OLMS COMPLIANCE TIP

Internal Financial Controls

Section 501 of the Labor-Management Reporting and Disclosure Act of 1959, as amended (LMRDA), outlines general fiduciary responsibility for officers and employees of labor organizations. Union officials occupy positions of trust and, therefore, must ensure that the union's funds and other assets are used solely for the benefit of the union and its members. Unfortunately, if a union or other organization does not have an adequate system of internal financial controls, some individuals may use, or be tempted to use, some of the organization's funds for their own purposes or become careless and mix the organization's money with their own.

Establish Adequate Internal Controls

To prevent, or at least inhibit, the misuse or embezzlement of their funds, most organizations including corporations, banks, international unions, etc., install internal controls over the handling of their finances. Adequate and effective internal controls require a separation of functions and responsibilities among a number of individuals who are actively involved in the financial process and who provide a system of "checks and balances" over each other's activities. An entirely adequate system of internal controls is not always possible in small local unions which employ, at most, one full- or part-time officer or employee to handle the union's financial affairs and cannot afford the services of an independent accountant. However, some effective internal controls can be established even in one-person operations. For example, local union executive boards or other governing bodies should consider taking the following actions to safeguard union funds:

- Require that the union's financial officers issue receipts to members for all amounts collected from them and maintain records showing the dues payment status of each member.
- Require that union financial officers maintain receipts and disbursement journals (or similar records) to record all monies received and spent by the union.
- Require that the union's financial officer make regular, frequent deposits of dues and other union funds to the union's bank account and identify each deposit with a specific set or time period of receipts in the union's receipts journal to make the relationship between receipts and bank deposits perfectly clear and easily verifiable.
- Ensure that there is a full understanding, in the form of membership or executive board authorizations recorded in meeting minutes, about the level of salary, allowances, and expenses (if any) to which the union's officers are entitled.
- Require that all checks drawn on the union's bank account have a second signature and ensure that the cosigner fully understands that his/her fiduciary responsibilities require that the checks be signed only after they are completely filled out and the cosigner knows the purpose and legitimacy of each transaction.
- Require that the financial officer give a full report of the union's finances at each membership or executive board meeting and that prior authorization be obtained for large or unusual transactions.
- Establish internal local union audit committees (or trustees).
- Ensure that the internal audit committee (or trustees) conduct regular, periodic examinations of the union's books and records, including:
    - reconciling the union's record of bank account balances with bank statements.
    - conducting a spot-check reconciliation of receipts with deposits.
    - spot-checking for possible unrecorded receipts by tracing dues and fees payment entries on membership dues payment records back to duplicate receipts and receipts journal entries.

- ensuring that all cancelled checks that cleared the bank, per the bank statement, have been provided to the audit committee for examination.
- examining cancelled checks for consistency of payee and endorsements and comparing the amount and payee on each check with the information recorded on check stubs and in the disbursement journal.
- ensuring that adequate backup documentation (bills, sales invoices, etc.) is maintained for all union expenditures.
- verifying for purpose and legitimacy of check transactions by referring to check stub and journal entries, back-up documentation, and the membership or executive board authorizations recorded in meeting minutes.

- Review established internal controls periodically and change operating procedures as necessary to ensure that the union's funds are being properly handled and adequately safeguarded.

Although establishment of internal financial controls will not absolutely prevent misuse or embezzlement of union funds, internal controls such as those listed above will surely inhibit some individuals from misusing union funds. Union officers and audit committee members (or trustees) who have further questions about internal financial controls should seek advice of their national or international union or the nearest OLMS field office.

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