

- Headquartered in Frankfort, Kentucky
- Holding Company for 7 Banks
- 36 Bank Locations in 23 Communities
- 700+ Employees
- Publicly Traded
- State and FDIC Mandated

Background

Farmers Capital Bank Corporation (Farmers) is a financial holding company headquartered in Frankfort, Kentucky. Farmers operates 36 banking locations in 23 communities throughout Central and Northern Kentucky, a leasing company, a data processing company, a mortgage company, and an insurance company. Farmers' stock is publicly traded on the NASDAQ Stock Market LLC exchange in the NASDAQ Global Select Market tier, under the symbol FFKT.

For Jason Purcell, Vice President and Director of Internal Audit, the search for freedom began about eight to ten years ago as an internal auditor for Farmers. Jason Purcell shared, "I just knew there had to be a better way but at the time not yet everyone was interested in change. Farmers as a whole liked its processes and programs and we still do."

When Jason Purcell became VP, Director of Internal Audit, there were four to five feet of file cabinets per bank, totaling some 40-50 feet of paper-filled binders.

"In the paper environment, to do a simple comparison of documents, I'd have 10 binders open and covering my desk," shared Jason Purcell.

From lost documents or binders, to finger-pointing of who is responsible for particular documents and binders, to verifying completion of binders and review, there are several obvious pitfalls in working in a paper environment, especially when managing so many locations. The paper churn had taken its toll. Jason's foremost goal became to move from paper to electronic.

Searching for a Solution

As previously mentioned, Farmers liked its' processes and programs. Even though Farmers was ready to launch the journey to an electronic office, they did not want to change the way they run their business.

"Farmers was looking for a solution to increase the efficiency of our auditing and compliance functions. We were searching for software that would fit with our company rather than finding software that forced us to conform to its requirements," stated Allison Razor, Senior Vice President at Farmers.

Farmers allows each of the seven banks and their respective branches to run as its own organization. Centralization occurs in several instances.

Such instances include combined financials in compliance with public trading standards as well as for general corporate functions such as Human Resources, Legal, Marketing, and I.T. Thus, the perfect solution would allow for day-to-day usage to the branch level and for corporate visibility on an as-needed basis.

"We wanted a customizable system that would allow us to tailor it to fit our needs, adapt to our processes and implement for various functionality as we were ready to do so," commented Jason Purcell.

Farmers search resulted in a conglomerate of systems available in the marketplace. While many of the systems they found offered high functionality and intelligence; most all were focused on one particular aspect of banking and often at a very high price point.

After much research, Jason Purcell stated, "We decided we wanted to invest in an affordable system that could be used in many areas of our financial organization not just for one particular segment such as BSA."

The Search Ends with Perfect Solution

The search for the perfect compliance management solution for Farmers ended with Conexxus as it allows for the customization Farmers desired.

"With Conexxus, we believe that we have achieved the perfect balance. Conexxus is working with us to increase productivity while still allowing us to retain our critical workflows," concluded Allison Razor.

Jason Purcell agreed, "I like what we do. I like having control over what we do. We have a good set of procedures and programs. I didn't want to be told what to look at and when; I wanted us to make those decisions. Conexxus allows us to do just that."

After selecting Conexxus, Farmers settled on several objectives which they plan to accomplish through implementation and use of various functions of the Conexxus solution including:

- Eliminating or Reducing Binders (Paper)
- Increasing Visibility to Remote Locations
- Providing Easier Access to Remote Data
- Streamlining Overall Processes
- Gaining Efficiency

Audits with Conexus

As previously stated, each of Farmers seven banks runs as its own entity. This includes each bank preparing financials, maintaining records, meeting compliance measures, and handling audits. Audit preparation is a major function for each bank.

Overall at Farmers, a significant amount of time, effort and expense are contributed to audit. At any given time, there is an internal audit, external audit, regulator exam and/or preparation for one of those listed, occurring at one or more bank location.

As Farmers, three major annual internal audits occur per bank including: 1) Compliance Audit; 2) Loan Review; and 3) Sarbanes Oxley (SOX) Audit. In addition, a bank may also expect a Federal Home Loan Bank Audit, a NACHA Audit, an Electronic Banking Audit, and an I.T. Audit. Each of these audits last approximately one to two weeks, some three to four weeks. In addition to the internal audits at each bank, Farmers has an external audit that occurs each year lasting one to two months. The most recent external audit was completed by Crowe Chizek, a firm that also makes quarterly visits to Farmers with regard to SEC and SOX regulations as well as a 4th quarter review of Farmers' internal controls.

An internal audit team comprised of nine individuals, whose sole responsibility is internal audit, conducts all internal audits at Farmers. Thankfully, both the internal and external audit teams maintain good relations with most all other departments throughout the organization.

"Most Farmers employees know banking is one of the most highly regulated industries in the world, so though they may sometimes grumble, they understand we have to comply," shared Jason Purcell.

Farmers usually gives each bank fair warning to prepare for audits, as do the Feds (usually about three weeks). Streamlining audit preparation efforts should be easy with Conexus, as a quick review of Conexus ("red" items) should alert them to what needs to be addressed prior to the exam.

Thankfully Conexus allows the individual banks to track their own issues. "If a control item is 'red' it means I have not looked at it and if it is 'green' I've taken care of it already. They can own it," said Jason Purcell.

Conquering with Conexus

Conexus is currently being used at Farmers beyond audit preparation, including BSA Compliance (SARs, CTRs, & Exemptions). Plans to also use Conexus for Contract Management and Human Resources Record Management are in the works.

Prior to Conexus, BSA Compliance was maintained by a hodge-podge of paper documents, routed for approval signature(s), filed with the Feds if necessary, and stored in paper format.

With Conexus in place, the tellers can simply open a fillable CTR PDF file, complete the document, store to the network. Daily the branch manager pulls all CTR files to Conexus, reviews and approves, and electronically files with the Feds. Since the government still requires a mailed copy of SARs Conexus is used as an electronic repository for these as well as exemptions and CTRs. Any of these reports can be easily referred to by auditors during an exam and viewed by corporate remotely as needed.

At Farmers, contract management, prior to Conexus, was a series of paper (sometimes electronic) documents that were catalogued on a spreadsheet and managed with an expiration checklist manually reviewed at regular time intervals. With Conexus, Farmers contracts are scanned and indexed within the system for storage savings and easy retrieval.

Human Resources records management at any company is a hearty task. Multiply that times 36+ locations with more than 700 total employees and one finds duplication and potential security risks of personal employee information. Prior to Conexus, employee records at Farmers were managed in a predominantly paper environment with some electronic documents. The individual banks kept a master copy of each employee record (two-three file cabinets) and the corporate office also kept a duplicate copy on file.

Once employee files are indexed within Conexus, each bank will manage the electronic master copy of each employee file. Corporate will then have immediate access whenever necessary and be able to eliminate the duplicate paper copies as well as to insure the security of personal information.

Conclusion

Overall, Farmers has found many uses for the Conexus solution beyond their original initiative of streamlining audit including compliance, contract and human resource records management. In due time Farmers hopes to integrate other existing systems, including COMPASS, their financial statement projection software, with Conexus to provide the corporate office with secure, remote access to documentation, to possibly reduce courier costs and to streamline work efforts throughout the organization.

Conexus users throughout Farmers increase on a regular basis as functionality is implemented in additional areas of the organization. With current Conexus system utilization, Farmers is well on their way to meeting the original project goals and beginning to reap both tangible and intangible returns on from their Conexus investment.