

Family First Credit Union

Internal Control Policies and Procedures

Purpose

Internal control policy and procedures of Family First Credit Union are established for the purpose of providing guidelines to safe guard assets, check the accuracy and reliability of its accounting/financial data, promote operational efficiency and encourage adherence to the credit union's other written policies and procedures.

Responsibility and Authority

Employees of Family First Credit Union are expected to adhere to the credit union's written policies and procedures. Each employee is expected to review and understand the Credit Union's written policies and procedures. Training will be provided as needed in this area.

Each employee will review and sign the Fraud Policy of Family First Credit Union. The signed copies of the Fraud Policy will be maintained in each employee's personnel file.

General

Employees of Family First Credit Union are expected to adhere to all of the credit union's written policies and procedures, which include the Internal Control Policies and Procedures. The Internal Control Policies and Procedures address topics that may not be covered in the credit union's other written policies and have been segregated into the following sections:

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Cash on Hand

Teller Cash

Each teller is responsible for his/her own cash drawer fund. Each teller will maintain possession of their own cash drawer / cash box keys. Tellers will use locked cash drawers during business hours. The individual locked cash drawers will be secured in the safe after hours. Tellers should place the locked lid on their cash box when they are gone to lunch. The cash box keys are the responsibility of the teller and should remain on their person at all times.

Spare keys to cash drawer funds will be maintained in a secure location and controlled by management. Spare keys will be maintained in sealed envelopes. The teller and another designated employee will place their initials and a date across the seal. If it is necessary to access a teller's cash fund in his/her absence, two employees will obtain the key and the cash fund will be verified under dual control prior to use.

No cash should be transferred from one teller to another. Tellers should request additional currency in writing from the vault cash fund. The transfer of funds from the vault to the teller should be verified by both the issuer and the receiver. A receipt or voucher will be signed and dated for each transfer.

Each teller's cash fund will be maintained at, or below, a maximum amount authorized by management and the Board of Directors. (To be designated for each branch office.)

All transactions will be processed when received and the member shall be given a receipt for each transaction.

Tellers and all other employees are prohibited from processing transactions on their own accounts and/or related party accounts.

Each cash fund will be balanced at the close of the teller's business day. Any cash overage or shortage will be recorded upon balancing that day and reported to the branch manager.

Tellers, and other employees processing checks, are required to scan (for deposit) and balance all checks received by the end of the day.

Periodic surprise audit of cash will be performed on a surprise basis within a 60 day period by the head teller or branch manager. The results of the audit will be documented on the Cash Audit Log. The Cash Audit Log is maintained by the branch manager.

Audits of teller cash will be performed the day before a teller begins a scheduled vacation of 3 days or more by the branch manager, head teller, or accounting specialist. The results of the audit will be documented on the Cash Audit Log. The Cash Audit Log is maintained by the branch manager.

Teller Transaction Audit

Teller transactions will be audited at least once a quarter on a random basis by the branch manager or compliance officer. Results of the audit will be communicated to the teller, documented on the Teller Transaction Audit for record, and placed in the tellers personnel file.

Vault Cash

The head teller is responsible for the vault cash fund. Vault cash should be counted and balanced under dual control at least once a week. The head teller will maintain possession of the key to access the vault cash fund. The key should remain on the head teller person at all times.

In the event of the head teller's absence, the designated back up to the head teller will have control of the vault cash. If the absence is planned, the head teller and designated back up will verify the vault fund under dual control prior to the absence. If the absence is unannounced, the designated back up will obtain the spare key to the vault fund and the fund will be verified under dual control.

Spare keys to the vault cash will be maintained in a secure location and controlled by management. Spare keys will be maintained in sealed envelopes. The head teller and another designated employee will place their initials and a date across the seal. If it is necessary to access the vault cash fund in the head teller's absence, two employees will obtain the key and the cash fund will be verified under dual control prior to use

Transfers of funds between the vault cash fund and the teller funds will be verified by both the issuer and the receiver. A receipt or voucher will be signed and dated for each transfer.

Incoming currency shipments will be delivered by Brinks. Incoming cash will be verified by two individuals (dual control) prior to being put into the vault cash fund.

The total cash fund (tellers' cash and vault cash) will be maintained at, or below, a maximum amount authorized by management and the board of directors. (To be designated for each branch office.)

Surprise audits of cash will be performed within a 60 day period by the branch manager or accounting specialist. The results of the audit will be documented on the Cash Audit Log. The Cash Audit Log is maintained by the branch manager.

Bait Money

Each teller cash fund and the vault cash fund will contain bait money as designated by management. Copies of the bait money bills will be maintained by the branch managers. Bait money will be changed annually.

Reconcilement

Total cash on hand, per the teller totals, will be reconciled to the general ledger accounts on a daily basis by the accounting department.

Cash Over and Short

Definition of outage:

- Any overage or shortage of cash or checks that is not reconciled within two (2) business days will be considered an out of balance situation (outage).
- Any check that is uncollectible due to an employee's failure to follow proper procedure will be considered an outage.

Any cash overage or shortage (outage) for any amount will be recorded upon balancing that day and reported to the branch manager. A teller's outage is considered a measure of their performance and may result in counseling, warning, probation or termination.

Outages of \$50.00 or more is considered a *large outage* and must be reported to the branch manager immediately.

Tellers are **not authorized** to call members and verify the amount of cash given or received without a manager's permission.

Researching Cash Outage

All outages of any amount, whether over or short, must be researched thoroughly to determine the correct adjustment to make. Tellers are **not allowed** and **strictly prohibited** from making adjustments to members' accounts without proof and a manager's permission. Any adjustment made without proof could result in disciplinary action including termination.

- Outages less than \$50.00
 - Research using Galaxy to determine outage
 - Head teller will assist in the research
- Outages \$50.00 or more
 - Head teller will assist in the research
 - Teller may use the camera to help determine outage with supervision from the Head Teller or Compliance Officer.

Employees will be subject to the following action:

Verbal Warning

Employees may be subject to a verbal warning for the following:

1. Having an individual outage of \$50 or more.
2. Having two or more outages of \$25 or more within a 30 day period.
3. Having more than five outages of any amount within a 30 day period.

Written Warning

Employees may be subject to a written warning for the following:

1. Having an individual outage of \$50 or more within 60 days of verbal warning.
2. Having two or more outages of \$25 or more within 60 days of verbal warning.
3. Having an individual outage of \$200 or more.
4. Having ten or more outages within a 60 day period.

Probation

Employees may be subject to 90 days probation for the following:

1. Having an outage of \$250 or more (90 days probation).
2. Having two written warnings within a 60 day period (90 days probation).

Termination

Employees may be subject to termination for the following:

1. Having an outage of \$500 or more.
2. Having been placed on probation more than two times.
3. Having additional written warnings and/or probation offenses during a probation period.

Each teller will sign an agreement stating that he/she has read and understands the cash over and short policy of Family First Credit Union.

Teller trainees may be given special consideration during the first 90 days of employment, at the discretion of the branch manager. The teller's overall performance, progress and level of experience will be considered in determining whether disciplinary action is appropriate.

Night Drop and Mail-In Payments

Envelopes from the night drop will be opened under dual control and recorded on a log sheet. The log sheet will be prepared daily and initialed by both employees. Once these payments have been logged under dual control, they may be posted by one teller.

Other Teller Transactions

Tellers should withdraw funds immediately for checks (drafts) that are drawn on the credit union.

Counter checks will not be processed through the drive-thru window. Members presenting counter checks should come inside the office in order to process the transaction(s).

The maximum amount of a "cash out" transaction that may be processed to any one member through the drive-thru window is \$500. Any "cash out" transactions in excess of \$500 must be processed inside the office.

If a teller detects a counterfeit bill in their cash drawer, the teller should notify the branch manager and compliance officer immediately. If a teller receives a counterfeit bill over the counter, the teller should inform the individual that the bill is counterfeit and notify the branch manager and compliance officer immediately. The teller should not return the counterfeit bill to the individual.

Employees should be sure to read and understand all "warnings" that are posted to a member's account prior to processing any transactions. If there is a question about a warning on a member's account, the employee should consult the Branch Manager.

Employee and Related Party Accounts

Employees are prohibited from processing transactions on their own accounts and/or related party accounts. Violations of this policy may subject the employee to probation or termination.

Wire Transfers

All wire transfers (in or out) are processed through Catalyst Corporate FCU. Wire transfers may be processed by only certain designated employees, which have been authorized by management. Each authorized employee will be given a password, which is issued, and kept on record, by Catalyst Corporate FCU.

Once a wire transfer is initiated by an authorized employee, it must be verified by another authorized employee in order to be completed.

Wire transfers for individuals may be done for members of Family First Credit Union on an exception basis and must be approved by an officer of the Credit Union. The employee will verify the identity of the member, as well as the authenticity, amount and destination of the funds.

Wire transfers for CUFS mortgage loans will be authorized by the Branch Managers or Officers.

Wire transfers for investment transactions will be authorized by the CEO, CFO or Operations Manager.

Wire transfers for the purchase of fixed assets will be authorized by the CEO or CFO. Documentation for wire transfers will be maintained by the accounting department. The account reconciliation for Catalyst Corporate FCU will be completed each month by an employee that is not authorized to initiate wire transfers.

Disbursements

Expense Items and Accounts Payable

All check disbursements for expense items and various accounts payable will be processed by the accounting department. Exceptions must be approved by the CEO or CFO. Expense checks must be approved by a supervising employee (currently CEO, CFO or Operations Manager) and supported by an invoice. Invoices will be initialed for approval and documented with the general ledger account being charged, prior to disbursement.

Withdrawals - Members' Accounts

Checks disbursements from members' accounts (withdrawals) must be authorized by the owner(s) of that account. Disbursements from inactive / dormant accounts will be authorized by management (currently CEO, CFO or Operations Manager).

Loans

Loan disbursements will be processed only after all of the documentation is completed and approved by authorized personnel (currently Branch Managers and Officers). Once documentation is completed and approved the loan is input to the data processing system by the loan processor. The input information is then verified for accuracy by employees not authorized to process loans. The date of disbursement for all loan checks will be on, or later than, the date of approval.

Fixed Assets

Disbursements for fixed assets will be processed by the accounting department. These disbursements will be authorized by the CEO or CFO and must be supported by an invoice. Invoices will be initialed for approval and documented with the general ledger account to be charged, prior to disbursement.

Reconciliation

The account maintained for check disbursements will be reconciled each month by the accounting department.

Certified Mail and Packages

Any mail and/or packages delivered to Family First Credit Union that requires a signature must be received, and signed for, by authorized personnel. Personnel currently authorized to receive "signature required" mail and packages are the Officers, Operations Manager, and Branch Managers. Any mail or package that requires a signature may contain time sensitive information and must be received by one of the aforementioned employees.

Review

This policy must be reviewed at least annually by the Board of Directors.

Adopted _____ Date _____

Reviewed _____ Date _____