

**Second Quarter FY 2007 OIG Report on the Survey of FCS Institutions Regarding  
the Agency's Examination Function for the Period  
January 1, 2007 – March 31, 2007**

**Introduction**

Based on the interface FCS institutions had with the Agency's examination function during the period January 1 - March 31, 2007, OE identified 14 FCS institutions that were in a position to provide meaningful survey responses. (Institutions are surveyed no less frequently than every 18 months and, generally, no more frequently than every 12 months.)

The OIG sent surveys to those 14 institutions on April 19, 2007. A follow-up e-mail was sent to nonresponding institutions on May 21. Of the 14 institutions surveyed, 12 submitted completed surveys. If the two nonresponding institutions subsequently send a completed survey, they will be included in the next quarterly report.

Three responses to surveys issued for the first quarter were received subsequent to the first quarter report and are included in this second quarter report. As a result, this report covers a total of 15 responding institutions.

The OIG will provide an e-mail report to you based on each fiscal year quarter-end, i.e., December 31, March 31, and June 30, so that you may timely take whatever action you deem necessary to address the responses. A summary report will be issued to you covering aggregate survey results for each fiscal year ended September 30.

The survey asked respondents to rate each survey statement 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 "Does Not Apply" for each survey statement.

Narrative responses are provided verbatim, except that any identifying information has been removed and any grammatical or punctuation errors may have been corrected. Information in the comments in brackets has been substituted by the OIG in an effort to ensure the confidentiality of responses.

**Survey Results - Second Quarter FY 2007**

1. Average numerical responses to survey statements 1 - 10 range from 1.7 to 2.2, the same as in the first quarter report.
2. The average response for all survey statements is 1.9, also the same as in the first quarter report.

One institution responded to one survey statement with "Does Not Apply." The survey statement was number 9, "The results and recommendations of the Office of Examination's national examination activities and its reports on identified best practices have assisted your institution." In a telephone call to the CEO, he indicated that they have never received a report on a national examination activity.

Two institutions rated a survey statement as a "4" (Disagree). One institution so rated survey statement 2 [The examination process helped the institution understand its authorities and comply with laws and regulations.]. The corresponding comment was "We know our authorities, laws and regulations. We didn't need an examination to confirm." The other institution so rated survey statement 6 [Examination communications included the appropriate amount and type of information to help the board and audit committee fulfill their oversight responsibilities.]. The corresponding comment was "Verbal information provided during the onsite examination included inaccurate and inappropriate statements about the audit committee's duties, oversights and responsibilities." In my follow-up with the CEO on this comment, he indicated that he and members of the Audit Committee thought the lead examiner was incorrect in stating that the Audit Committee was not following governance guidelines. They also felt the lead examiner's tone was not constructive.

The majority of comments to survey statements 1 - 10 were positive, many very much so. However, 40 percent of the comments were negative to varying degrees. These comments are listed below under numbers 1, 2, and 4 - 10. They may provide opportunities for you to refine examination methodology and communications, and examiner training.

Survey item 11a asks for feedback on the most beneficial aspects of the examination process. Many very positive comments were provided about the examiners and the examination process.

Survey item 11b asks for feedback on the least beneficial aspects of the examination process. The comments received to this question may also provide opportunities for you to refine examination methodology and communications, and examiner training.

Survey item 12 asks for any other comments. There was only one slightly negative comment. The remaining three comments on this survey item were very positive, reflecting well on the examiners and the examination process.

## **Responses to Survey Statements 1–10**

### **Risk-Based Examination Process**

**Survey Statement 1:** The scope and depth of examination activities focused on areas of risk to the institution and were appropriate for the size, complexity, and risk profile of the institution.

**Average Response: 1.9 (1.8 in the first quarter report)**

**Comments:**

- Areas of risk were focused on during the ongoing offsite review. Our association was examined by the training team. The [lead examiner] seemed to set a very

poor example for the young FCA trainees. [The lead examiner's] presentation of findings, including delivery tone, did not meet the high standards typically exhibited by FCA senior examiners. (In discussing this comment with the CEO, he indicated that the lead examiner's attitude during the presentation of examination results to the Audit Committee was condescending, creating resentment among members of the Audit Committee.)

- Overall, good approach. Coverage areas were relevant and timely and addressed risks also identified by the board and management. The 18-month rotation schedule was appropriate and worked well with the interim communications during the exam.
- Onsite activity greatly reduced over the last five years.

**Survey Statement 2:** The examination process helped the institution understand its authorities and comply with laws and regulations.

**Average Response: 2.2 (2.0 in the first quarter report)**

**Comments:**

- This was achieved only after FCA was able to interpret their regulations internally. Initially and in prior years, the agency supplied completely different interpretations. (In a telephone call with the CEO, he indicated that this comment is based on their perception of inconsistency among examiners and within the Agency about the interpretation of scope of lending guidelines.)
- We know our authorities, laws and regulations. We didn't need an examination to confirm.
- Sometimes it creates confusion, e.g., governance and bylaw requirements.
- We already had good agreement with FCA.
- We understand our authorities.

**Survey Statement 3:** The results and recommendations of the examination process covered matters of safety and soundness, and compliance with laws and regulations.

**Average Response: 1.9 (1.8 in the first quarter report)**

**Comments:** None

**Survey Statement 4:** Examiners were knowledgeable and appropriately applied laws, regulations, and other regulatory criteria.

**Average Response: 1.9 (1.9 in the first quarter report)**

**Comments:**

- The final report appropriately applied these but discussions with examiners during the onsite examination resulted in inappropriate and incorrect accusations, interpretation of regulations continued to be inconsistent. (The explanation for this is the same as for the first bullet under survey statement number 6, i.e., the Audit Committee and the CEO thought the lead examiner was incorrect in stating that the Audit Committee was not following governance guidelines.)
- Some examiners seemed to have difficulty with scope of lending, e.g., other financing needs of farmers. Examiner in charge was able to resolve.
- Examiners have been very knowledgeable of issues.
- Very good area. Experienced examiners helped.
- Training and development examination team.

### **Communications and Professionalism**

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

**Average Response: 1.7 (1.7 in the first quarter report)**

**Comments:**

- In the past at times – timeliness could be improved from completion of the review to the time the final report is given to the Board. We also realize that meeting all of the schedules can be very hard.
- Communications were accurate and clear but only after a delay caused by examiners seeking input and guidance from others offsite.
- During the board presentation, we had a very good exchange of ideas and good clarity.
- Communication was not very timely.
- Excellent.
- The team did a good job of communicating with us about areas of weakness or concern and made a point of getting our feedback before they finalized a decision.

**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: 1.8 (1.8 in the first quarter report)**

**Comments:**

- Verbal information provided during the onsite examination included inaccurate and inappropriate statements about the audit committee's duties, oversights and responsibilities. (In my follow-up with the CEO, he indicated the Audit Committee and he thought the lead examiner was incorrect in stating that the Audit Committee was not following governance guidelines.)

- As participation loans become larger and more complex, it raises board and audit committee's due diligence concerns.
- Communication with the Board is generally at a very high overview level.
- Well done! The communications with the board through the planning process, the exam and close out were appropriate and informative.
- Good reporting process.

**Survey Statement 7:** The examiners were organized and efficiently conducted examination activities.

**Average Response: 1.9 (1.7 in the first quarter report)**

**Comments:**

- Most was offsite. Not always clear what FCA wanted and when.
- Yes, from a board reporting perspective.
- Minimum disruption of staff time. Professional and courteous.

**Survey Statement 8:** Examiners fairly considered the views and responses of the board and management in formulating conclusions and recommendations.

**Average Response: 1.8 (2.0 in the first quarter report)**

**Comments:**

- Examiners do consider the views and responses of management in formulating conclusions and recommendations. By the time the Board receives the report, it usually cannot be changed at this point.

**Best Practices and Regulatory Guidance**

**Survey Statement 9:** The results and recommendations of the Office of Examination's national examination activities (e.g., information technology, finance, credit, etc.) and its reports on identified best practices have assisted your institution.

**Average Response: 2.1 (2.2 in the first quarter report)**

**Comments:**

- Issuance of findings needs to be expedited. It was almost 6 months before we received the written report on findings.
- Because of the change in the process that occurred in 2006, we struggled with the concept of "national" exams. We were very concerned that any findings relevant to our individual Association would be shared with other Farm Credit

institutions. And we still have that concern. FCA needs to be very diligent in the reporting process for national exams and respect the confidentiality of individual institutions.

- The OE national examination activities do provide knowledge of best practices, but one size does not fit all and FCA should allow individual offices determine which is appropriate for them.
- Overall good, getting better with new approach. The reports on national examinations were helpful in assessing risk areas and benchmarks for developing and monitoring internal audit reports, risk management and disclosure areas.

**Survey Statement 10:** FCS-wide guidance from the Office of Examination (e.g., bookletters, informational memoranda, etc.) was timely, proactive and helpful.

**Average Response: 1.9 (1.9 in the first quarter report)**

**Comments:**

- The Informational Memorandum, Significant Asset Growth and its Implications, is redundant in its direction to Boards of Directors regarding their responsibility.
- New approach much better.
- The correspondence from FCA has been helpful and the McLean staff has been very helpful in supplying additional insight when requested.

**[Responses to Additional Survey Items 11a, 11b, and 12](#)**

**Survey Item 11a:** What aspects of the examination process did you find **most** beneficial?

- The interview dialogue with audit committee prior to the examination.
- Having the face to face interview, provides the most opportunity for beneficial feedback.
- Help given in bringing the association into compliance with new gov. regs.
- External look at financial/accounting/technology.
- Overview report, the listing of best practices.
- Discussion of issues of credit and scope of lending.
- Overall it was a good exam. The experience and expertise of the examiners on the team for this exam generated positive feedback and resulted in a comprehensive review of the areas under scope. Specifically, the examination of block funding initiatives and policies provided another assessment that the board can have confidence in the new practices established.
- Having the opportunity to work with bright, articulate but young examiners that are trying to learn how to apply FCA regulations.
- The explanation of and process for evaluating risk management.
- The closing discussions and examiner observations.
- Streamlined process worked well. Reporting to Audit committee.
- The good communication with the team.

**Survey Item 11b:** What aspects of the examination process did you find **least** beneficial?

- Some aspects of the timeliness of reports from beginning to end is probably the least beneficial.
- The review of complex loans.
- Governance suggestions regarding bylaws and policies were confusing and appeared to be nonflexible. Some organizational discretion is still appropriate and necessary.
- The portion of the report dealing with results of examination on a nationwide basis.
- Governance review.
- Not sure about the study/survey of structural/reorganization changes at this point in time.
- The least beneficial process was when the examiners met with the audit committee to present their findings prior to the findings being discussed with management. This was unprofessional and could have been very divisive to our newly formed organization.

**Survey Item 12:** Please provide any additional comments about the examination process and related communications.

- More time should be spent on the overall risk in the association rather than “dotting i’s and crossing t’s.”
- The formation of the exam team from different offices and the use of offsite work through technology was very efficient. I believe it is important for the full board to be involved in this survey so have presented it to them for additional comments included herein.
- The process was not disruptive for our staff and normal daily business.
- Our board and management team have always maintained a professional relationship with FCA at all levels. We will continue to do so.