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**TO:** Kansas Chartered Credit Unions  
**SUBJECT:** Internal Controls

### INTERNAL CONTROLS

Employee embezzlement and fraud. No credit union expects it. Unfortunately, credit unions across the country have had to deal with fraud and the resulting impact on their reputation. In some cases, the exact reason behind each crime is never known.

Credit union boards of directors have a fiduciary duty to safeguard assets and provide accurate financial data through the 5300 Call Reports (on a side note, filing an inaccurate call report can be a federal criminal offense). This oversight may not stop employee fraud, but it may allow for the activity to be uncovered more quickly. Employee training is vital.

What are the contributing factors? Lack of internal controls and management review, override of internal controls and the failure of the Supervisory Committee to complete its required duties.

When a credit union only has one or two employees, it makes the process more challenging, but credit unions must implement segregation of duties and dual controls. Ensure that one person has the key to the vault and another the combination. With one employee, have a third party reconcile the accounts. Do not allow cash drawers to be shared, do not allow employees to transact on their own or family member accounts, review file maintenance reports and conduct surprise cash audits.

Do not allow passwords to be shared. If this happens, then it becomes difficult to determine who committed the fraudulent act. While important in all credit unions, regardless of size, it is vitally important that the [Supervisory Committee](#) play an active role in internal control oversight in small credit unions.

The following activities can be red flags for internal fraud:

- Living above one's means;
- Personal or family problems;
- Financial difficulties, including excessive gambling;
- Feeling of being underpaid or underappreciated;
- Failing to share control of general ledger accounts; and
- Not taking vacations and not cross-training other employees.

Regardless of the size of the credit union, the strength of the internal controls will directly impact the strength, safety and soundness of the credit union.