

**DATE:** August 23, 2021  
**BULLETIN:** 2021-KDCU-CUB-17  
**TO:** Kansas Chartered Credit Unions  
**SUBJECT:** Conflict of Interest

### CONFLICT OF INTEREST

Recent examinations by the Kansas Department of Credit Unions (KDCU) examination staff have revealed a number of credit unions with credit union employees (other than the CEO/Manager) on the board of directors. This situation is viewed by KDCU as a conflict of interest and will be included in the exam report.

The Kansas Credit Union Act states “the board of directors shall...authorize the employment and compensation for the chief executive officer.” K.S.A. 17-2209(b)(5). A credit union employee cannot work for the CEO/Manager and also sit on the board which employs, and approves the compensation, for the CEO/Manager. A conflict of interest occurs when an individual’s personal interests could compromise his or her judgment, decisions or actions in the workplace. The board is also charged with approval of the annual operating budget which will contain salary information for credit union staff.

Similarly, KDCU examiners have also discovered credit union employees (or their family members) serving on the credit union’s supervisory committee. K.S.A. 17-2211 outlines the duties of the supervisory committee which include, among others, conducting an annual audit of the receipts, disbursements, income, assets and liabilities of the credit union. This activity would include the review of employee work. An employee (or relative) cannot be on the supervisory committee and review his or her own work (or that of a family member). As referenced above, this would be a conflict of interest as well as inconsistent with generally accepted standards of credit union operations. K.S.A. 17-2211(c); K.A.R. 121-8-1.

KDCU understands the difficulty small credit unions have in locating volunteers to serve on the board, as well as the various committees. However, credit unions are required to avoid the above-referenced inappropriate situations.

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**FFIEC Release:** On August 11, 2021, the Federal Financial Institutions Examination Council (FFIEC) issued guidance entitled [“Authentication and Access to Financial Institution Services and Systems”](#) to provide financial institutions with examples of effective risk management principles and practices for access and authentication. This guidance reinforces the need for a robust information security program.

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**NOTE:** The Kansas Department of Credit Unions (KDCU) and [Administrator Vickie Hurt](#) are continually monitoring the COVID transmission status throughout the State of Kansas and will coordinate on-site examinations accordingly.