

OPERATION OSWEGO COUNTY, INC.

INTERNAL CONTROLS POLICY

This Policy, adopted the 17th day of September, 2018, was further amended September 16, 2019, and March 9, 2020, by a majority of the Board of Directors of OPERATION OSWEGO COUNTY, INC., a quorum of its members being present and voting in the affirmative.

WHEREAS, sound internal controls are a necessary function of a successful organization and are best achieved by a clearly defined process; and

WHEREAS, this policy, established by the Board of Directors of Operation Oswego County, Inc. (OOC) covers basic accounting functions, day-to-day operating functions performed by OOC staff, as well as compliance requirements of OOC as a Certified Development Company (CDC) as that term is used by the U.S. Small Business Administration;

NOW, THEREFORE, be it

RESOLVED, that the Board of Directors of OOC hereby establish the following policy regarding Internal Controls for the organization:

1. **GENERAL.** The Board of Directors of OOC is responsible for authorizing all bank accounts and check signers. Financial institutions where OOC accounts are maintained are notified on an annual basis of any changes in check signers, following the transition of officers or changes in staff with check signing responsibilities. Financial reports shall be presented to the Board of Directors for review on a monthly basis. An annual financial compilation, review, or audit will be conducted by a qualified outside certified public accountant. Applicable financial and administrative guidelines relating to specific grant funding shall be followed.

2. **CASH RECEIPTS.** While OOC rarely, if ever, receives cash, employees handling cash will have the necessary knowledge and skills to perform the job and will be carefully supervised. Cash receipts must be deposited within 3 days of receipt or when the deposit amount exceeds \$2,000, whichever comes first. Incoming checks must be restrictively endorsed, “for deposit only” with the appropriate OOC account number, when received. Incoming cash must be counted and receipts/bank deposits developed by two or more persons authorized to perform these functions. Records of cash received must be totaled and initialized by authorized employees. Cash collection documentation totals must be compared and reconciled to bank deposit receipts on a regular basis. Bank deposit receipts must be compared and attached to the original bank deposit slips. Adequate physical controls must be maintained over cash receipts from the time of receipt to deposit in the bank. Payments, from any source and for any purpose, received in an OOC bank account electronically via Electronic Funds Transfer (EFT) will be posted to accounting software within 3 days of receipt.

3. CASH DISBURSEMENTS. a. *Check Authorization.* The Executive Director must provide approval for all disbursements. Supporting documentation must accompany checks when presented for signature.

b. *Checks.* All non-recurring disbursements must be made by check. Recurring disbursements may be set up electronically with a vendor via Electronic Funds Transfer with prior OOC Executive Committee approval. Only pre-numbered checks shall be used and always in sequence. Signing of blank checks is strictly prohibited. Checks must be made payable to specific payees based upon appropriate documentation; and never to “cash” or “bearer”. Prior to preparing checks, receiving reports should be compared to vendor invoices for accuracy. Checks must be prepared from vendor invoices only and not from a vendor statement. Signature stamps may never be used to sign checks. Dual signatures, by any Board approved authorized signer, are required for all checks over \$1,000. All checks over \$2,500 require at least one officer of the Board of Directors to sign. Access to blank checks must be limited to persons authorized to prepare checks. Blank check stock must be locked in a secure place when not in use. Any voided/spoiled checks must be marked “Void”, shredded with the signature portion removed and retained in a secure place.

c. *Bank Reconciliations.* Bank accounts must be reconciled by the person responsible on a monthly basis and reviewed by the Executive Director. The Executive Director must receive the bank statements, including canceled checks, if provided by the banking institution. All check numbers must be accounted for. Checks outstanding over 90 days must be periodically investigated, with payment stopped, if necessary, and an entry made restoring such items to cash if appropriate.

4. TRAVEL AND EXPENSES. Employees must submit a detailed expense record, with supporting documentation, in order to be reimbursed for expenses; and initialed for approval by the Executive Director prior to payment, or in the case of the Executive Director’s travel and expense approval by an officer of OOC.

5. SBA 504-RELATED LOANS. The review and assessment of loans provided by OOC, as the CDC for the U.S. SBA 504 Loan Program, is an integral tool to generate and maintain economic growth in Oswego County. The following review standards and procedures shall be followed by OOC staff assigned to review and assess 504 loans:

a. *Assignment of Responsibility.* The responsibility of the internal controls function shall be assigned to the Executive Director of OOC.

b. *Periodic Review and Updates.* A periodic review of the internal controls is essential to ensure that this function remains compliant with ever changing regulatory and procedural guidelines. Such periodic reviews should coincide with changes to the SBA’s Standard Operating Procedure (SOP), as well as other regulatory and policies changes.

c. *Independent Review.* (i). At least once every two (2) years unless requested to be done more frequently by the SBA, an independent review shall be conducted by the Audit Committee of OOC to ensure that the 504 Loans were underwritten in conformance with the SOP. The review of new loans shall focus on underwriting and the closing procedure; while the older loans shall focus

on servicing and liquidation, if applicable. The review must include an assessment of the loan classification (aka loan risk rating) to ensure loans are risk classified appropriately and that risk classifications are updated in a timely manner (such as when new information is obtained), and at least annually.

(ii). Independent reviews of 504 Loans involve a sample of the SBA 504 Loans in OOC's portfolio. OOC's sampling policy is as follows:

1) For Loans Funded Within 12 Months Preceding Review Period:

All loans, but not to exceed the greater of:

- 50% of such loans (rounded down to the nearest whole number of loans, or,
- 2 loans.

2) For Loans Funded More Than 12 Months Preceding Review Period:

- Loans that are current: 10% of such loans (rounded down to the nearest whole number of loans.
- Loans that are delinquent, in intensive servicing or liquidation: 100% such loans.

(iii) The Audit Committee must opine on the risk rating of each loan reviewed as to whether the committee agrees with the risk rating ascribed by the underwriter. The opinion must include a recommendation whether the risk rating should be up-graded or down-graded and provide an explanation for the change.

(iv) Annual objective reviews of credit risk levels and risk management processes are essential to effective portfolio management, which includes review for accuracy and completeness of eligibility, creditworthiness (collateral) and closing checklists. Loan reviews should analyze a number of important credit factors, including:

- A. Credit quality;
- B. Sufficiency of credit and collateral documentation;
- C. Proper lien perfection;
- D. Proper loan approval;
- E. Adherence to loan covenants;
- F. Compliance with internal policies and procedures, and applicable laws and regulations;
- and
- G. The accuracy and timeliness of credit grades assigned by loan officers.

(iv). To encourage independence in the review process, the Audit Committee shall report to the Board of Directors. Results of the review shall be communicated to both management and the Board of Directors. However, to protect the review function's independence, the board or committee shall approve the performance evaluation for the review, review the OOC

staff's strategic and operating plans, and act on the findings of the review. Core analysis phases during the independent Loan Review must include a:

- A. Determination whether deficiencies noted in the last examination and most recent internal/external audit have been addressed and/or corrected by management; and
- B. Determination if any Executive Committee of Board of Directors/Executive Director of OOC have an ability to override credit grades and decisions.

d. *Results of Loan Review.* The results from the review shall be presented to the Board of Directors. The Board and senior management of OOC shall then use this information to improve the current and future loan making and monitoring functions of the organization. The following objectives shall generally be addressed in the loan review process, and should serve as potential points for improvement to:

- (i). Promptly identify loans with well-defined credit weaknesses so that timely action can be taken to minimize credit loss. This would include a review of the loan classifications used by OOC/CDC staff;
- (ii). Identify relevant trends affecting the collectability of the loan portfolio and isolate potential problem areas;
- (iii). Evaluate the activities of lending personnel;
- (iv). Assess the adequacy of, and adherence to, loan policies and procedures, and to monitor compliance with relevant laws and regulations;
- (v). Provide the Board of Directors and senior management with an objective assessment of the overall portfolio quality; and
- (vi). Provide management with information related to credit quality that can be used for financial and regulatory reporting purposes.

e. *Oversight of Lender Service Providers.* OOC shall monitor its professional services contracts to ensure that the services provided are prudent and customary. There should be no apparent conflict of interest between OOC and the professional service provider. The Audit Committee shall monitor the performance of the professional service providers to ensure that the services provided are not underperformed. One measure of performance review to be utilized is the Complete File Review (CFR) utilized by SBA District Counsel to ensure that 504 loans are closed in conformance with the SBA's SOP and governing regulations.

f. *SBA 504 Portfolio Reporting.* OOC staff shall provide SBA 504 portfolio reports to the Board of Directors of OOC on at least a semi-annual basis. Regular portfolio reporting will provide the Board of Directors valuable information to aid in its oversight of the CDC's SBA 504 activities and risk mitigation. Reports provided will include, but not be limited to, asset quality and industry concentration. Upon dissemination of the reports, a Board review of the contents of the reports,

any high risk indications and necessary corrective measures will be conducted. The minutes of the Board of Directors meeting will document the provision of the reports, the subsequent discussion and any resulting decisions or recommendations.

g. SBA 504 Risk Rating System. OOC will undertake timely and accurate classification of SBA 504 loans in its portfolio in order to measure and monitor risk within the portfolio, create a plan to manage risk and take necessary corrective action to mitigate risks. All loans will be classified at origination and at least annually thereafter. In addition, OOC will reclassify loans when there are payment defaults, guarantor bankruptcies or other negative findings regarding the loan. OOC maintains a watch list for all loans where a borrower has failed to make a monthly payment. Loans listed on the watch list are reviewed monthly.

Non-financial factors will be incorporated into the risk rating of loans. For example, information and insight obtained about the businesses will be obtained through servicing activities such as site visits, telephone conversations and discussions with the Third Party Lenders.

Loan risk ratings and any exceptions, overrides, upgrades and downgrades will be presented and to the OOC Board of Directors at least semi-annually. Watch list loans will be presented quarterly.

To aid in its SBA 504 portfolio classification efforts OOC will adopt the Farm Credit Administration Universal Classification System (“UCS”) as a risk rating classification system that classifies each loan on a scale of Acceptable, Special Mention, Substandard, Doubtful and Loss. The definitions of each classification are defined in the UCS. The UCS is a standardized classification system used by the Federal Financial Institution Regulators.

6. MODIFICATIONS. This Internal Controls Policy is intended to be modified and updated on a regular basis, as needed, upon review by the Executive Committee and approval by a majority of the Board of Directors of OOC.

Re-Affirmed by the Board of Directors on the 22nd day of March, 2021, at Oswego, New York.

Operation Oswego County, Inc.

Tricia Peter-Clark, Secretary