

FARM CREDIT SYSTEM INSURANCE CORPORATION POLICY ON INTERNAL CONTROL AND AUDIT COVERAGE

Background

Through its strategic planning process, the Board of Directors (Board) of the Farm Credit System Insurance Corporation (Corporation) identifies the principal programs and activities necessary to fulfill the Corporation's statutory mission. The efficient and effective operation of the Corporation is promoted by an integrated internal control system that includes not only financial and accounting controls but also administrative controls for its program activities to ensure compliance with all applicable statutes and prudent business practices.

The Board has demonstrated its commitment to this concept by directing the preparation of financial statements and requiring an annual independent¹ audit of those statements in voluntary compliance with the primary requirements of the Chief Financial Officers Act of 1990. The Board also has directed that the Corporation's operations, policies and procedures and other internal controls be independently reviewed periodically to ensure their overall efficiency and effectiveness.

Management's responsibility for creating and maintaining adequate internal controls over financial reporting and their assessment of the effectiveness of these controls serves to enhance the quality of reporting, identify any potential weaknesses, and maintain confidence in Corporation reports. Thus, management makes representation at least annually on the adequacy of the internal control environment. This is performed through its management representation letter to the independent external auditor and its annual report to Congress and the President's Office of Management and Budget (OMB) required by the Federal Managers' Financial Integrity Act (FMFIA). In conjunction with their review, the independent auditor concludes and attests to the adequacy of the internal control environment and reports their findings to the Board in the "Report of Independent Auditor on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statement Performed in Accordance with Government Auditing Standards."

To establish its commitment to the concept of a strong internal control system, and provide clear direction to management, the Board adopts the following policy statement.

Policy Statement

The Corporation shall establish and maintain a cost effective system of accounting and administrative internal controls to provide the following reasonable assurances that:

- i. All obligations and costs are in compliance with applicable law;
- ii. All funds, property, and other assets are safeguarded against waste, loss or unauthorized use;

¹ The independent public auditor does not function in the role of management or as an advocate to management by assuming responsibility for justification of any accounting practice.

- iii. All revenues and expenditures applicable to Corporation operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets; and
- iv. All programs and administrative activities are managed efficiently to fulfill the mission of the Corporation.

The establishment and maintenance of the Corporation's internal control system shall be executed in accordance with the Board's direction, the requirements of the FMFIA, and guidelines set forth by the Government Accountability Office (GAO) and the OMB. The Corporation's internal control system shall include the following components:

A financial management system that conforms to Federal Financial Management System Requirements;

Certification by the officers who approve financial reports that those reports are financially accurate. The signatories will state in the certification that they have reviewed the reports. If anyone refuses to sign, then the person and reason for the refusal would be disclosed. The Corporation's annual report will be dated and signed or electronically approved by the Chairman;

A Vulnerability Assessment and corrective actions performed annually according to the requirements of the FMFIA;

A policies, procedures, and delegations manual related to administrative and program functions which is distributed to staff and reviewed and updated annually;

A financial statement audit conducted annually by an independent public auditor free of potential conflicts of interest² in voluntary compliance with the principal requirements of the Chief Financial Officers Act of 1990. Corporation audit engagements shall be conducted in accordance with the Board's audit committee charter (see attachment);

The independent auditor's attestation to, and report on, the effectiveness of management's internal control over financial reporting for inclusion in the annual report. At a minimum, the assessment will affirmatively state that internal controls are in place, have been reviewed during the reporting period, and indicate that details of the review were reported to the Board of Directors and include a conclusion of the effectiveness of the internal control environment;

² To avoid conflicts of interest or the appearance thereof, the independent audit firm cannot have an accounting partner or concurring partner, or lead audit team member who was an employee, officer or director of the Corporation for the 12 months prior to contracting for audit services or within one year of its conclusion. In addition, the qualified public accounting firm is required to rotate the lead and reviewing audit partners after five consecutive years of service for a five-year time-out period.

Periodic operational audits conducted by independent audit firms;

Opening and annual audits of any receiverships; and

Quarterly reports to the Board regarding the results of any audits conducted during the period and the status of the corrections of audit exceptions.

FARM CREDIT SYSTEM INSURANCE CORPORATION AUDIT CHARTER

Statement of Policy

The Farm Credit System Insurance Corporation (Corporation) has an Internal Control and Audit Coverage Policy that establishes audit requirements for its financial statements, operations and programs. To ensure the quality, integrity and transparency of its financial reports, the Board of Directors (Board) shall exercise oversight of the Corporation's accounting and financial reporting practices. The Board will maintain free and open communication between the Directors, the independent auditors, and the management of the Corporation.

Responsibilities

The policies and procedures will remain flexible, in order to best react to changing conditions and to ensure that the accounting and reporting practices of the Corporation are in accordance with all requirements and are of the highest quality.

The Board will:

Review and approve the selection of independent auditors to audit the financial statements of the Corporation. The lead and reviewing audit partners may serve for no more than five consecutive years. They must rotate out of these roles for five years.

Meet with the independent auditors and management of the Corporation to review the scope of the proposed audit for the current year, the audit procedures to be utilized, and, at the conclusion thereof, review such audit, including any comments or recommendations of the independent auditors.

Review with the independent auditors and Corporation management, the adequacy and effectiveness of the accounting and financial controls of the Corporation, and elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis should be given to the adequacy of such internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper.

Review the financial statements contained in the annual report with management and the independent auditors to determine that the independent auditors are satisfied with the disclosure and content of the financial statements as presented. Any changes in accounting principles should be reviewed.

Meet with the independent auditors without members of management present. Among the items to be discussed in these meetings are the independent auditors' evaluation of the Corporation's financial and accounting personnel, and the cooperation that the independent auditors received during the course of the audit.

Review the programs and policies of the Corporation that are designed to ensure compliance with applicable laws and regulations and monitor the results of these compliance efforts.

Review and approve the selection of auditors and scope for any non-financial audit engagements.

Investigate any matter brought to its attention. Perform any other activities consistent with this Charter, the Corporation's Bylaws and governing law, as the Board deems necessary or appropriate.