# EM-31.5

**Category:** **Board & Management Operations**
**Topic:** **Mission Compliance**
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## Overview

The Farm Credit System's (System) overall mission is to provide sound and dependable credit and related services to agriculture and rural America. This mission is derived primarily from Section 1.1 of the Farm Credit Act of 1971, as amended (the Act), which identifies the policy and objectives of Congress for the System. The Farm Credit Administration (FCA) has also emphasized the importance of mission, addressing it in FCA Board Policy Statement 59 on Regulatory Philosophy and in other regulatory documents. The credit and related service needs of agricultural producers and rural America are evolving, and meeting those needs in a safe and sound manner can be a challenge. Within the bounds of safety and soundness, FCA wants to ensure institutions fulfill their public mission as government-sponsored enterprises (GSEs).

While it is important for the System to be responsive to the needs of all types of agricultural producers having a basis for credit, institutions should use caution when expanding into new markets or products. Institutions should conduct appropriate due diligence and have the necessary resources and expertise to serve these markets and deliver their products in a safe and sound manner. As discussed in the procedures below, FCA will evaluate compliance with mission-related regulations and guidance by assessing the adequacy and administration of programs to provide constructive credit and services as a GSE, including efforts to strive for diversity and inclusion. This also includes ensuring institutions meet the needs of young, beginning, and small (YBS) farmers, and that mission-related investments, if used, help agriculture and rural communities meet their ongoing debt and equity financing needs.

*Note: Guidance is currently under development for some of the procedures below.*

## Examination Procedures and Guidance

### General

***1. Constructive Credit & Services:***

Evaluate the adequacy and success of programs for meeting the System's public mission to provide credit and related services to all eligible, creditworthy customers.

Guidance:

Section 1.1 of the Act calls for the System to provide sound, adequate, and constructive credit and related services to farmers, ranchers, their cooperatives, and to selected farm-related businesses necessary for efficient farm operations. It sets the congressional policy that System institutions be responsive to the credit needs of all types of agricultural producers having a basis for credit. Other provisions of the Act address eligibility and scope of financing, as well as providing sound and constructive credit to YBS farmers. Collectively, FCA views these objectives in the Act as key components of the System's public mission.

The 2012 amendment to FCA Regulation 618.8440 requires that business plans for agricultural credit banks (ACBs) and direct lender associations include a marketing plan. The marketing plan must strategically address how the institution will be responsive to the credit needs of all types of agricultural producers having a basis for credit, with specific outreach toward diversity and inclusion. In addition, FCA Bookletter BL-066 reinforced the need for lenders to look beyond traditionally served markets and customers, and towards other eligible customers. In a growing number of areas around the country, these new markets and potential customers are providing an increasing amount of food and fiber to consumers.

As set forth in the Act, regulations, and other guidance discussed throughout this section, institutions must understand their marketplace, reach out to potential eligible and creditworthy customers, and have board-adopted strategies and actions that clearly demonstrate efforts to fulfill their mission. Business plans, policies, lending standards, and risk appetite and tolerances should be structured and aligned in a manner that supports this mission, while balancing with the need to ensure credit and other risks remain within the institution's risk-bearing capacity.

Evaluative questions and items to consider when examining an institution's good faith efforts to provide constructive credit and services include:

- ***Market Analysis:*** **Does the market analysis include a description of the chartered territory by market segment? Does the analysis provide sufficient analytical support for identifying strategies to reach out to emerging or underserved market segments?** Business and marketing plans are key mechanisms for a board to guide management and staff in supporting mission-related objectives. To support the guidance contained in these plans, each institution should study and know its customer base and agricultural marketplace. FCA Regulation 618.8440(b)(8)(i) requires that ACB and direct lender association marketing plans include a description of the chartered territory by market segment, including the characteristics of demography, geography, and types of agriculture practiced. The institution should use this data to understand the characteristics of its chartered territory. With this knowledge, the institution can determine whether there may be potential, eligible customers it can reach through better marketing and outreach methods. The following are examples of best practices an institution should consider when completing a market analysis. While not required by regulations, these practices may help an institution develop meaningful strategies to carry out its mission.

    - When describing the characteristics of the territory and each market segment, include trend information on production units by size, type, or other characteristics that can help guide future marketing and outreach decisions.

    - Address eligible market segments such as farm-related service businesses, processing or marketing operations, and rural homes. When analyzing these, management could consider factors such as how well the marketplace is already meeting customer needs in a particular segment, and the resources and expertise needed to serve that segment.

    - Consult with legal counsel to ensure that data gathering and analysis complies with applicable laws.

- ***Impediments to Fulfilling Public Mission:* Do values, culture, or practices pose any impediments to meeting the public mission, and if so, has the institution undertaken any strategies or actions to address these impediments?** The institution's mission statement, core values, and general organizational culture and practices should be consistent with the System's mission as outlined in Section 1.1 of the Act and the other criteria documents referenced in this guidance. This also includes items such as policies, processes, underwriting standards, lending approach, risk tolerances, staffing, and compensation systems that can all influence behaviors or practices that may promote or impede the institution from achieving its mission. Management should analyze lending programs and practices, service delivery mechanisms, and staff skills to serve the various market segments and ensure there are no unnecessary barriers to providing credit to eligible, creditworthy customers. For example, such barriers could include a lack of employee training, appropriate loan products, appropriate creditworthiness standards, or outreach toward certain populations or geographic areas. When these barriers exist, management should take appropriate actions to address them. However, management should ensure they understand the inherent risks associated with such actions or any new initiatives, and that appropriate risk management practices are in place.

- ***Lending Authorities:* Is the institution appropriately using its available lending authorities to carry out its mission? If not, was reasonable and thoughtful consideration given for not using certain authorities?** While the mission focus is on credit and services aimed at eligible agricultural producers, the institution's actual and intended use of authorities such as farm-related service businesses, processing or marketing operations, rural home, and similar entity should also be considered. While there are no specific requirements that an institution use these authorities, management should consider how these authorities may contribute to accomplishing the institution's mission. As a best practice, institutions should complete a thoughtful analysis as a basis for any business decisions to not actively use available lending authorities.

- ***Strategies and Actions:* Has the institution developed appropriate strategies and actions to market the institution's products and services to all eligible and creditworthy customers?** FCA Regulation 618.8440(b)(8)(ii) requires the business plan for each ACB and direct lender association to include a marketing plan. This marketing plan must include strategies and actions to market the institution's products and services to all eligible and creditworthy customers, with specific outreach toward diversity and inclusion within each market segment. The plan should reflect the chartered territory's geographic and demographic diversity, and address the accessibility of the institution's products and services to all potential customers. In developing strategies, institutions should make a good faith effort to identify how they can reach out to potential eligible and creditworthy customers who may not have previously had access to credit for various reasons. The institution's approach to developing strategies should be thoughtful, deliberative, supported, and documented. Once strategies are established, institutions should develop actions that outline how the strategies will be implemented. Actions should have enough specificity to ensure they will reasonably accomplish the intended strategies. To ensure accountability, institutions should craft the strategies and actions in a way that will enable reporting on the progress made in accomplishing them. However, institutions are not expected to quantify results obtained from accomplishing the strategies and actions related to diversity and inclusion. Note: YBS programs have additional criteria related to establishing quantifiable goals that go beyond the expectations outlined in FCA Regulation

618.8440(b)(8). Refer to FCA Regulation 614.4165 and FCA Bookletters BL-040 and BL-066 for details.

- ***Implementation:*** **Were marketing plan strategies and actions effectively implemented?** Strategies and actions must be effectively implemented for the marketing plan to be successful. Management and staff should make a good faith effort to implement all strategies and actions. Any material deviation from the plan should be reported to the board. The board should hold management accountable for implementation and should approve any material deviation from the plan. While the institution is not expected to quantify results related to diversity and inclusion, a best practice would be to quantify results in meeting other aspects of the marketing plan. A review of the information discussed above, along with an analysis of loan portfolio composition and loan underwriting practices, should evidence that the institution is effectively meeting its public mission.

- ***Board Reporting:*** **Does the board receive sufficient reports on progress made in accomplishing marketing plan strategies and actions?** The reporting should inform the board of any significant problems, delays, or adjustments needed in implementing strategies and actions to market the institution's products and services to all eligible and creditworthy customers, with specific outreach toward diversity and inclusion within each market segment. Report content and frequency should be consistent with board policy or process requirements, and comply with FCA Regulation 618.8440(c)(2). While the regulation requires board reporting annually, institutions should consider more frequent reporting as discussed in the *Strategic Direction and Business Planning* section of The Director's Role. More ongoing reporting will enable the board to ensure accountability and formulate new strategies and actions, if necessary.

***Note:*** As specified in FCA Regulation 618.8440(b)(8), institutions may use other documents as part of meeting the marketing plan regulatory requirements. However, these documents must be approved by the board annually, and be summarized and incorporated by reference in the marketing plan. Also, it is important to remember the FCA business planning regulation does not require an institution to:

- Establish quotas. It does not require specific outcomes in lending; rather, the focus is on outreach efforts and strategies and actions.
- Complete redundant plans or actions. An institution may use existing documents to satisfy these planning requirements, provided the existing documents are approved annually by the board.
- Disclose confidential or sensitive information in public documents.
- Extend credit to any persons who are not eligible, creditworthy, or within the scope of financing rules.
- Favor any type or group of agricultural producers in its underwriting of credit.
- Gather or record data on customer characteristics not currently legally gathered or recorded.
- Implement strategies or actions that extend beyond its marketplace.
- Develop marketing plans unless it is exercising title III lending authorities or is a direct lender association.
- Implement strategies or actions inconsistent with existing lending laws and rules or with safety and soundness standards.

System institutions vary widely in their size, marketplace, agricultural types practiced, producer demographics, and other areas. A one-size-fits-all approach to compliance with FCA's business planning regulations is not appropriate and the regulation does not contemplate quotas or quantifiable metrics in marketplace service or any specific strategies or actions. Examiners should not expect specific outcomes or results in diversity and inclusion marketplace service, but will evaluate the institution's good faith efforts to implement well thought out strategies and actions identified in the marketing plan.

Refer to the following documents for additional guidance and information:

- Preamble to the 2012 Business Planning Regulation amendments
- Frequently Asked Questions on Business Planning for Diversity and Inclusion
- FCA procedures and guidance within the *Mission Compliance* topic for examining YBS, mission-related investments, and financially related services programs.

***2. YBS:***

Examine the adequacy and administration of the YBS program, contribution to meeting the System's public mission, and compliance with FCA guidance.

Guidance:

Section 4.19 of the Act and FCA Regulation 614.4165 require each association to have a program for furnishing sound and constructive credit and related services to young, beginning, and small (YBS) farmers and ranchers. They also require each association's program to be developed under its funding bank's policy (subject to the bank's review and approval), with annual reporting from the association to the bank, which then reports annually to FCA. YBS programs are intended to help ensure that associations make conscious efforts to meet the unique credit and related services needs of eligible YBS producers in coordination with other System institutions serving the territory and other governmental and private sources of credit. As communicated through regulations, bookletters, and informational memorandums, associations must study their marketplace, reach out to all eligible and creditworthy YBS farmers and ranchers, and have targets and goals adopted by their board to serve these farmers and fulfill their public mission. There are also specific requirements for reporting to shareholders and FCA. Institutions should refer to the YBS page on FCA's website for information and resources. While YBS programs are mandated by regulatory requirements, providing credit and services to YBS farmers and ranchers makes good business sense and is important to an institution's long term success.

FCA's examination of a YBS program focuses on assessing guidance and controls established to extend credit and related services to YBS farmers and ranchers. An association must have internal controls in place to ensure effective program implementation and comply with regulatory requirements. Business plan objectives, policies, lending guidance, and risk tolerances should be structured and aligned in a manner that promotes credit and financial services for YBS customers and be based on related policies and procedures. Associations must report their program results to their funding bank in accordance with FCA Call Report instructions, and assess any opportunities or impediments they face in achieving their YBS outreach goals.

Evaluative questions and items to consider when examining the adequacy and administration of YBS programs, contribution to meeting the System's public mission, and compliance with FCA guidance include:

- ***YBS Program Guidance:*** **Does YBS program guidance comply with regulatory requirements and sufficiently evidence a commitment to meeting the institution's public mission?** FCA Regulation 614.4165 establishes minimum YBS program components to ensure that associations can successfully fulfill their YBS mission. This includes a mission statement describing program objectives and specific means for achieving such objectives. While associations would typically choose to adopt a board policy, they have latitude to use other means to enact and control their YBS program in lieu of a formal policy. FCA Bookletter BL-040 expands on the minimum requirements in FCA Regulation 614.4165 by recommending that YBS policies or programs address several topics. These topics include criteria in areas such as determining full-time farmer status, expected loan file documentation, and internal controls to ensure the program is implemented for the benefit of YBS farmers and ranchers. Program guidance should sufficiently evidence a commitment to fulfilling the mission of providing YBS farmers and ranchers the credit and related services they need to begin, grow, or remain in agricultural production.

- ***Other Internal Controls:*** **Are internal controls sufficient to ensure the YBS program is managed appropriately and in compliance with program guidance and regulatory requirements? Are controls sufficient to ensure accurate YBS coding on loans and leases?** FCA Regulation 614.4165(f) requires internal controls that establish clear lines of responsibility for YBS program implementation, performance results, and quarterly reporting to the board. Additionally, associations should have other controls as a sound business practice to ensure YBS programs are effectively carried out in accordance with program guidance and regulatory requirements. For example:

  - Management should ensure staff are properly trained on the program, so they can recognize and effectively serve the current and future needs of YBS farmers and ranchers.

  - Tying performance evaluations and compensation and incentive programs to YBS program success is a potential control to help effectively implement the YBS program. FCA Regulation 620.31(b)(3) requires the Compensation Committee to ensure that senior officer compensation, incentive, and benefits programs support the institution's mission, which includes the YBS program.

  - Internal audits and reviews serve as an important control that examiners should consider when concluding on YBS internal controls. Refer to the *Audit* and *Transaction Testing* procedures under the *Mission Compliance* topic for information on examining audit coverage and conducting transaction testing to validate that controls are functioning as intended.

  - The information derived from YBS reporting must be accurate, as results are reported to Congress and other audiences. Typical internal controls to help ensure accuracy include clear guidance and training on how to correctly code loans and leases, along with reviews to confirm accurate coding on individual transactions.

- ***Targets and Goals:*** **Has the association developed and implemented appropriate targets and goals to ensure the YBS program provides sound and constructive credit to YBS farmers and ranchers in its territory?** FCA Regulation 614.4165 requires associations to develop a YBS lending program that incorporates certain minimum components, including annual quantitative targets for credit to YBS farmers and ranchers based on reliable demographic data. Most associations derive that data from the United States Department of Agriculture's Census of Agriculture; however, institutions have the flexibility to use other sources if they are reliable and provide sufficient information. The regulation also requires including YBS targets and goals in the annual business plan. Additionally, FCA Regulation

620.5(k) requires annual disclosure of certain YBS program elements in the annual report to shareholders. Management needs to quantify results in meeting YBS targets and goals, as further discussed in the *Reporting* section below. Other important considerations include:

- Lending to some YBS farmers and ranchers, particularly new entrants into farming, may involve greater risk than lending to non-YBS customers. Despite the potential for added risk, YBS programs are important for fulfilling the System's mission and attracting new customers who may become life-long System members. When setting targets and goals, institutions should balance the credit needs of YBS farmers and ranchers with the institution's risk-bearing capacity and board direction for the YBS program.

- As discussed in FCA Bookletter BL-040, System lenders should also consider credit enhancements and credit coordination programs to improve creditworthiness and to further support the program targets and goals. To provide these types of credit enhancements, institutions should consider setting aside capital that they are willing to risk to support YBS programs.

- ***Strategies and Actions:*** **Has the association developed and implemented appropriate strategies and actions to market its products and services to all eligible and creditworthy YBS farmers and ranchers?** In developing strategies to achieve its targets and goals, associations should identify opportunities to reach out to all eligible and creditworthy YBS customers. The approach to developing these outreach strategies should be thoughtful, deliberative, supported, and documented. Once strategies are established, management should develop actions that outline how the strategies will be implemented. Actions should have enough specificity to ensure they will reasonably accomplish the intended strategies. To ensure accountability, the strategies and actions should be designed in a way that will enable reporting on the progress made in accomplishing them. The following are additional considerations when examining strategies and actions:

  - FCA Regulation 618.8440(b)(8)(ii) requires institutions to develop strategies and actions to market their products and services to all eligible and creditworthy persons, which would include YBS customers.

  - FCA Bookletters BL-040 and BL-066 provide information and guidance on possible strategies, actions, and outreach to potential YBS customers. These include customized loan underwriting standards (or guidance on making exceptions to the institution's traditional standards), flexible interest rates or fees, and educational support.

  - The FCA Informational Memorandum on Lending, Training, and Outreach Opportunities with the Farm Service Agency dated November 25, 2014, provides information on specific lending, training, and outreach opportunities provided by the Farm Service Agency (FSA). Taking full advantage of these opportunities can benefit associations by reaching a broader lending segment and providing them with ways to coordinate YBS programs with other governmental sources of credit, as required by Section 4.19 of the Act. Farm loan programs such as government guarantees may also help mitigate credit risk when meeting the financing needs of YBS customers.

- Management needs to effectively implement strategies and actions for the YBS mission outreach to be successful. The board should hold management accountable for plan implementation and be informed of any material deviations from the plan. Accomplishment of the institution's YBS goals and targets is a good indicator of whether strategies and actions were adequate and appropriate.

- ***Impediments to Fulfilling Public Mission:*** **Do values, culture, or practices pose any impediments to meeting the YBS mission, and if so, has the association undertaken any strategies or actions to address these impediments?** Effective YBS programs begin with the culture and tone at the top, as set by the board. Policies, processes, underwriting standards, lending approach, risk tolerances, staffing, and compensation systems should all be an outgrowth from this culture and tone. These elements influence behaviors and practices and can either promote or impede the association in achieving its YBS mission. Management should review lending programs and practices, marketing efforts, and staff skills to determine if they sufficiently facilitate serving all market segments in the institution's lending territory. This review should ensure there are no unnecessary barriers to providing credit to all eligible, creditworthy YBS farmers and ranchers. For example, such barriers could include inadequate employee training, lack of suitable loan products, inappropriate creditworthiness standards, or insufficient outreach toward certain populations or geographic areas. When these barriers exist, the board and management should address them while also ensuring appropriate risk management practices are in place.

- ***Reporting:*** **Do the relevant parties (the board, funding bank, and FCA) receive adequate reports on progress made in carrying out the YBS program?** Appropriate YBS reporting serves to help track and monitor program operations and achievements, including any program changes and progress towards achieving YBS goals and targets. Report content and frequency should be consistent with board policy or process requirements, and comply with regulatory requirements. The following identifies specific guidance and requirements:

  - FCA Regulation 614.4165(f) requires quarterly board reporting, which enables the board to ensure accountability for program implementation and formulate new goals and targets, if necessary. In addition to providing the board with the information reported to the funding bank, board reporting should identify significant problems, delays, or adjustments needed in implementing strategies and actions to market products and services to all eligible and creditworthy YBS customers.

  - FCA Regulation 614.4165(b)(3) requires associations to annually report YBS operations and achievements to their funding bank. FCA Regulation 614.4165(b)(4) requires each funding bank to provide FCA with a complete and accurate annual report summarizing YBS program operations and achievements of their associations. YBS Call Reporting Instructions provide the framework for appropriately reporting these activities. The bank should have adequate internal controls that enable it to provide accurate and complete reporting to FCA.

- ***Bank Oversight of YBS Programs (banks only):*** **Does the bank adequately meet its responsibilities for policy guidance, review and approval, and reporting related to YBS programs and activities?** Banks have a responsibility to provide effective oversight and reporting of affiliated association YBS programs and activities, as outlined in Section 4.19 of the Act. FCA Regulation 614.4165(b) and (d) requires each bank to adopt policies for YBS lending and to review and approve the YBS programs of its affiliated associations. This regulation identifies specific items the bank's policy must address. It also requires the bank's review and approval of specific YBS program components covered in FCA Regulation 614.4165(c). Additionally, the regulation requires the bank to obtain YBS reports from its associations and fulfill annual reporting requirements to FCA, as discussed above in the *Reporting* section.

In addition to the guidance above, please refer to FCA's Annual Report to Shareholders and Business Planning Regulatory Compliance workpapers. These workpapers provide guidance on examining specific aspects of YBS related to shareholder disclosures and business planning.

### *3. Mission-Related Investments:*

Examine the adequacy and administration of MRI programs, contribution to meeting the System's public mission, and compliance with FCA guidance.

Guidance:

### *4. Financially Related Services:*

Examine the adequacy and administration of financially related services programs, contribution to meeting the System's public mission, and compliance with FCA guidance.

Guidance:

### *5. Audit:*

Determine if the institution conducts an effective audit (scope, reporting, and followup) of programs related to mission compliance.

Guidance:

The internal audit and review program is a key mechanism for ensuring mission compliance activities and processes are functioning effectively and in compliance with regulations and policies. The internal auditor or other qualified, independent party should review the adequacy of mission compliance practices to ensure compliance with applicable criteria. The audit risk assessment and scope should address mission compliance topics, and audit frequency should be commensurate with the complexity of the institution's operations and risk profile. A reliable audit program provides the board reasonable assurance that mission compliance activities are effective and that mission compliance reporting is complete and accurate.

Evaluative questions and items to consider when examining the audit function regarding mission compliance include:

- ***Audit Coverage:*** **Is there periodic audit or review coverage of mission compliance?** Audit or review coverage and frequency should be appropriate relative to risks, changes in the operating environment, regulatory requirements, and periodic testing needs. Coverage should also be consistent with the institution's risk assessment results and annual audit plan.

- ***Scope and Depth:*** **Are audit or review scope and depth sufficient to conclude on the adequacy, completeness, and timeliness of mission compliance activities and processes?** The scope should cover key processes and controls within the area being audited or reviewed. The depth of work should be sufficient to determine if internal controls are functioning as intended and regulatory requirements are met. The scope and depth of coverage should be consistent with the approved audit or review plan and engagement contract (if applicable). If audit or review work deviated materially from the original planned scope, the board (or Audit Committee, if so delegated) should be notified of the reasons for the change. Specific items that should be considered in the audit or review scope include:

    - Policies, procedures, and processes for providing constructive credit and services to eligible customers, including the adequacy of marketing plans and outreach efforts towards diversity and inclusion.
    - YBS programs, including FCA reporting requirements.
    - Mission-related investment programs.
    - Financially related services programs.
    - Compliance with mission-related regulations, bylaws, and policies.
    - Board reporting systems for monitoring mission compliance activities and the effectiveness of related strategies.
    - Fraud-related threats and vulnerabilities, as well as anti-fraud controls.

- ***Reliability of Results:*** **Did FCA identify any concerns with audit and review reliability?** Evaluate the reliability of internal audit or review work by comparing the results to FCA's examination results in this area. This comparison often includes FCA testing of transactions that were covered in the internal audit or review (transactions are often loans or loan applications, but may include other types of transactional activity, as well). In addition to the audit or review report, examiners should request and review the workpapers and hold discussions with the auditor to obtain a more thorough understanding of work completed. Often, auditors and reviewers will complete line sheets, flowcharts, control matrices, standard work programs, workpaper forms, or other relevant documents when conducting work. Workpapers should adequately document the work performed and support the final report. In addition, any proforma work programs, workpapers, or other tools should be accurate and sufficiently thorough. If there are material weaknesses identified by examiners that are not identified by internal audits or reviews, examiners should assess the underlying reasons.

- ***Reports:*** **Do internal audit reports sufficiently communicate mission compliance review results and recommendations, if applicable?** Examiners should consider the following when evaluating the audit or review report:

    - Is the report prepared in accordance with the institution's guidelines?
    - Is an executive summary or overview included to provide the board with a general conclusion on audit or review results?

- Is the report accurate, concise, supported, and timely in communicating the audit or review objectives, scope, results, conclusions, and recommendations?

- Are conclusions and recommendations realistic and reasonable given the institution's size and complexity, with material and higher risk issues clearly identified and prioritized?

- Are conclusions and recommendations supported by convincing evidence and persuasive arguments (condition, criteria, cause, and effect)?

- Does the report conclude whether the institution adheres to policies, procedures, and applicable laws or regulations, and whether operating processes and internal controls are effective?

- Does the report address potential vulnerabilities to fraud, if applicable?

- ***Corrective Action:*** **Are management responses to audit findings in this area reasonable, complete, and timely? Have corrective actions been effective?** Audits and reviews are only effective if corrective action is taken to remedy the weaknesses identified. As such, there should be a reasonable, complete, and timely management response to the audit or review report. In some cases, management commitments and agreements or any areas of disagreement are documented in the report or in a separate memo or tracking system. If corrective actions are not resolving the issues or concerns (based on repetitive audit findings, FCA findings, etc.), examiners should further investigate the reasons. For example, this could indicate the audit or review did not sufficiently identify the underlying causes or materiality of weaknesses, sufficient resources are not being directed toward corrective actions, or weaknesses exist in the institution's corrective action process, including board oversight of the process.

***6. Transaction Testing:***

Examine individual assets and applications to assess compliance with the institution's mission-related programs and applicable laws and regulations, and to evaluate effectiveness of internal controls and accuracy of data.

<u>Guidance</u>: