

# **TRUSTEES AUDIT GUIDE**

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## A MESSAGE TO TRUSTEES

The International Constitution, in its “Bill of Rights for Union Members,” and the Financial Standards Code, in Article XI, provide for annual audits of affiliates by an independent Certified Public Accountant (CPA), or by Trustees who are “officers elected for that purpose... .” The Trustees are thereby charged with the responsibility to see that an audit of all the funds of the affiliate is performed, either by an independent CPA or the Trustees themselves. It is then their duty to report any findings to the membership and to the Executive Board. The Trustees must also see that the President and principal financial officer complete and file the “Local Union Annual Financial Report” and “Surety Bond Report” annually as required by the International Constitution.

Whether the audit is performed by an independent CPA or Trustees, the findings must be reported to the membership and Executive Board. The Audit Report must be attached to the Executive Board and membership meeting minutes of the meeting at which the report was presented. The minutes and attached reports then become a permanent part of the affiliate’s records.

**If the audit is performed by an outside independent CPA**, the CPA is required to make a separate report of compliance with the Financial Standards Code. At the time a CPA is hired, the CPA will issue an “Engagement Letter” to state whether an audit, review or compilation will be performed. The Engagement Letter should specify any other services to be performed and may provide billing rates and an estimate of the cost of services to be provided.

CPAs are required to issue a SAS 115 letter when internal control issues have been identified during their audit. A CPA will also typically issue a “Management Letter” upon completion of the engagement, noting any operational or other issues that may require remedial action to be taken. Officers/Trustees must obtain copies of the CPA’s Engagement Letter, SAS 115 letter, Management Letter and Audit Report. Trustees are responsible for ensuring that these reports are properly presented to the Executive Board and/or membership and that any recommended actions are appropriately addressed.

**If the audit is to be performed by the Trustees**, the following is a suggested series of steps to aid in the review of the affiliate’s financial activities. If a significant number of transactions are involved, a sampling or testing procedure may be used for all steps described in the following sections. Affiliates with large numbers of transactions should consider the advantages of using a professional accountant or CPA to perform the audit.

## FINANCIAL RECORDS

Before beginning the audit, the Trustees should obtain the following records for the year or period being examined:

- Receipts/Disbursements Journal (A manual Receipts/Disbursements Journal does not need to be maintained by affiliates using electronic accounting systems that provide comparable information.)
- Printouts from electronic accounting systems as detailed in Article III, Section 1A, of the Financial Standards Code
- Bank statements and canceled checks for all union bank accounts
- Bank reconciliations for all union bank accounts
- Other supporting documentation for transactions in all accounts, such as account transfers, wire transactions and electronic fund transfers (EFT's)
- Copies of deposit slips
- Checkbook and check stubs
- Per Capita Tax Reports (if applicable)
- Paid bills
- Officers and employees expense reports
- Payroll records and payroll tax returns
- Minutes of membership and Executive Board meetings
- Monthly financial reports, financial statements and governmental filings
- Records of petty cash expenditures
- Mortgage and loan agreements
- Lease agreements and any other contracts
- Insurance policies
- Evidence of ownership of investments
- Schedule of other assets owned (e.g., furniture, computer, printer, filing cabinets, etc.)
- Local Union Annual Financial Report
- Surety Bond Report

## RECEIPTS

The Financial Standards Code requires that all money received be deposited directly in an insured bank account, in the name of the affiliate. Deposits should be recorded in the Receipts Journal, indicating date received, from whom, for what and the number of members for which per capita tax or dues is received. Deposit and date of deposit should be recorded in the checkbook. Copies of the deposit slips and receipt transmittal documents (e.g., dues deduction rosters, rebate summaries, copies of deposited checks) should be retained.

1. Compare amounts listed in Cash Receipts Journal to copies of deposit slips and amounts shown on bank statements.
2. Review supporting documentation for funds received (e.g., dues deduction lists).
3. Verify that the explanation of the type of receipt agrees with the entry in the Receipts Journal or check register.
4. Verify that totals are properly computed in the Receipts Journal or check register.
5. Verify that deposits are properly recorded in the checkbook or check register.

## DISBURSEMENTS

The Financial Standards Code states that union money can be spent only if required by law or by union constitution to fulfill contractual obligations, or as authorized by vote of either the membership or the Executive Board. Disbursements require signatures of two authorized union officers or their designees when

permitted under the union constitution. At the time a check is issued, the date, amount, payee and purpose of the check should be recorded on the check stub, in the Disbursements Journal or in the electronic accounting system.

All disbursements must be substantiated by supporting documentation such as bills or invoices, per capita tax reports, officer or employee expense reports, payroll records and lease agreements. The minutes of Executive Board or membership meetings should show authorization for these disbursements as outlined in Article V of the Code.

1. Review the bank statements and verify that a copy of the front and back of the canceled check exists for each paid check shown on the bank statement.
2. Review bank statements, bank reconciliations, receipts, and Disbursement Journals and/or check registers to ensure that amounts for deposits, checks paid and other disbursements are in agreement.
3. Compare payee on check to payee listed in the Disbursements Journal, check register and checkbook.
4. Examine the endorsement on the back of the check to verify that it agrees with the payee.
5. Examine signatures on checks to verify they are signed by the officers authorized to do so under the affiliate's constitution.
6. Compare the payee and amount on canceled checks to supporting invoices, expense reports, Per Capita Tax (PCT) Reports, etc.
7. Review supporting invoices, expense reports and PCT Reports to verify that the check number and dates of payment are properly shown on each document.
8. Compare explanations in the Disbursements Journal or check register to supporting documentation to verify that expenses are properly classified.

9. Verify that the Disbursements Journal is properly totaled.

10. Verify that the checkbook or check register is properly maintained to reflect the current balance at all times.

## **BANK RECONCILIATION**

All bank statements, copies of canceled checks and voided checks must be retained in the union's records by the principal financial officer. A bank reconciliation should be performed within thirty (30) days of the bank statement end date. The monthly bank reconciliation should be attached to each month's bank statement.

Canceled checks are required to verify the accuracy of the financial records (e.g., checks recorded in the Disbursements Journal or check register, notations on paid bills). However, some banks and credit unions do not automatically provide copies of canceled checks with the bank statements. If the canceled checks are not available, the principal financial officer must take steps to obtain copies of those checks (front and back) and ensure that they are maintained with each month's bank statement.

1. Review bank statements, monthly bank reconciliations and Receipts and Disbursement Journals, and/or check registers to ensure that amounts for deposits, checks paid and other disbursements are in agreement.
2. Compare bank account balances on the financial statement to bank reconciliation balance and to the checkbook or check register balance.
3. Research any outstanding checks six (6) months or older for possible cancellation or stop payment.
4. If applicable, obtain copies of missing checks from the bank or credit union. Compare check copies to the entries in the Disbursements Journal or check register.
5. Obtain an explanation from the principal financial officer for any unusual transaction reflected in the bank statement.

6. Obtain an explanation and supporting documentation from the bank or credit union for any unusual transaction reflected in the bank statement.
7. Look for evidence that the bank reconciliation was reviewed timely by the President.

## **BANK DEBIT OR ATM CARDS**

Bank Debit Cards and/or Automated Teller Machine (ATM) Cards may not be used under any circumstances. Review all bank statements for evidence of ATM or Debit Card Transactions.

## **SAVINGS ACCOUNTS**

Savings accounts may be maintained, but only at insured institutions and in the name of the affiliate.

1. Review savings bank records to see that all interest is properly recorded.
2. Review deposits and withdrawals and compare to amounts shown in the Receipts and Disbursements Journal or check register.
3. Verify that the bank reconciliations are performed for each savings account, and that the reconciled account balances agree with the amounts reported on the financial statement.
4. Verify that the signatures authorizing any account transactions are the signatures authorized by the affiliate's constitution.

Trace all transfers between the savings account, checking account and all other bank accounts to verify that all such transfers have been properly deposited.

## **EXPENSE REPORTS AND REIMBURSEMENTS**

Union Officers, members and employees may be reimbursed for expenses relating to union activities. These payments must be documented by an expense report showing payee, amount, specific union business purpose and supporting invoices or receipts. The expense report must be signed when submitted by the individual requesting reimbursement and approved by the appropriate officer or supervisor.

1. Review the expense reports for a) authorization, b) supporting documentation (invoices or receipts), c) union business purpose, d) signature of individual submitting request for reimbursement and e) approval signature.
2. Determine if reimbursement is in compliance with the union's policies (e.g., per diem, mileage, travel policies, etc.)
3. Compare amount shown on expense report and supporting documentation to check paid.
4. Review the minutes to see that authorization is properly recorded, particularly for conventions, conferences, meetings, etc.
5. Verify in each instance where meeting food and beverage is reimbursed, the request for reimbursement is supported by a list of the names of the people attending, their relationship to the union, and the union business discussed.
6. Verify that all costs paid directly by the affiliate, (e.g., direct hotel billings, charges incurred on the affiliate's credit card) have been properly reported on itemized expense reports.
7. Verify that any authorized user of the affiliate's credit card has provided an itemized expense report accounting for every charge made with the credit card receipt and the itemized sales slip attached.

## **EXPENSE ADVANCE**

Expense advances must be authorized. Advances should subsequently be accounted for by submission of expense reports, invoices and other documentation required for expense reimbursement.

1. Review expense advance for authorization and approval in the minutes.
2. Verify that the advance is subsequently accounted for by submission of expense reports with supporting documentation.

3. Ensure that any advances in excess of amounts reported on expense reports were returned to the affiliate and deposited into the appropriate bank account.

### **ACCOUNTABLE VERSUS NON-ACCOUNTABLE REIMBURSEMENT PLANS**

The Financial Standards Code Glossary of Terms provides an explanation of the difference between accountable and non-accountable plans. A non-accountable plan does not require the filing of an expense report but treats all payments to individuals as taxable compensation.

1. Review the approval for payments to officers, members, or employees to determine the intent of the payment – **accountable** or **non-accountable**.
2. Verify that expense reports are being filed for **accountable** payments.
3. Verify that wages are being properly reported and appropriate payroll taxes are being withheld and deposited for **non-accountable** payments.

### **CREDIT CARD CHARGES**

If an affiliate provides a credit card to its officers and/or employees, the individual authorized to make a charge directly to the affiliate's credit card must provide an itemized expense report detailing every charge made as well as its union purpose. The affiliate must not pay the credit card company for any charges incurred on the union credit card without all the charges adequately documented.

Union credit cards issued in the name of individual officers or employees are the responsibility of that person. Costs incurred by individuals must be submitted on an expense report for reimbursement to the individual. Under no circumstances should the union make a payment to a credit card company for a card that is owned by an individual.

1. Obtain copies of all statements for the affiliate's credit card(s).

2. Obtain copies of the meeting minutes at which either the membership or Executive Board approved having credit card(s) and verify the card(s) were acquired and are being used in compliance with the approvals.
3. Obtain copies of any policy or procedure manuals/memos that explain the proper use of the credit card(s).
4. Obtain copies of documentation reflecting pre-authorization of charges by two signatories of the affiliate's accounts.
5. Obtain copies of all expense reports that are used to account for credit card transactions. Verify that each charge on the statement is documented with all supporting receipts and full explanations of union business purpose on an expense report signed and submitted by the responsible person for the charge.
6. Verify that the policy prohibits personal use of the union credit card(s).
7. Verify that itemized expense reports were submitted by all authorized users of the credit card prior to payment to the credit card company.
8. Prepare a separate section of the audit report to be presented to the Executive Board and membership that deals specifically with credit card use and the results of this audit.
9. Identify all payments made to credit card companies. Trace each payment to the union-owned credit card statements. Verify there are no payments made for unidentified credit cards or credit cards of individuals.

### **WAGES**

Salaries for employees should be authorized and documented in minutes. Payment of salaries causes the affiliate to be liable for payroll taxes, withholdings, and payroll tax returns. Failure to file such reports can result in tax penalties and could subject the financial officers to personal liabilities.

1. Examine payroll records to ensure that payroll is properly recorded showing detail of wages and all deductions.
2. Compare amounts shown in Disbursements Journal or check register to amounts in payroll record.
3. Check salary rates to approvals as shown by membership or Executive Board minutes.
4. Check for approval in hiring individuals receiving salaries and wages.
5. Verify that payroll records reflect sick leave, vacation, holidays, etc.
6. Examine quarterly and annual payroll records and verify that all payroll reports are filed on a timely basis and that W-2's have been filed with the IRS for all individuals to whom wages are paid.
7. Verify that an I-9 and W-4 is on file for all individuals receiving taxable compensation.

## **ALLOWANCES/STIPENDS**

Authorized allowances and stipends should be documented in minutes and be reported as wages to the recipients.

1. Check the rate of allowances paid to officers and employees against approvals as reflected by the minutes.
2. Verify that W-2s have been filed with the IRS for all individuals who are paid allowances during the calendar year.

(Note: Allowances/Stipends must be distinguished from expense advances.)

- A. Expenses advanced must be accounted for by submission of supporting documentation to the Local Union. Allowances/Stipends DO NOT require documentation, only approval.

- B. Allowances/Stipends are treated as taxable compensation to the recipient. Reimbursed expenses are not taxable.

## **LOST TIME**

Payments for lost time constitute taxable compensation to the recipient and must be reported as W-2 wages. Lost time payments should be supported by authorization, purpose, and basis for amounts paid.

Payments for lost time can be based on rates, up to the actual salaries lost by an individual, as approved by the Executive Board. Some government agencies consider payment of lost time, where the individual was also paid by their employer, to be illegal and could subject the individual to criminal charges.

1. Review the affiliate's requirements for documenting, approving, and issuing lost time payments.
2. Examine supporting records for approval of any lost time payments.
3. See that supporting documentation for payments reflect the purpose for which lost time was used.
4. Verify that lost time payments are reported as taxable compensation.
5. Determine how the lost time rate was calculated and verify that individuals were paid at the correct rate.
6. Determine if documentation is on file to verify that the individual suffered a loss of income or leave that is being made up by the affiliate as lost time.

## **FINANCIAL REPORTING**

Article IX of the Financial Standards Code requires a monthly financial statement be prepared and made available to the membership and the Executive Board. These reports should be attached to the minutes of the meeting at which they are presented and become part of the affiliate's records.

1. Review minutes for indication that monthly financial statements were presented to the membership and Executive Board.
2. Compare total receipts and disbursements reported on the monthly financial statement to Receipts and Disbursement Journals.
3. Review one or more months of disbursements to see that authorization exists in the minutes.

## **GOVERNMENTAL REPORTING**

All labor unions, including organizations affiliated with AFSCME, are required to file a Form 990, Form 990-EZ or Form 990-N (e-postcard) with the Internal Revenue Service. All 990 series forms are due May 15 or four and one-half months after the end of the affiliate's fiscal year. For filing year 2023, failure to file a Form 990 or 990-EZ carries a penalty to the affiliate of \$20.00 per day until filed with a maximum penalty of the lesser of \$12,000 or 5% of the gross receipts of the affiliate for the year. (These penalties often increase each year.) Failure to file a 990 series form for three (3) consecutive years will result in the revocation of the affiliate's tax-exempt status.

Unions that spend money attempting to influence the selection, nomination, election or appointment to any public office at any level of government or any office in a political party must file Form 1120-POL with the Internal Revenue Service if both net investment income and political expenditures exceed \$100.00, and if the local has not established a "separate segregated fund."

The U.S. Department of Labor requires annual reports to be filed by unions who are governed by the provisions of the Labor-Management Reporting and Disclosure Act of 1959, as Amended (primarily those who represent private sector members). Form LM-2 must be filed for those qualifying affiliates who have annual receipts of \$250,000 or more. LM-3 needs to be filed for qualifying affiliates who have annual receipts \$10,000 or more but less than \$250,000. LM-4 needs to be filed for qualifying affiliates who have annual receipts less than \$10,000. These forms must be filed electronically.

Other governmental filings may also be required. Please see Appendix H of the Financial Standards Code for additional information on governmental reports.

1. Determine the appropriate IRS 990 series form has been properly filed with the Internal Revenue Service and, if applicable, that the appropriate Form LM-2, LM-3 or LM-4 has been filed with the U.S. Department of Labor.
2. If the examination of records indicates that political contributions have been made, and if a "separate segregated fund" has not been established, determine that IRS Form 1120-POL has been filed and the necessary tax paid.

## **LOCAL UNION REPORTING**

The International Constitution requires that all Local Unions file the "Local Union Annual Financial Report" with the International Union each year.

1. Check to see that the Local Union Officers have filed the "Local Union Annual Financial Report" for the most recent fiscal year.
2. Review the comments, if any, made by the International Union and see that any recommended adjustments in record keeping have been made.

## **SURETY BOND REPORTS**

The International Constitution requires that all affiliates file a "Surety Bond Report" annually.

1. Check to see that the annual Surety Bond Report was completed and forwarded to the International Union by March 1 each year.

## **MAINTENANCE OF RECORDS**

The records listed in this audit guide needed to perform the audit must be maintained for seven (7) years. Minutes should be retained longer if they document compliance with the Financial Standards Code or other federal, state, or local reporting and recordkeeping requirements.

1. Check to see that all records of the union are retained in their original form (paper and/or electronic) for at least seven (7) years as required by the Financial Standards Code.

## **AUDITS**

The Financial Standards Code requires that at a minimum each year an audit of the affiliate be conducted by Trustees of the affiliate, or by independent auditor(s) not connected with the union. The Code requires that a report be made to the Executive Board and to the membership.

1. If the audit is performed by an independent auditor or CPA, check the minutes to see that the report was presented to the Executive Board and to the membership.
2. Check to see that all recommended adjustments to the accounting records have been made.

## **REPORT OF FINDINGS -TRUSTEE AUDIT**

If the audit is conducted by the Trustees, they are required by the Financial Standards Code to report their findings to the Executive Board and to the membership.

1. The report must be written and identify those areas which do not conform to the prescribed standards outlined in the Financial Standards Code.
2. The report should be directed to the Executive Board and signed by each of the Trustees.

## **REVIEW OF OUTSIDE AUDITOR REPORT**

If the audit was performed by an outside independent accountant, such as a CPA, then they should make a separate report of compliance with the Financial Standards Code.

1. Obtain copy of the CPA's "Engagement Letter" — which specifies the work the CPA was to perform.
2. Obtain a copy of the Audit Report.
3. Obtain a copy of the Financial Standards Code Compliance Report.
4. Obtain a copy of the CPA's "Management Letter" that lists issues that need to be reviewed by the Executive Board.
5. Determine whether the CPA issued a SAS 115 letter regarding internal control and review any findings.
6. Determine that reports are properly presented to the Executive Board and/or membership and that any recommended actions are appropriately addressed.

# TRUSTEE AUDIT CHECK LIST

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The answer to each of the following questions should be “YES.” A “NO” response is a violation of the Financial Standards Code that should be investigated and reported to the affiliate’s Executive Board.

TRUSTEE AUDIT QUESTIONS	ANSWERS
1.0 Are bank statements and front <u>and</u> back copies of canceled checks made available by the bank and maintained for <u>each</u> bank account?	
1.1 Does each bank statement show the name and address of the local union?	
1.2 Is a bank reconciliation prepared monthly for each bank account?	
2.0 Is a completed bank reconciliation attached to each bank statement?	
2.1 Is each canceled check signed by two officers?	
2.2 Is a disbursements journal or electronic accounting system maintained?	
2.3 Is <u>each</u> check (including void checks) listed in the check register and disbursements journal?	
3.0 Is supporting documentation maintained for all deposits?	
3.1 Are bank records matched to bank statements to confirm the deposit is properly recorded by the bank?	
3.2 Is a receipts journal or electronic accounting system maintained to record deposits?	
3.3 Is each deposit identified and explained in the checkbook and/or receipts journal?	
4.0 If the local has a petty cash fund, is the maintained balance \$100 or less at all times?	
4.1 If the local has a petty cash fund, are receipts on file to support each check used to replenish the petty cash fund?	
5.0 Are minutes maintained for all Executive Board and general membership meetings?	
5.1 Are all recurring obligations, contracts, and annual budgets properly authorized by Executive Board or membership vote?	

<b>TRUSTEE AUDIT QUESTIONS</b>		<b>ANSWERS</b>
<b>5.2</b>	<b>Do minutes of Executive Board or membership meetings reflect specific approval of each unusual or large expenditure?</b>	
<b>6.0</b>	<b>Do all expenditures serve a legitimate union business purpose?</b>	
<b>7.0</b>	<b>Are paid bills filed in an orderly and organized manner?</b>	
<b>7.1</b>	<b>Are the check numbers, dates and amounts paid written on or attached to filed bills?</b>	
<b>7.2</b>	<b>Is an expense report on file to document each reimbursement to officers, members, and employees?</b>	
<b>7.3</b>	<b>Are employee expense reports approved by appropriate supervisors?</b>	
<b>7.4</b>	<b>Are officer expense reports approved by the Executive Board or a committee of officers selected for that purpose?</b>	
<b>7.5</b>	<b>Do expense reports have adequate supporting receipts attached and is the union business purpose properly documented?</b>	
<b>7.6</b>	<b>Are mileage reimbursements supported by starting and ending location and total mileage?</b>	
<b>7.7</b>	<b>For mileage reimbursements, is the union business purpose specified for each trip?</b>	
<b>7.8</b>	<b>Does the rate used to calculate mileage agree to the affiliate's policy?</b>	
<b>8.0</b>	<b>If the affiliate has a credit card, did all expenses charged to the account have the pre-approval of two signatories of the affiliate's bank accounts?</b>	
<b>8.1</b>	<b>If the affiliate has a credit card, are itemized expense reports on file that account for <u>every</u> credit card charge?</b>	
<b>8.2</b>	<b>If the affiliate has a credit card, are itemized credit card charges reported on expense reports and reconciled to the credit card statement?</b>	
<b>8.3</b>	<b>If the affiliate has a credit card, were itemized expense reports submitted by all authorized users prior to payment to the credit card company?</b>	
<b>8.4</b>	<b>If an affiliate has a credit card, is there a written policy that prohibits personal charges?</b>	
<b>9.0</b>	<b>Are monthly financial statements prepared and given to the Executive Board and membership?</b>	

