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INTERNAL USE ONLY

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Owner Sarah Collins:
Chief Audit
Executive
Section Merged -
Administrative

101 Internal Controls Policy

POLICY STATEMENT

It is the policy of AgSouth Farm Credit, ACA ("AgSouth") to maintain an internal audit/review function as a means of providing all levels of management with information to control the operations, to provide the Board of Directors with information necessary to discharge its responsibilities, and to assist management in reaching a conclusion about the overall effectiveness of the system of internal control.

The Association will accomplish these functions through the Audit Committee, Internal Credit Reviewers, Internal Auditor, and Appraisal Reviewer.

PURPOSE AND OBJECTIVES

Internal control is a process for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations, and policies.

The Board of Directors expects management to maintain a system of internal controls designed to provide reasonable assurance that:

- Transactions are executed in accordance with management's general or specific authorization.
- Transactions are recorded as necessary to:
 - Permit preparation of financial statements in conformity with generally accepted accounting principles and the requirements established by the Farm Credit Administration, and
 - Maintain accountability for assets.
- Access to assets is permitted only in accordance with management's authorization.
- The recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

The concept of "reasonable assurance" for assets recognizes that the cost of internal controls should not exceed the benefits expected to be derived therefrom.

AUTHORITY AND REFERENCES

12 CFR § 618.8430 requires that AgSouth's Board of Directors adopt an internal control policy, providing adequate direction in establishing effective control over, and accountability for, operations, programs, and resources. At a minimum, the policy must include:

- a. Direction to management which assigns responsibility for the internal control function (financial, credit, credit review, collateral, and administrative) to an officer (or officers) of the institution.
- b. Adoption of internal audit and control procedures that evidence responsibility for review and maintenance of comprehensive and effective internal controls.
- c. Direction for the operation of a program to review and assess its assets. These policies shall include standards which address the administration of this program, described in the list which follows:
 1. Loan, loan-related assets, and appraisal review standards, including standards for scope of review selection and standards for workpapers and supporting documentation.
 2. Asset quality classification standards to be utilized in accordance with a standardized classification system consistent among associations within a district and their funding Farm Credit Bank or agricultural credit bank.
 3. Standards for assessing credit administration, including the appraisal of collateral.
 4. Standards for the training required to initiate the program.
- d. The role of the audit committee in providing oversight and review of the institution's internal controls.

DELEGATED AUTHORITY AND EXCEPTIONS

The CEO of AgSouth (and/or his designee) has the ultimate responsibility for maintaining the system of internal controls and determining compliance therewith. In carrying out these responsibilities, the CEO shall determine that internal review procedures are designed and implemented to monitor compliance with:

- Loan and asset review policies and procedures
- Asset quality classification policies and procedures
- Credit Administration policies and procedures
- Appraisal Review policies and procedures
- Financial and operations policies and procedures

REPORTING

ASSOCIATION INTERNAL CREDIT REVIEW

Association Internal Credit Review (AICR) will complete four (4) internal credit reviews every twelve months on approximately quarterly intervals as set forth in procedure.

ASSOCIATION INTERNAL CREDIT REVIEW RESULTS

Upon completion of the quarterly AICR review, the Chief Credit Officer will prepare a response to be presented to the Audit Committee along with the credit review results. Executive Management or the Audit Committee may request additional responses at their discretion.

It will be the responsibility of AICR to determine if deficient areas have been addressed by Executive Management and report this to the Audit Committee during the next review. Follow up for unsatisfactory grades and regulatory violations will be tracked on the Internal Audit & AICR Tracking Chart.

CONTRACTED APPRAISAL REVIEW

A contracted outside appraisal review will be conducted annually. The review will include a representative sample of all USPAP appraisals with greater than \$250,000 transaction value for both staff and fee appraisers. Appraisal reviews will be conducted in accordance with USPAP Standards Rule 3-3 for the purpose of forming an opinion as to whether the analysis, opinions and conclusions in the report are appropriate and reasonable.

CONTRACTED APPRAISAL REVIEW RESULTS

Upon completion of the annual Contracted Outside Review, the Chief Appraiser will prepare a response to be presented to the Audit Committee along with the appraisal review results. Executive Management or the Audit Committee may request additional responses at their discretion. The level of response may vary from the minimum required by this procedure up to a detailed report as to what steps have been taken to prevent repeat of the deficiency. Follow up for unsatisfactory grades will be tracked on the Internal Audit & AICR Tracking Chart.

ADMINISTRATIVE APPRAISAL REVIEW

An administrative appraisal review of a representative sample of all Evaluations completed by qualified evaluators will be reviewed at least annually by the Chief Appraiser or his designee. The focus of the administrative review will be Tax Assessor Evaluations, Evaluation Confirmations, Valuations of Property, Chattel Evaluations, appraisals not covered by the contracted review and Acceptance of Outside Appraisals (AgS 708's).

ADMINISTRATIVE APPRAISAL REVIEW RESULTS

The results of the administrative appraisal review will be presented to the Asset/Liability Committee (ALCO), and subsequently, the results will be presented to the Risk Management Committee by the Director of Risk Management. The summary report will address findings, scope of the review, areas of significant concern and weaknesses, and an overall summary.

FINANCIAL AND OPERATIONS REVIEW

The Internal Auditor for AgSouth will conduct fiscal and operations (F&O) audits of finance and operations based on an annual audit plan approved by the Audit Committee.

FINANCIAL AND OPERATIONS REVIEW RESULTS

All deficiencies and/or weaknesses and recommendations noted by the Internal Auditor, including any contracted out-sourced internal audits, will be presented to the Audit Committee. The CEO will be provided a detailed report, as needed. On request, the Audit Committee will be provided a copy of the detailed report.

Any contracted internal auditor/audit firm will be available to meet with the Audit Committee by conference call or in person, as requested by the Audit Committee.

Upon completion of the audit and receipt of the report, the Executive Manager who is directly responsible for the focus area of the audit component will prepare a response for all Major and Minor Exceptions cited, which will be presented to the Audit Committee (i.e. Chief Compliance & Risk Officer will respond to the Allowance for Loan Losses component, Chief Administrative & Technology Officer will respond to the Information Systems/Technology component). Executive Management or the Audit Committee may request additional responses at their discretion. The level of response may vary from the minimum required by this procedure up to a detailed report as to what steps have been taken to prevent repeat of the deficiency.

Follow up for Major exceptions and regulatory violations will be tracked on the Internal Audit & AICR Tracking Chart. It will be the responsibility of the Internal Auditor to determine if deficient areas have been addressed by Executive Management and report conclusions to the Audit Committee.

RELATED PROCEDURE

Approval Signatures

Step Description	Approver	Date
Publisher Approval	Shanna Smith: Executive Assistant [JD]	04/2023
Review by Vance	Kimberly Shoemaker	04/2023
Notify LeighAnn and Jennifer for ICFR and Tech Implications	Jennifer Davis: Chief Admin & Tech Officer	04/2023
Notify LeighAnn and Jennifer for ICFR and Tech Implications	Leighann Lawson: ICFR & Financial Reporting Manager	03/2023