinations is for exams to be completed on site to improve communications. We believe that the remote examination created a great deal of disconnect.

- While we understand much of this was driven by the pandemic and staffing, the breaking up of sections of the exam and rotation of staff resulted in a prolonged review that held some challenges in ensuring coordination and communication were always timely.

Statement #10

Communications with FCA examination staff were efficient for those examinations that were conducted entirely remotely.

Average Numerical Ratings by FY Quarter

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY Average
2022	1.6	1.8			1.7*
2021	N/A	1.3	2.1	1.8	1.7
2019	Not applicable – statement added in FY 2021				

*FY 2022 average was calculated using aggregated response data. FY 2021 average was calculated using the average of the quarterly averages shown in the table.

Comments:

- Communication was sufficient.
- Appeared to be efficient.
- Communications with the examination staff were efficient. We do hope that future engagements are performed on-site to help the overall efficiencies of the communications between both parties.
- Remote communication with the exam team was efficient.
- The FCA exam staff efficiently and effectively conducted their work as they operated in a remote status. We believe future remote FCA review work should be considered as it is an efficient and effective means of carrying out exam work.
- Same as 9a. above. [As good as any in person exam.]
- The [institution] appreciates the ability of the FCA to conduct their examination remotely as it causes less disruption on the part of staff.
- While we do enjoy the in-person interaction, we feel the remote method is as effective for exam activities.
- The examination communications were efficient. We appreciated that the final report delivery was not a reiteration of the report, but a focused discussion on the core issues.
- It was effective.

Comments perceived with negative feedback:

- The first request for information came from the EIC on October 1st and the final results of the exam were not presented to the directors until the February 22nd. We recognize there are challenges with an entirely remote exam, yet the length of time was excessive and placed a significant strain on the institution. The examiners scheduled a conference call with the audit committee to discuss the preliminary results of the exam. However, FCA provided an outline only two hours prior to the conference call, allowing little time for review before the discussion.

- Communication with FCA examination staff was minimally acceptable while completing the examination remotely. Our preference for future examinations is for exams to be completed on site to improve communications. We believe that the remote examination created a great deal of disconnect.

GENERAL QUESTIONS

Statement #11

What aspect of the examination process did you find most beneficial?

- Communication between the examiners, the board, and management was very efficient and timely.
- The August compliance exam provided real value to our team. The examiners identified some areas that needed improvement and offered several solutions to consider in addressing the weaknesses.
- Discussion of MRAs.
- Positive and beneficial communications with our regulator.
- We found preliminary discussions regarding initial findings with the EIC to be beneficial. This allowed the institution the opportunity to provide additional clarity on our processes and documentation. We also found it beneficial that members of the exam team visited our institution in person to deliver the final report.
- The ability to discuss the relevance and practical risks for the technology related examinations. The mutual respect for each other between both entities.
- The board and management found the exit conference to be informative. The material was presented in a professional manner and was easy to understand. The board also appreciated the examination team's engagement during executive session.
- The specific areas of cybersecurity, model risk management, information security and technology, and asset liability management were most beneficial along with the constructive communication process.
- [Name removed] did a great job in managing the exam process.
- The final report of examination was beneficial.
- The identification of those areas requiring attention; albeit there were no major areas to address, which provided reassurance on existing controls in place. In addition to the written report, having the in-person discussion with the FCA was valuable.
- The open and consistent communication from our EIC and exam staff.
- Recommendation of best practices.
- The interactive discussions throughout the exam.
- We found it beneficial when specific regulatory references were cited for various observations.
- 1) Good relationship with, and level of understanding of, examiners who have been involved with our examination over multiple examination cycles. 2) Willingness of examiners to engage with management when requested. 3) Coordination of documentation across examination teams, which reduces duplication.

- The board appreciates the System-wide view that FCA examiners are able to bring and share with us.
- Communication between the FCA exam team and both the institution staff and board were clear and concise. Meeting with the FCA exam team to review the exam report is beneficial because it provides the board with the opportunity to voice concerns and ask for feedback which is integral to oversight.
- The FCA staff performed the exam remote during the COVID era not creating an exposure issue.

Statement #12

What aspect of the examination process did you find least beneficial?

- The time spent reviewing and discussing matters not directly related to the safety and soundness of the institution, such as YBS [young, beginning, and small farmers and ranchers] (i.e., new rule, expectations, etc.).
- The expectation regarding total independence of the audit manager role from a value-added functional position versus an academia perspective.
- Remote exam and not face-to-face audit, plus resignation of lead EIC with whom we had numerous communications.
- We refer back to our comments for Question 1. Small institutions face challenges in terms of regulatory cost and exam compliance and a "one size fits all" approach is not prudent. Our current example is the requirement for the implementation of an audit coordinator role.
- Going through the examination process remotely presented some challenges. However, we do understand the current environment and circumstances we are facing today.
- The Financial Institution Rating System (FIRS) ratings were established to evaluate and categorize safety and soundness of institutions in a uniform and comprehensive basis. The subjective influence placed on FIRS ratings by examiners across the country have diminished their effectiveness. Consistency on the rating system would be helpful. Our institution's FIRS rating were so subjective that our examination team could not properly discuss the ratings with the board. Talking points should be provided to an institution when a rating is changed or a rating is not a "1" rating.
- Three examinations in a 6-month window is a bit much.
- The focus of the exam, as driven by Washington, DC, in my view, sort of misses the mark in terms of addressing risk to the institution. That's not to discount the areas examined, it just seems to me that there are others of much greater risk that didn't get the attention they probably should have.
- FCA's e-file portal appears to be confusing to the examiners. We provide information through the e-file portal routinely and upon request. However, examiners seem to have challenges in retrieving or utilizing information uploaded. This is least beneficial to the institution due to time spent providing the same documents multiple times through the e-file portal.

- Some of the guidance coming from FCA and during the exam leads our board and management to feel that the only way to survive is to get much larger. The requirements take staffing levels we just can't support for our size.
- Time.
- Some discussions were one-sided, and the examiners did not sufficiently provide the board/audit committee corroborating evidence and a referenced citation and/or regulation so they could fully understand the audit MRAs.
- It often felt like there was a delay between the time we asked a question or for clarification and the time we received a direct answer. Perhaps this was due to the EIC consulting others prior to providing a response.
- 1) Proposal of non-value-add recommendations and/or recommendations that reach beyond regulatory criteria. 2) In matters of judgement (and not regulatory compliance), continuing to press issues in which management and the examiner disagree.
- Each part of the process is beneficial and useful to the board and institution, especially the virtual wrap-up meeting.

Statement #13

Please provide any comments from the Board as a whole regarding the examination process not provided in the preceding responses.

Comments:

- The process implemented by FCA examiners, both onsite and remotely, has been satisfactory.
- The board was pleased with the process and the report.
- The board concurs with all statements above.
- The communication and discussion on exam findings and materiality in determining the resulting MRAs are appreciated.
- The board appreciated the presentation of the final report of examination by the examiner and supervisor.
- The board is pleased with the exam and appreciative to FCA for the communication.
- The process and examiners were very respectful and helpful.
- Overall, the examination was professional and provided beneficial feedback to management and the board/audit committee.

Comments perceived with negative feedback:

- We encourage FCA to evolve their examination process beyond a one-size-fits-all approach. We are a small institution. Focusing on risk areas that address our specific risks would be more efficient and help address a growing regulatory burden created by exam activities that should adjust based on size, complexity and risk profile.
- We encourage the FCA to evolve their examination process beyond a one-size-fits-all approach. [The institution] services a group of small institutions (less than \$10 billion in assets) collaborating on many aspects of our business (accounting, technology, participations, audit programs, etc.). This collaboration is essential for us to address a

growing regulatory burden created by examination activities that should be adjusted based on size, complexity and risk profile of the institution(s).

- 1) Comments on question 12 sum up the process. Recommendations that exceed regulatory statute with ambiguous and subjective application of regulatory judgement creates a culture of uncertainties among two organizations with a common mission. 2) Findings are not always consistent from one examination to another. Many findings are interpreted differently from one examiner to another. Some findings do not relate appropriately to the risk. 3) The overall process and report to the board was complete and accurate and professionally presented. 4) The time spent with the EIC and Portfolio Risk Manager with the committee chairs was effective and done professionally.
- The increase in the number of examinations is a regulatory issue but results in a more costly and burdensome issue for the institution and its members. Oversight and review of processes are invaluable but should be prioritized with key focus areas not just added on top of current regulations.

Request for OIG Contact

Would you like the Office of Inspector General to contact you confidentially to discuss your survey responses and/or the examination?

None of the institutions surveyed for this report indicated that they would like a call from the OIG.



Farm Credit Administration
Office of Inspector General

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