

LMRDA

Internal Financial Controls

The Labor-Management Reporting and Disclosure Act of 1959, as amended, (LMRDA) outlines general fiduciary responsibilities 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 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.

To prevent, or at least inhibit, the misuse or embezzlement of 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, either a full or part-time officer or employee to handle the union's financial affairs and can not afford the services of an independent accountant. However, some effective internal controls can usually be established even in small operations. For example, local chapter executive boards should consider taking the following actions to safeguard union funds.

- Require that the chapter's treasurer issue receipts to members for all amounts collected from them.
- Require that chapter treasurers maintain receipts and disbursements journals (or similar records) to record all monies received and spent by the union.
- Require that the chapter treasurer make regular, frequent deposits of dues and other chapter funds to the chapter's bank account. Require that each deposit be identified with a specific time period of receipts in the chapter'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 chapter's officers are entitled.

Compliance Tip



Compliance Tip (continued)



- Require that all checks drawn on the chapter's bank account have a second signature and ensure that the cosigner fully understands that his/her fiduciary responsibilities require that checks be signed only after they are completely filled out and the cosigner knows the purpose and legitimacy of each transaction.
- Require that the chapter treasurer gives a full report of the chapter's finances at each membership or executive board meeting and that prior authorization be obtained for large or unusual transactions.
- Establish internal chapter audit committees (or trustees).
- Ensure that the internal audit committee (or trustees) conduct regular, periodic examinations of the chapter's books and records, including:
 - reconciling the chapter'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 member 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 chapter expenditures; and
 - verifying the purpose and legitimacy of check transactions by referring to check stub and journal entries, backup 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 chapter funds, internal controls such as those listed above will surely inhibit some individuals from misusing chapter funds. Chapter officers and audit committee members (or trustees) who have further questions about internal financial controls should seek the advice of the PSE state office or the nearest OLMS office.