

# Financial Standards Code



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# PREFACE

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## **AFSCME's**

“Bill of Rights for Union Members” states that “**members shall have the right to a full and clear accounting of all union funds.**” To guide AFSCME’s affiliates in that task, the International Executive Board has approved the Financial Standards Code, the latest revisions of which are published in this booklet. These updates reflect new conditions, amendments to the International Constitution, changing laws and changing times.

The revised Code contains expanded Appendices on topics requiring further comment. These Appendices more fully explain certain topics contained in the Code, and are equally binding on all affiliates. It is our intent to continuously expand and/or revise these Appendices as required by law or constitution or changing times.

Included in this booklet are the Trustees Audit Guide and Trustees Audit Checklist. While not part of the Financial Standards Code itself, these items are important documents for use by Trustees and officers who have a fiduciary responsibility to safeguard the unions assets. The Trustees Audit Guide and Trustees Audit Checklist are a suggested series of steps to aid in the review of the affiliate’s financial activities.



# FINANCIAL STANDARDS CODE

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## ARTICLE I

### Purpose and Scope

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#### Section 1.

Every affiliate of the American Federation of State, County and Municipal Employees, whether chartered or not, is required to meet the standards established by and set forth in this Code, including the standards established by and set forth in the appendices to this Code.

#### Section 2.

The purpose of this Code is to establish minimum standards to be met by affiliates in the handling of their funds and other assets and in the maintenance of their financial records. The establishment of these standards is not intended to prohibit the use of more complex or additional safeguards which may be established by any affiliate. It is not the intent of this Code nor shall it be interpreted in such a manner that relieves an affiliate of any duty or responsibility which is placed on it by the constitution of the International Union or of the affiliate.

#### Section 3.

Nothing contained in this Code prohibits the use of electronic equipment for the record keeping functions herein set forth -- properly developed and administered computerized accounting and record keeping programs are recommended for all of AFSCME affiliates. If such equipment is used and essentially accomplishes the purposes of the manual operations described in this Code, the minimum standards set herein shall, to that extent, be considered met.

## ARTICLE II

### Custody of Funds

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#### Section 1.

All money received by an affiliate must be placed directly into accounts insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA). The accounts must be in the name of the affiliate. No monies other than funds belonging to the affiliate may be placed into any affiliate bank or investment account. Please refer to Article IV, Section 5 and Appendix E for additional information on the various types of affiliate accounts.

#### Section 2.

Checking and savings accounts may be maintained in any of the following:

- A. Banks in which deposits are insured by the Federal Deposit Insurance Corporation (FDIC).
- B. Savings and loan associations in which deposits are insured by the Federal Deposit Insurance Corporation (FDIC).
- C. Credit Unions chartered by the Federal Government or by the state in which the affiliate is located and in which shares are insured by National Credit Union Administration (NCUA).

If the affiliate elects to use a credit union account, the affiliate must be sure the credit union can honor dual signature requests and provide front and back copies

of canceled checks.

### **Section 3.**

Investments may be made if they are consistent with provisions of the constitution of the affiliate. The signers on the investment accounts should be the same officers who are authorized to sign checks. It is suggested that any investments with greater than federally issued limits or with other than federally insured institutions be closely monitored.

Affiliates should establish an investment policy and this policy should be approved by the Executive Board. Officers and employees have a fiduciary responsibility to manage and invest union funds prudently, in accordance with the affiliate's constitution and established investment policies for the exclusive benefit of the affiliate and its members. Investments in instruments that have the potential for loss of principal (e.g. stocks) should be avoided. Great care should be taken when deciding where and how to invest union funds. Generally, the safest form of investments includes treasury bills, certificates of deposit, and notes and bonds of government agencies. Other forms of investments, such as money market accounts, can also be used, provided that risk to principal is minimal.

Evidence of each investment should be stored in a safety deposit box or other secured location. The safety deposit box shall be rented in the name of the affiliate, and access to such deposit box or secured storage location shall be available only to authorized representatives of the affiliate jointly. Unless the constitution of the affiliate provides otherwise, those representatives should be the same as those who are authorized to sign checks for the affiliate.

Investment certificates may also be placed with a bank, brokerage or investment manager acting as custodian.

Ownership of investments made through banks or brokerages are normally evidenced by monthly or quarterly statements. All investment reports and/or statements evidencing ownership of investments, dividends, activity or summary status reports must be retained in the affiliate's files.

### **Section 4.**

It is recommended that petty cash funds established for affiliates, other than Councils and large locals, not exceed \$100.00. Councils and large locals should not exceed that amount considered necessary for normal operations. Expenditures from petty cash funds must be supported by original receipts.

Petty cash funds shall be replenished by check and only for the amount expended since the previous reimbursement. The receipts, vouchers, and listings of expenditures supporting the replenishment shall be submitted to the principal financial officer of the affiliate and retained as support of the check. No payments received should ever be placed directly in any petty cash fund.

All checks issued to replenish the petty cash fund are to be made payable to the custodian of the petty cash. Checks are to be made out only in the amount of the funds being replenished for which proper documentation has been submitted as support for the reimbursement. The petty cash custodian is responsible for accounting for the balance of petty cash as well as all funds disbursed from that account.

## **ARTICLE III**

### **Maintaining Records**

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#### **Section 1.**

The following records must be maintained or caused to be maintained by the Secretary-Treasurer or other financial officer. For Affiliates with bookkeeping or accounting staff, many of the tasks outlined may be delegated to those staff. All records listed below must be retained for a minimum of seven (7) years:

- A. Automated accounting system output, if any. See Appendix D for further information regarding automated systems.
- B. Cash Book or Cash Receipts/Disbursements Journal. -- Information required to be entered in the Cash Book must be recorded and totaled monthly. Those affiliates using automated accounting systems that provide comparable information as is found in the Cash Book need not maintain a manual Cash Book. Spreadsheets are an alternative for handwritten cash books.
- C. Bank receipts for all deposits.
- D. All documentation for receipts. -- Each item deposited into a bank account should be clearly identified and supported by a remittance advice, dues deduction roster, dues rebate transmittal or other supporting documentation. A copy of that support must be kept on file. Affiliates should also retain a photocopy of the actual check received.
- E. All bank statements and canceled checks. -- The canceled checks that are returned with any statement must be kept with that statement, regardless of the date or number appearing on the check. If the affiliate's bank or credit union does not normally return canceled checks, the affiliate must either arrange with the bank or credit union to obtain front and back copies of their canceled checks, or change its account(s) to an institution that can provide actual or copies of their canceled checks. Canceled checks are an essential part of the audit trail; used to verify the accuracy of the affiliate's financial records.
- F. Bank reconciliations. -- Bank reconciliations should be prepared upon receipt of each statement and a copy of the reconciliation report attached to the bank statements. Timely reconciliation of the bank accounts may prevent losses due to errors or misuse of funds. Most bank statements have a bank reconciliation form that can be followed.
- G. All check stubs and voided checks. -- The signature block should be removed from all voided checks, which are to be clearly marked as "void" in large bold letters. Voided checks should not be destroyed and are a part of the affiliate's financial records and should be retained in a secure place.
- H. All paid bills or invoices.
- I. Copies of all International Union and Council per capita tax reports.



- J. All expense reports and all receipts for expenses reimbursed.
- K. All records of expenditures from any petty cash fund.
- L. All payroll records, including copies of filed IRS Form 941s, 940s and W-2's, as well as any other required state and local payroll reporting. See Appendices for additional information.
- M. All financial reports -- Prepared for the membership or Executive Board; all federal reports including attachments (Form 990, Form 990-EZ, Form 1099, Form 1120-POL, LM-2, LM-3 or LM-4) filed with the Internal Revenue Service or the U. S. Department of Labor; all reports or tax filings required by state agencies and all financial reports filed with the International Union. The copies maintained in the union's records should include signatures and dates for all forms filed. See Article IX, Reporting, and the Appendices for additional information.
- N. Surety Bond Certificate of Coverage.
- O. All mortgages, loan agreements, lease agreements, lease-purchase or time-payment contracts, and all other contracts of any nature which involve financial obligations on the part of the affiliate.
- P. All documents constituting evidence of ownership by the affiliate of any property or equipment of any nature.
- Q. Signed and dated copies of the Local Union Annual Financial Report (LUAFR) filed with the International Union.
- R. Signed and dated copies of annual Surety Bond Report filed with the International Union.
- S. Copies of any statements or transaction advice for any investment accounts maintained for the affiliate.
- T. Signed and dated copies of all affiliate officer or employee collective bargaining agreements, fringe benefits policies, and any policies regarding vacation, sick leave, severance, allowances, lost time, per diem, mileage, reimbursed dues, along with copies of records reflecting the accrued vacation, sick leave and severance of all officers and employees covered by such policies.
- U. Magnetic media (e.g., HDD, floppy drive), optical storage, (e.g., CD, DVD, Blu-ray), or solid state drive, (e.g., flash drive, SSD, SD cards) of all data files.
- V. Copies of the minutes of any Executive Board, membership, or committee meetings at which any financial decisions were made, approved or rejected.
- W. Correspondence from government agencies.

**Section 2.**

The following records must be maintained or caused to be maintained regularly

by the Recording Secretary or other recording officer of the affiliate for a minimum of seven (7) years:

- A. Minutes of all membership meetings, conventions, or other delegate assemblies.
- B. Minutes of all Executive Board meetings.
- C. Copies of all attachments to minutes including: financial reports, annual audits, annual budgets, mortgages, loan agreements, lease agreements, lease-purchase or time-payment contracts, and all other contracts of any nature which involve financial obligations on the part of the affiliate.

**Section 3.**

When a new financial or recording officer is elected, the outgoing officer must give all such records to the incoming officer, as quickly as possible.

A list of records being given to the incoming financial officer should be prepared and signed by both the outgoing and the incoming financial officers. Copies of this records inventory list should be kept by both outgoing and incoming officers.

**ARTICLE IV**  
**Income**

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**Section 1.**

The principal financial officer must maintain, or cause to be maintained, documentation for all funds received including copies of any transmittal, remittance advice or membership documents received

with the payment. This documentation must indicate the date of receipt of the funds, the source of funds, the purpose and the amount received. This documentation should be retained and filed by date of receipt, or by payer in date order. Affiliates should also retain copies of all checks received.

**Section 2.**

A Cash Book (or, in some cases, Cash Receipts Journal) must be maintained. A separate page or pages shall be used for each month's receipts. The same information shall be entered in the Cash Book or automated accounting system, as is shown on the supporting documentation: the date, source, purpose, and amount of funds received. When recording dues or per capita tax receipts, the cash book should also indicate the number and type of units and the month for which the funds were received. If the affiliate has more than one bank account, the Cash Book must indicate the account into which the funds were deposited. Affiliates using an automated accounting system must record equivalent information in the automated system.

**Section 3.**

Copies of all bank deposit slips must be made and attached to applicable bank deposit receipts. These documents shall be retained by the financial officer and filed by date of deposit.

**Section 4.**

Each time money is deposited, the amount and date of deposit shall be entered in the Cash Book, Cash Receipts Journal or automated accounting system and in the appropriate checkbook or bankbook of the affiliate.

### Section 5.

Any dues checks received directly by an affiliate that may contain amounts payable to other affiliates, (International Union, Council, and Local), and/or other entities (PEOPLE, Insurance programs, etc.) must be deposited into a separate “Dues Trust” bank account. This Dues Trust Account is used to isolate dues dollars and make payments to each entity (International, Council, etc.) entitled to a portion of the members’ deductions. Only amounts equal to the affiliate’s share should be transferred to the affiliate’s general operating account(s), leaving amounts payable to others in the Dues Trust Account until paid to them. Affiliates may **not** advance themselves funds or otherwise borrow against the money in the Dues Trust Account that is owed to other affiliates or vendors. Payments to these other organizations must be made in a timely manner, as specified by constitution or regulatory requirements. See Appendix E for additional information on dues trust and other types of affiliate accounts.

### Section 6.

All funds received, whether cash or check, that are the property of the affiliate, must be promptly deposited **in full** in a bank account in the name of the affiliate. Checks must be deposited into accounts owned by the payee shown on the check. If checks have been drawn to an incorrect payee, the affiliate should cause the check to be reissued. Checks payable to the union must not be converted to cash, in part or in whole. Any cash received must be promptly deposited into the affiliate’s bank account, **not** added to the affiliate’s petty cash fund. (See **Article II, Section 4 on replenishing petty cash fund**)

## ARTICLE V

### Expenditures - Authorization

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Union money can only be spent with proper authorization. Authorization should be given only for expenditures that serve a legitimate union purpose. It is the duty of all union officers, including the Executive Board, to exercise adequate monitoring of all authorizations to ensure that funds are spent only for legitimate union purposes. Officers and employees have a fiduciary responsibility to ensure that the union’s assets are managed prudently and all expenditures are for the exclusive benefit of the affiliate and its members. Proper authorization is accomplished by the following methods:

#### Section 1.

Payments required by law need no further authorization. Examples include taxes on property owned by the union, payroll taxes withheld from salaries and allowances of union officers and employees, fines and/or penalties assessed against the affiliate or other payments required by government or regulatory agencies.

#### Section 2.

Payments required by a union constitution (constitution may be the International, Council or Local Union Constitution) to which the affiliate is subject need no further authorization by either the Executive Board or membership. Examples include International Union and Council per capita taxes, and payment of fees for bonding of officers and employees as required by the International Constitution. (This may also be a requirement of federal law.)

#### Section 3.

Payments to meet contractual obligations, provided proper advance authoriza-

tion of the original contract or policy was obtained from the membership (or delegate assembly) or the Executive Board, may be made without further authorization. Examples include payments made pursuant to leases on office or meeting space, automobiles, and equipment; salaries for employees covered by a collective bargaining agreement or other contract; payment of fringe benefits or employee salary deferrals into a retirement fund covered by terms of a contract; and payments being made on a time-payment contract for property of any nature.

#### **Section 4.**

Payments may be authorized by vote of the membership, Executive Board, a committee of the Executive Board, or other delegate assembly as outlined in the constitution of the affiliate. Examples include:

- A. By motion properly made and carried authorizing the expenditure of a specific amount (or “not to exceed a specific amount) for a specific purpose. The motion in its entirety should be entered in the minutes.
- B. By motion properly made, carried and entered in the minutes, authorizing regular payment of recurring obligations (example: rent for a meeting hall once each month). Having been made, such authorization will stand unless canceled by motion made, carried, and entered in the minutes at a subsequent meeting. Recurring obligations must be authorized at the beginning of each fiscal year.

Long-term obligations such as mortgages, rental agreements,

equipment rental and other extended time period agreements should be reviewed annually and upon change of officers. Short-term contract obligations should be reviewed quarterly or monthly to ensure compliance, accuracy and agreement to terms.

- C. By motion properly made, carried, and entered in the minutes, authorizing the officers to enter into a purchase or service contract. Once signed, the contract becomes a recurring obligation, and required payments may be deemed authorized. A copy of the contract must be attached to the minutes of the meeting at which it was approved and must also be made a part of the financial officer’s records.
- D. By motion properly made, carried, and entered in the minutes approving a budget for the coming year. This budget shall set forth the anticipated income and the sources thereof, and the anticipated expenditures and their purposes. While it is recommended that all AFSCME affiliates adopt annual budgets, all Councils and any local having 2,000 or more members are required to adopt an annual budget in advance of their fiscal year. Affiliates should avoid deficit based budgets.

By itself, a budget does not authorize any particular expenditure. No payment should be made or costs incurred until the proper approvals for the expenditure have been made. Some affiliate constitutions may authorize certain offic-

ers to spend up to the budgeted amount for line items. Other constitutions may require specific Executive Board approval for each expenditure.

Budgeted versus actual income and expenses should be monitored monthly to ensure the affiliate stays within spending targets.

In general, financial officers have authority to reasonably reallocate amounts between budget line items as long as the bottom line remains unchanged. Any such changes should be presented to the Executive Board. Should the bottom line of the income or expense budget require modification, the revised budget must be submitted to the Executive Board for review and approval. All changes to the budget must be clearly recorded in the minutes.

The budget must be attached to the minutes of the meeting at which it is presented and approved, or revised and approved, and made a permanent part of the affiliate's records. All Councils and those locals having 2,000 or more members are required to file a copy of the affiliate's adopted budget, and any major modification or revision to such budget, with the International Secretary-Treasurer within ten days after its adoption.

Since all such budget authorizations are entered in the minutes, the minutes themselves are to be considered a part of the financial records and must be retained for a period of seven (7) years.

## **ARTICLE VI**

### **Expenditures - Procedures**

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#### **Section 1.**

All authorized expenditures must be made by check or electronic funds transfer. See Section 9 of this article for further information regarding electronic transfers. Except for the limited exceptions set forth in Article II, Section 4, no cash payments shall be expended for any purpose under any circumstances. Cash withdrawals from affiliate bank accounts are strictly prohibited.

#### **Section 2.**

All checks drawn on any of the union's accounts must be signed by two officers (usually the President and Secretary-Treasurer), as authorized by the constitution of the affiliate. The use of a substitute officer is permissible when one of the primary signatory officers is temporarily unavailable, providing the designation of the substitute officer has been approved in advance by the officer and by the Executive Board of the affiliate, documented in the minutes, and provided the constitution of the affiliate permits such substitute signatures.

#### **Section 3.**

Under no circumstances may any officer or authorized substitute sign any check before the date, the name of the payee, and the amount have been entered on the check. **No check may be pre-signed.**

#### **Section 4.**

Rubber stamps shall not be used for check-signing purposes.

#### **Section 5.**

Use of a check-signing machine and electronic signature is permitted (for large

affiliates only), provided the signature plates are adequately secured and the electronic signatures are protected by password or manual key access. Signatories should review all checks and supporting documentation for checks signed in such a manner.

**Section 6.**

At the time a check is issued, the date, amount, payee, and purpose of the check must be entered on the check stub and in the check register. The same information must be entered in the Cash Book or automated accounting system. Before signing checks, officers should verify that adequate documentation exists and that the expenditure has proper authorization and a proper union purpose.

**Section 7.**

Checks may not be made out to “cash.” Checks must be made payable to either an individual, who is responsible for providing a complete and proper accounting as to how those funds were spent, or to a vendor, who must submit receipts, invoices or other appropriate documentation. Checks used to replenish any petty cash fund must be made payable to the individual who is the custodian of petty cash, not to “cash.”

**Section 8.**

Payments shall be made from original documents rather than a copy or facsimile. In paying any bill, the check number, the date, and the amount of the check should be written on the face of the bill, which shall then be filed and retained in the affiliate’s records. This will safeguard against double payments.

**Section 9.**

Electronic transactions (e.g., payroll transfers, Electronic Funds Transfers

(EFTs), IRS wire transfers), pensions and 401K wire transfers, even routine transfers within the same institution, must be authorized by a document signed by the authorized signatories of the accounts involved. Additionally, all electronic transactions must be properly recorded in the appropriate journals.

**Section 10.**

Bank Debit Cards, Check Cards and/or Automated Teller Machine (ATM) Cards may not be used for expenditures or withdrawals under any circumstance. Any such cards issued by a bank must be returned to the bank, with notice that no such cards are to be issued in the future. Use of these cards for expenditures or withdrawals is prohibited because they circumvent the requirement that two officers sign all disbursement checks, and because these cards do not provide a verifiable audit trail.

**Section 11.**

AFSCME strongly recommends against the use of union-owed credit cards as they circumvent the requirement that two officers sign all disbursement checks.

**ARTICLE VII**  
**Expenditures – Documentation**

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**Section 1.**

Receipts, invoices and/or other documentation must be maintained to support **all** disbursements.

**Section 2.**

Expense reports must be used to document all reimbursements to officers, members and employees. Each item to be reimbursed must be documented to indi-

cate its date, amount and specific union purpose. Original receipts must be attached. All expense reports should be filed timely.

**Officer** expense reports must be approved by the Executive Board or a designated officer selected for that purpose, **employee** expense reports must be approved by the employee's supervisor.

Expense reports must account for all expenses reimbursed as well as those incurred costs that are to be paid directly by the affiliate (e.g., direct hotel billings, charges incurred on the affiliates' credit card). Expense reports for any meal or entertainment item must list the name(s), title and union relationship of the person(s) entertained and provide an explanation of the specific union business discussed. The detailed receipt of food and beverage consumed should also be provided.

### **Section 3.**

The affiliate must not pay the credit card company for any charges incurred on a union-owned credit card without all of the charges adequately documented. Any individual authorized to use the affiliate's credit card must provide an itemized expense report accounting for each and every charge, as well as provide an explanation of the union purpose of each charge. The actual credit card receipt and the itemized sales slip must be attached to the expense report.

Personal charges on the affiliate's credit card are strictly prohibited and under **no** circumstances should the affiliate make a payment directly to a credit card company for an individual's personal credit card.

### **Section 4.**

Care should be taken to comply with all appropriate IRS requirements for documentation and reporting, including:

- A. Expense reports - see Section 2 above and Appendix F.
- B. Credit Cards - see Section 3 above and Appendix F.
- C. Payroll Taxes - taxable per diem, lost time, auto allowances, officer allowances, stipends, non-accountable expense advances, etc. must be treated as wages subject to withholding and require payment of payroll taxes and preparation of IRS Form W-2s and other applicable tax returns - see Appendix F.
- D. Leased/Owned cars - if provided to officers and/or employees, require that contemporaneous usage logs are maintained. The value of personal usage (including commuting) must be included as taxable income to the officer and/or employee and reported on their W-2 form. See Appendix F.

## **ARTICLE VIII**

### **Minutes of Meetings**

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#### **Section 1.**

The Recording Secretary is normally the officer responsible for maintaining the minutes of all affiliate meetings, including Executive Board meetings and membership meetings. Minutes should also be kept for all committee meetings, including meetings of any finance committees, budget committees, Insurance or Benefits

Trusts, etc. Normally one of the committee members is designated to keep such minutes. In such instances a final copy of the approved minutes should be forwarded to the affiliate's Secretary-Treasurer.

### **Section 2.**

Minutes are a record of the proceedings of the meeting. The minutes should note the date and time of the meeting, who attended the Executive Board meeting or which officers were present at the membership meeting, and identify who presided at the meeting.

The minutes must note what motions were made, including any and all financial authorizations, who made the motions, who seconded the motions and whether the motions passed. It is not necessary to write down everything that was said by the members. The minutes should document whether a quorum was present during the meeting. The minutes should also state whether the minutes of the previous meeting were read and approved and should note the time of adjournment. Sample format for minutes may be found in the back of the International Constitution.

### **Section 3.**

Copies of the Secretary-Treasurer's financial report must be attached to the minutes of the meeting at which the report is given. Copies of the affiliate's budget, audit report, other financial reports, and any contracts or policies approved, must also be attached to the minutes at which they are adopted and therefore made a part of the financial records of the union.

### **Section 4.**

Minutes must be signed by the Recording Secretary or the officer or member who wrote them. All minutes must be approved

by the appropriate body -- e.g. Executive Board approves Executive Board minutes, membership approves membership meeting minutes, etc. Minutes are normally read and approved at the next meeting of the body.

### **Section 5.**

As the minutes are considered to be a part of the financial records of the union, they must be retained for seven (7) years.

## **ARTICLE IX**

### **Reporting**

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The "Bill of Rights of Union Members" of the International Constitution ensures every member's right to have a "full and clear accounting of union funds at all levels" including "periodic reports to the membership by appropriate fiscal officers..." It is the responsibility of all elected officers to ensure that members receive timely and accurate reports regarding the finances of their affiliate and to ensure that required reports are properly prepared and filed timely. The following reports, required by law or by constitution, serve to keep the members informed.

### **Section 1.**

A monthly financial statement must be prepared at the end of each month, by, or under the supervision of the financial officer. Regular financial reports must be made to the Executive Board and to the membership. Monthly financial reports must be completed and available to the Executive Board and/or membership no later than thirty calendar days following the end of each month. A copy of this report should be attached to the minutes and a copy provided to all of the signatories.



**Section 2.**

The monthly financial statement must include a listing of income showing separately, and at a minimum, the following items:

- A. Income from dues and/or per capita tax.
- B. Income from initiation and/or reinstatement fees, if any.
- C. Income from any other sources, identifying the source and the purpose of the funds received.

[Note: The International Constitution prohibits the issuance or sponsorship of any publication which is financed (in whole or part) through the sale of advertising without advance approval of the International Executive Board.]

- D. Total income for the month.

**Section 3.**

The monthly financial statement must include a listing of expenditures, showing separately, and at minimum, the following items:

- A. Amounts paid for per capita taxes and other affiliation fees.
- B. Totals by category of amounts paid to individuals in the form of salary, lost time, allowances, reimbursed expenses, and/or convention expenses.
- C. Totals by significant category of amounts paid for other operating and administrative costs of the affiliate.

- D. Total expenditures.

**Section 4.**

The monthly financial statement must show the excess (or the deficit) of income over (or under) expenditures. It must also include, as a part of the report, a balance sheet or a statement of cash assets as of the end of the month and a listing of all unpaid bills and any contractual obligations which have not been paid. The monthly financial report must be presented at the next regular membership meeting and attached as a permanent part of the affiliate's minutes.

All Councils and any Local Union having 2,000 or more members must prepare a monthly report showing actual income and expenses versus budgeted income and expenses for the month and the year-to-date.

**Section 5.**

The affiliate may be required to file various governmental reports such as an IRS Form 990 Series, IRS Form 1120-POL, etc. Failure to file any required government report could cause a penalty to be imposed on the affiliate. For that reason, all affiliates are directed to the following topics in the Appendices:

- Tax Exempt Status
- Payroll and Payroll Taxes
- Reports to Governmental Agencies.

**Section 6.**

Every Local Union is required to file with the International Union the Local Union Annual Financial Report, (LUAFR), on a form supplied by the International Union. This report must be reviewed and

signed by both the President and chief financial officer.

This annual financial report has been designed to comply with AFSCME's reporting requirements and to permit the officers of the Local Union to evaluate their financial practices and records as the report is being completed. The previous year's financial statements should be used when completing the LUAFR. This report must be filed by May 15 of each year, or four and one-half months after the fiscal year end.

#### **Section 7.**

All officers and employees of affiliates are covered by a Surety Bond which is obtained for each affiliate through the International Union. The minimum coverage required is "not less than ten percent of the assets handled by an affiliate, except that no bond shall be required in an amount greater than \$500,000."

The International Union's Surety Bond covers affiliate officer positions (e.g., President, Vice President, Recording Secretary, Secretary-Treasurer, Executive Board Member) and all employees of the affiliate. Newly elected officers are automatically covered under the affiliate's existing Surety Bond.

Every affiliate is required to submit to the International Secretary-Treasurer a Surety Bond Report, a "statement of assets handled during the previous calendar year." The information contained on the Surety Bond Report allows the International Union to determine the minimum bond coverage needed by each affiliate and provides essential data needed for negotiating the terms and cost of the bond. This report must be filed by March 1st of each

year, regardless of the affiliate's fiscal year end.

#### **Section 8.**

All Councils and those Local Unions having 2,000 or more members are required to prepare quarterly financial statements, which must include a balance sheet and an income statement. Copies of all such quarterly financial statements are to be submitted to the International Secretary-Treasurer in a timely manner.

### **ARTICLE X**

#### **Confidentiality of Financial Records**

Union Executive Board, officers, Trustees, members and employees must be prudent in the use of information acquired in the course of their duties and therefore must:

- A. Limit requests for and use of information to that required for legitimate union business purposes.
- B. Restrict access to records to those with proper authorization and legitimate union business needs.
- C. Not disclose confidential information unless specifically authorized to do so.
- D. Not use any confidential information for any personal gain or in any manner which would be contrary to law or detrimental to the welfare of the union.
- E. Keep all documents containing personal information of members and employees under lock and key.

## **ARTICLE XI**

### **Audits**

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#### **Section 1.**

At least once each year or semi-annually or more if required by the affiliate's constitution, an audit of the affiliate must be conducted by officers elected for that purpose (Trustees) or by an independent Certified Public Accountant, (CPA), not otherwise connected with the union, its officers or its staff. Affiliates may also perform an audit of the financial records whenever there is a change in the financial officers. Audits may also be performed at other times should a need be determined by the officers, members or Trustees.

Many affiliates utilize Trustees to perform the required audits. Although elected officers, Trustees are **not** voting members of the Executive Board; Trustees may have neither voice nor vote in the deliberations of the Board. The sole purpose for Trustees is to audit or to see that an audit is performed. An arms-length relationship between the Trustees and the Executive Board must be preserved to ensure the most objective possible audit.

All Councils and any Local Union having 2,000 or more members must have an annual audit prepared by a Certified Public Accountant, (CPA), performed in accordance with Generally Accepted Auditing Standards. All other affiliates are encouraged to use a CPA to perform an audit, review or compilation of the financial records.

Whether performed by Trustees or a CPA, the audit must include an examination of the records required to be maintained by this Code and a written report must be made to the Executive Board and

to the membership. Trustees may follow the procedures outlined in the *Trustees Audit Guide* when performing an audit.

Upon completion of an engagement performed by a CPA, officers and/or Trustees must obtain copies of the CPA's Engagement Letter, Statement on Auditing Standards 115 letter (correspondence in which any internal control problems are discussed) and the Management Letter (letter where operational or other issues that may require remedial action to be taken are noted by auditors.)

If the audit is performed by a CPA, the findings must be reported to the general membership, either by the financial officer or by a committee designated by the union for that purpose. If the audit is performed by the Trustees, the findings must be reported to the Executive Board and to the general membership by the Trustees.

#### **Section 2.**

The CPA or the Trustees must make a written report of any material deviation from this Financial Standards Code found in the course of their audit. The officers must report to the Executive Board and to the membership the action taken to correct any discrepancies noted in the audit.

#### **Section 3.**

The audit report must be attached to the minutes of the meeting at which it was presented and maintained as a permanent record in the affiliate's files.

## AFSCME FINANCIAL STANDARDS CODE - APPENDIX A

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### TAX-EXEMPT STATUS

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All AFSCME affiliates are exempt from federal income tax under the provisions of Section 501(c) (5) of the Internal Revenue Code. This exemption applies only to income taxes. AFSCME affiliates are not exempt from sales tax, payroll taxes or personal property taxes.

When an affiliate is chartered, it must apply for an Employer Identification Number (EIN) as soon as possible by applying online at [www.irs.gov](http://www.irs.gov) or completing a paper IRS Form SS-4. The IRS assigns each affiliate a unique nine-digit number which will be used to identify the

affiliate on reports required by the federal government.

Banks also ask for the affiliate's EIN for their records. Never use the Social Security number of an officer in place of the affiliate's EIN, as this could lead to tax consequences for the officer involved.

Upon receipt of the EIN from the IRS, notify the International Union of the number. Your affiliate will be added to the roster identifying AFSCME affiliates and submitted to the IRS. AFSCME's Group Exemption Number is **1381**.

### PAYROLL AND PAYROLL TAXES

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#### THE UNION AS AN EMPLOYER

The wage and payroll tax area is very complex and is ever changing. To the extent that any affiliate pays wages and withholds taxes, it has the responsibility to stay abreast of laws affecting the payment of wages.

For payroll tax purposes, a labor organization is treated as any other business entity and is subject to all payroll tax filing requirements. If an affiliate employs one or more individuals (regardless of the number of hours worked), the affiliate is subject to a number of state and federal employment tax and labor laws. This section provides an overview of those requirements. Further information can be found in the Internal Revenue Service Circular E, Employer's Tax Guide.

The employer or person controlling the wage payments must generally withhold federal income, Social Security and Medicare tax, state income and local income taxes imposed upon employees. Income tax withholding is a "pay-as-you-go" method of collecting the estimated tax due from employees on wages paid to them.

#### THE OFFICER AS AN EMPLOYEE

Allowances (e.g., auto allowance, officer allowance, and stipends), reimbursed dues and lost time paid to officers are considered wages. Federal income, Social Security and Medicare taxes, state income tax and local income taxes must be withheld from the above payments. The withholding, deposit and filing require-

ments are discussed below.

#### WITHHOLDING FORMS AND FILING REQUIREMENTS

##### Form I-9

The Department of Homeland Security requires that employers have a valid Form I-9 on file for all employees. Please see the instructions to Form I-9 for retention requirements.

##### Form W-4

A Form W-4 must be on file for each officer or employee (including any member receiving lost time payments) who receives compensation or taxable payments from the affiliate. The amount to withhold from each employee is determined by the number of withholding exemptions claimed on the employee's W-4. (If an employee claims more than 10 withholding exemptions, a copy of the W-4 must be sent to the IRS.)

#### FEDERAL INCOME TAX WITHHOLDING

Federal income taxes must be deducted from the paychecks of employees to the extent that those payments constitute wages. Withholdings are based on the number of exemptions and the applicable withholding tables or rates.

#### SOCIAL SECURITY AND MEDICARE TAXES

Social Security and Medicare taxes

must be deducted from all employees' paychecks until the maximum Social Security limit is reached. The percentage of wages withheld and/or the base wages may change from year to year. This information is contained in IRS Circular E.

### **DEPOSIT REQUIREMENTS**

The Internal Revenue Service requires the employer to deposit federal withholding and Social Security and Medicare taxes when undeposited taxes reach certain prescribed balances set by the IRS. In certain cases, these deposits must be made by electronic funds transfer. Deposits, other than the electronic funds transfers, are made at authorized commercial banks or to the Federal Reserve Bank in the employer's geographic area. Send one check covering both Social Security and Medicare and federal withholding taxes, payable to the bank where the affiliate's deposits are made. The deposit due dates and deposit requirements are outlined in Circular E.

Use of a payroll service is recommended as an efficient way to handle such requirements, reduce errors and ensure compliance with applicable federal and state regulations.

### **FORM 941, EMPLOYER'S QUARTERLY RETURN**

By the last day of April, July, October and January following the close of the calendar year, Form 941 must be filed with the IRS. The 941 is used to reconcile tax deposits made throughout the quarter and to pay any undeposited taxes due. The IRS Form 944 is used for the Annual Employment Tax Filing for the liability of social security, Medicare and Federal income

taxes of \$1,000 or less.

### **FEDERAL UNEMPLOYMENT TAXES**

This tax applies to every covered employer who, during the past or current year, pays wages of \$1,500 or more in any calendar quarter or has one or more employees at any time in each of 20 calendar weeks. Unemployment is a tax paid entirely by the employer rather than withheld from the employees' wages. Payments are made in the same manner as federal and Social Security and Medicare taxes and are due on the last day of the calendar month following each quarter (April 30, July 31, October 31, and January 31). A deposit is not necessary if the tax due for the quarter plus the tax due but not deposited from previous quarters is \$100 or less. See IRS Circular E for rates.

### **FORM 940, EMPLOYER'S ANNUAL FEDERAL UNEMPLOYMENT (FUTA) TAX RETURN**

An annual return that's due on or before January 31, following the calendar year to which it relates. This return reconciles federal unemployment tax deposits with total wages subject to tax.

### **STATE INCOME TAX WITHHELD**

Most states impose income taxes and withholding requirements similar to those of the federal government. Affiliates unfamiliar with the requirements of their state should contact the state Department of Revenue or the Department of Taxation.

### **STATE UNEMPLOYMENT TAX**

All states require that their unemployment taxes be paid by the employer. For

information as to whether and how payments are subject to tax, contact the Department of Employment Security (or its equivalent) in your state.

### **WORKERS' COMPENSATION INSURANCE**

Most states require Workers' Compensation Insurance. Workers' Compensation Insurance can be obtained through a private insurance carrier or from a state-operated fund. Any coverage purchased must meet the state's minimum requirements.

### **WAGE AND TAX STATEMENT, FORM W-2**

Each employer must provide each employee with a Form W-2 showing total wages, federal income tax withheld, Social Security and Medicare taxes withheld, state taxes withheld and other pertinent information as required on the form. This form must be provided to the employee on or before January 31. On or before February 28, these forms must be mailed (or electronically transferred) to the Social Security Administration, along with a Form W-3, Transmittal of Income and Tax Statements.

### **MISCELLANEOUS INCOME, FORM 1099-MISC**

Amounts paid to individuals, other than salaries and wages, must be reported on Form 1099-MISC if those payments equal or exceed \$600 for the year. These amounts would include payments to individuals for services. For example, if the union paid \$600 or more to an accountant for professional services and the accountant is an individual practitioner or a partnership, Form 1099-MISC must be provided to the accountant and to the IRS. If the accountant's firm is a corporation, however, Form 1099-MISC is not required. Also Form 1099-MISC does not need to be provided for the purchases of goods or expense reimbursements -- only services are subject to Form 1099-MISC reporting. If the total amount paid to the individual is less than \$600, Form 1099-MISC is not required but it is advisable to notify the payee in writing of the amount and that it is taxable.

This form must be provided to individuals on or before January 31. On or before February 28, these forms must be mailed (or electronically transferred) to the IRS, along with Form 1096, Annual Summary and Transmittal of U.S. Information Returns.

**FINANCIAL DUTIES OF OFFICERS**

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**FINANCIAL DUTIES OF THE SECRETARY-TREASURER**

The duties of the Secretary-Treasurer include:

1. Receive money for the union.
2. Deposit money in bank(s) selected by the Executive Board.
3. Write checks as required by constitution or authorized by the membership or Executive Board. Always have authorization, documentation, and explanation before issuing a check.
4. Prepare bank reconciliations for each account each month.
5. Sign checks with President or other authorized cosigner **only after** determining that proper documentation for expenditure is on hand and that expenditure is for appropriate and necessary union business.
6. Send monthly membership report to the International Union Secretary-Treasurer, except for Local Unions whose Council performs this function for its Locals.
7. Send per capita tax payment to International Union Secretary-Treasurer, except for Local Unions whose Council performs this function for its Locals.
8. Keep financial records.
9. Report monthly financial affairs to the Executive Board and membership on a regular basis.
10. Act as custodian of union property.
11. Obtain surety bond coverage at the expense of the union through the International Union. Submit by March 1 of each year “a statement of assets handled during the previous calendar year for the purpose of computing the amount of the bond” (International Constitution, Article IX, Section 30).
12. File the Local Union Annual Financial Report with the International Union as required by the International Constitution (Article VI, Section 12).
13. See that the required governmental reports are filed on a timely basis.
14. Make records available to and assist Trustees/CPAs in completing the required audits.
15. Conduct the fiscal affairs of the affiliate in a responsible manner.



## **FINANCIAL DUTIES OF THE PRESIDENT**

The financial duties of the President include:

1. Sign checks **only after** determining that proper documentation for expenditure is on hand and that expenditure is for appropriate and necessary union business.
2. Initiate appropriate actions to maintain financial stability of the affiliate.
3. Review financial reports to be submitted to the Executive Board and the membership.
4. Review financial reports required to be submitted to the International Union.
5. Determine that all required governmental reports are filed on a timely basis.
6. Review bank statements and canceled checks each month to determine that all checks clearing the bank are for legitimate union purpose.
7. Perform other duties as required by the affiliate constitution.

## **FINANCIAL DUTIES OF THE EXECUTIVE BOARD**

The financial duties of the Executive Board include:

1. Oversee and provide advice regarding financial transactions of the affiliate.
2. Approve only expenditures that are for appropriate and necessary union business for the exclusive benefit of union's members.
3. See that prudent guidelines exist and are followed for any major purchase or commitment of union funds, including multiple vendor bids.
4. Ensure that financial stability of the affiliate is maintained. Expenditures should not exceed income. A short-term deficit may be acceptable if there is a plan to eliminate the deficit in a timely manner.
5. Review and approve financial reports submitted by the officers of the affiliate.
6. Determine that all required governmental and International Union reports are filed on a timely basis.
7. Perform other duties as required by the affiliate constitution.

## **FINANCIAL DUTIES OF THE TRUSTEES**

The financial duties of the Trustees include:

1. Determine that an audit of all funds of the affiliate is performed either by a CPA or by the Trustees themselves at least once each year, or more often if required by the affiliate's constitution.
2. Report audit findings to the membership and the Executive Board. If there are significant findings, follow-up with the Executive Board to ensure corrections are made.
3. Determine that all governmental and International Union reports are filed on a timely basis.

## AFSCME FINANCIAL STANDARDS CODE - APPENDIX D

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### AUTOMATED ACCOUNTING SYSTEMS

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Computerized accounting systems, properly developed and administered, are required for AFSCME's larger affiliates and recommended for all affiliates. Electronic record-keeping, when utilized, will more efficiently accomplish the purposes of the manual operations described in this Code.

A printout, (hard copy), of the current primary financial records maintained on an automated accounting system must be made each month. The following reports must be printed and maintained:

1. Balance sheet
2. Income statements
3. Reconciliation reports of ALL accounts

Those affiliates with automated accounting and/or membership systems should back up files, using a systematic procedure for updating the back-ups to include prior data as well as new transactions since the last back-up. Failure to regularly back up files can lead to loss of

data, which may require having to recreate and reenter the affiliate's financial transactions.

Affiliates may also use the following reports to aid in their financial decision making:

1. Detailed cash transactions by bank account
2. Detailed general ledger
3. Detailed accounts payable vendor transaction history
4. Detailed accounts receivable customer transaction history
5. Payroll transaction reports
6. Any other basic system report necessary to provide a comprehensive audit trail

These printouts must be retained in the affiliate's records in lieu of the Cash Book and other manually maintained records

# AFSCME FINANCIAL STANDARDS CODE - APPENDIX E

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## CUSTODY OF FUNDS

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All banking and investment accounts of the affiliate are subject to the provisions of Article II, Custody of Funds, of the Code. These accounts include, but are not limited to the following:

- Dues Trust Account
- General Operating Account, including Payroll, Savings and Escrow Accounts
- Health and Welfare (Insurance) Funds
- PEOPLE Account
- Special Political Action Account
- Special Grant Account
- Strike Assistance Account
- Other Accounts

All money received by affiliates must be placed into accounts insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

Maximum FDIC or NCUA insurance coverage is limited to \$250,000, (as of 2013), per banking institution, **not per account**. Check with your bank institution to confirm the maximum coverage amounts.

Affiliates depositing in excess of this limit should consider opening accounts at more than one institution or opening an account with a bank that places funds with more than one institution based on maximum coverage amounts.

### DUES TRUST ACCOUNT

All checks received directly from the employer must first be deposited into the

Dues Trust Account. Payments of per capita tax to the International Union and the Council and rebates to the Local Union are to be made from this account. At no time is a payment to be made to the International Union, Council or Local Union for an amount in excess of that entity's share of funds in the Dues Trust Account

If any other funds are included in the check from the employer, payment to that entity must also be made from the Dues Trust Account in an amount not in excess of that entity's share of the funds. Examples of these other funds include PEOPLE check-off and premiums for insurance, legal and other benefit programs.

### GENERAL OPERATING ACCOUNT, INCLUDING PAYROLL, SAVINGS AND ESCROW ACCOUNTS

The General Operating Account is the account from which the affiliate makes its normal operating expenditures. The account is funded by either: 1) a check from the affiliate's Dues Trust Account for its share of dues, or 2) the local's rebate of its share of dues from a council receiving employer dues check-off on behalf of its affiliated locals. All disbursements to fund payroll accounts, savings accounts and/or escrow accounts are to come directly from the General Operating Account.

### HEALTH AND WELFARE (INSURANCE) FUNDS

Affiliates use Health and Welfare Funds to collect premiums for insurance or legal

assistance benefits on behalf of members. Premiums normally come in one of two ways:

1. Premiums are deducted from members' pay and are transmitted to the affiliate, either by separate check or "piggy-backed" onto the dues deduction, or
2. Premiums are paid by the employer on behalf of members and a separate check is transmitted to the affiliate from the employer.

In either instance, the Funds received **are not** the property of the affiliate and are only held by the affiliate in Trust until the funds are transmitted to the provider of the benefit. The funds are to be deposited into the Dues Trust Account (or an Insurance Trust Account). A check is then written directly from the Trust Account to the provider of the benefit. At no time are the insurance premiums to be commingled with the affiliate's general account or are the funds to be used for the affiliate's operations.

The affiliate must obtain professional advice before establishing any sort of member insurance program. Because the funds are held in Trust by the affiliate for the member, there are reporting requirements of both the U. S. Department of Labor and the Internal Revenue Service which must be met. Included with these is the requirement that the Health and Welfare Fund be audited and have an opinion issued by a Certified Public Accountant each year.

## **PEOPLE ACCOUNT**

A PEOPLE Account is created for the

voluntary contributions from members, with the understanding that the funds are to be used for political contributions. These voluntary member contributions are generally referred to as "hard" money. The PEOPLE Account should be maintained as a Separate Segregated Fund (see "Form 1120-POL" in the Glossary of Terms). The account is funded in two ways:

From the affiliate's Dues Trust Account. This represents funds received from the employer for members' PEOPLE check-off.

From the affiliate's fund raising activities. These activities include raffles, pass-the-hat, sales of items and members' direct, non-check-off contributions.

The affiliate must be aware of the Federal and state regulations concerning the use of PEOPLE money. These regulations govern the candidates for whom contributions can be made and also limit the amount of the contribution. There are also Federal and state reporting requirements for these accounts.

The PEOPLE Account must be disclosed on the financial statements of the affiliate, either as a separate entity with its own set of books or as part of the affiliate's books. The affiliate's Certified Public Accountant can advise as to the best way to accommodate this obligation.

## **SPECIAL POLITICAL ACTION ACCOUNTS**

A Special Political Account, as distinguished from the "hard" money PEOPLE Account, is made up of members' dues dollars. These funds are commonly

referred to as “soft” money.

Funds should be transferred directly into this account from the Dues Trust Account, but counted against the affiliate’s share of funds from the Trust. The total of the “soft” money transfer, plus the general account transfer, will equal the total of the affiliate’s share from the Dues Trust Account.

Grant checks from the International Union or other affiliates which are specifically designated for Political Action and which are paid to the order of the Political Action Account may be deposited directly into the Political Action Account.

Restrictions and limitations on the use of “soft” money vary from state to state. It is recommended that the establishment and use of this account be coordinated with the International Union’s Political Action Department. There may be state or other reporting requirements for the activity in these accounts.

The funds in a Special Political Action Account are treated as funds of the affiliate and must be reflected in the financial statements of the affiliate as well as reports submitted to the IRS and DOL, as applicable.

#### **SPECIAL GRANT ACCOUNT (NON-POLITICAL ACTION)**

A Special Grant Account may be established as a separate bank account to track organizing grant income vs. organizing grant expenses. The funding for this account must come from the General

Operating Account in the same manner as the payroll, savings and escrow accounts. Checks from the International Union or other affiliates which are specifically designated for Organizing or other non-Political Action Grants which are paid to the order of the Grant Account, may be deposited directly into the Grant Account. If checks are received for the Grant but are not so designated, the check should be deposited into the General Account with a subsequent transfer to the Grant Account.

The funds in a Special Grant Account are treated as funds of the affiliate and must be reflected in the financial statements of the affiliate. The account must also be included in the affiliate’s IRS Form 990 and DOL Form LM where applicable.

#### **STRIKE ASSISTANCE ACCOUNT**

A Strike Assistance Account may be established as a separate bank account. The manner in which this account is funded and the affiliate’s reporting requirements are the same as those for the Special Grant Account.

#### **OTHER ACCOUNTS**

Other special accounts may be needed from time to time. As a general policy, any account which spends the affiliate’s share of its per capita tax or rebate must be funded from the General Account.

Fund limits, disbursement criteria and a detailed summary of the application process, review and consideration criteria and process should be drafted, and adopted by the Executive Board prior to execution.

## AFSCME FINANCIAL STANDARDS CODE - APPENDIX F

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### POLICIES AND PROCEDURES

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Affiliates, particularly larger affiliates with more complex operations, should establish clearly defined written policies and procedures. These should be consistent with legal and Financial Standards Code requirements, be approved by the Executive Board and should at a minimum address the following:

- Taxable Compensation
- Hiring of Employees
- Wage Rates
- Benefits
- Paid Employee Absences
- Employee Severance Payments
- Credit Cards
- Leased/Owned Automobiles
- Expenditures
- Expense Reimbursements
- Audits

#### **TAXABLE COMPENSATION**

If the affiliate makes any of the following payments, a formal policy, adopted by the Executive Board and/or the membership should exist to authorize the payment:

##### **Officer Allowances/Stipends**

Allowances/stipends cover out-of-pocket expenses incurred while conducting affiliate business. Receipts are not required to document these payments. Allowances/stipends must be reported as taxable income to the recipient, subject to withholding, payroll taxes and preparation of IRS Form W-2.

The policy should indicate the purpose

of each allowance/stipend paid, and the types of costs it is intended to cover should be specifically defined. Officers are not to be reimbursed for any expenses that are covered by an allowance/stipend.

Policy must require the identification of individuals and amounts authorized for officer and Executive Board allowances/stipends. Allowances/stipends must be approved by the membership or the Executive Board and such approval must be reflected in the minutes of the membership or Executive Board meetings.

##### **Lost Time Payments**

These are payments made to officers or members as compensation for taking uncompensated leave from their job or who use vacation leave to perform union duties. Payments for lost time constitute taxable income to the recipient and must be reported as wages subject to withholding, payroll taxes and preparation of IRS Form W-2.

Payments for lost time can be based on the actual salaries lost by an individual, or at a rate that is approved by the Executive Board. It should be noted that some government agencies consider payment of lost time, where the individual was also actually paid by his or her employer, to be illegal and could subject the individual to criminal charges.

Policy must clearly identify the union positions which qualify for lost time payments. Policy must require payments to be supported by adequate records showing

purpose, approval, calculation method, and documentation to verify that the individual suffered a loss of income (or vacation benefits) that is being made up by the affiliate as lost time. Authorized lost time payments must be documented in the minutes of the membership or Executive Board meetings.

### **Reimbursed Dues**

Reimbursed dues compensate officers, Executive Board members and/or stewards for union related services. Reimbursed dues must be reported as taxable income to the recipient, subject to withholding, payroll taxes and preparation of IRS Form W-2.

Policy must clearly identify the union positions which qualify for reimbursement of dues and establish requirements (e.g. attendance at meetings, etc.), if any, which limit eligibility for reimbursement.

Policy must require payments to be supported by adequate records showing approval and tracking of pay periods reimbursed. Authorized dues reimbursements must be documented in the minutes of the membership or Executive Board meetings or in the affiliate's approved constitution.

### **Per Diem Payments**

In-Town per diem payments are general daily allowances to cover incidental costs, for which no accounting is required, constitute taxable income to the recipients and must be reported as wages subject to withholding, payroll taxes and preparation of IRS Form W-2. Out-of-town per diem paid in excess of the allowable federal rate is also taxable income to the recipient.

Per diem payments should be supported by authorization, purpose, and basis for

amount paid.

Meal allowances paid for overnight out-of-town union-related business are non-taxable per diem payments as long as they do not exceed the maximum daily non-taxable rates authorized to be paid by the federal government. An expense report must be filed to allow these payments to be treated as "accountable" and therefore non-taxable. Documentation to support overnight travel and lodging, such as a hotel folio should be attached to the expense report.

Policy must clearly identify the types of union activities which qualify for per diem payments and must state the authorized amount to be paid. Policy must require payments to be supported by expense reports showing union activity performed and containing appropriate approvals. Authorized per diem payments must be documented in the minutes of the membership or Executive Board meetings.

### **Auto Allowances**

Auto allowance payments provide compensation for the business use of officers' and/or employees' personal vehicles. Auto allowance payments are taxable wages subject to withholding, payroll taxes and preparation of IRS Form W-2.

Policy must clearly identify the individuals and amounts authorized for auto allowance payments. Authorized auto allowance payments must be documented in the minutes of the membership or Executive Board meetings stating amounts as well as individuals who are authorized to receive auto allowance payments. Officers or employees who use a personal vehicle for conducting union business should provide evidence of adequate insurance to



protect the affiliate.

### **Expense Advances**

Expense advances are payments made to an individual for affiliate expenses that have not yet been incurred. Advances should subsequently be accounted for by submission of expense reports, original invoices and other documentation required for expense reimbursement. Any advance amount in excess of actual costs incurred and reported on expense reports must be returned to the affiliate and deposited to the appropriate bank account.

Policy must clearly identify when the affiliate can issue advances (e.g., conventions, conferences, etc.) and how recipients must account for advances. Authorized advances must be documented in the minutes of the membership and/or Executive Board meetings.

### **HIRING OF EMPLOYEES**

Authority for hiring and firing must be established. Policy must clearly identify the staffing positions that qualify for permanent employment. Appropriate procedures must be developed to determine necessary qualifications for positions. Policy must also require a process for obtaining applications, conducting interviews, obtaining and maintaining all documentation required by law, etc.

### **WAGE RATES**

Policy must establish authority for the initial setting of wages and rates and for approvals and changes. It should include how wage rates are to be determined and should establish who has authority for approvals and changes.

Payment of salaries causes the affiliate to be liable for payroll taxes, withholdings and payroll tax returns. Failure to file such reports may result in tax penalties and subject the financial officers to personal liabilities. Therefore the policy must require compliance with all applicable filing requirements.

### **BENEFITS**

Policy should include procedures to determine types of benefits to be provided, eligibility requirements, and documentation to be maintained.

### **PAID EMPLOYEE ABSENCES**

If the affiliate has employees, policies should be established for the following:

#### **Vacation and Sick Leave**

The policy must state the number of vacation and sick leave days earned each year and if those days are carried forward from one year to the next, with or without limitation. The policy must also state any advance and/or buy-out arrangements and the conditions under which one form of leave can be converted to cash or another form of leave. The affiliate must keep accurate records of leave earned, taken and accumulated balances. The value of vested leave balances, at current pay rates, should also be reflected as liabilities in the affiliates' financial statements at the end of the year.

#### **Holidays**

The policy must specify all paid holidays and the conditions required to qualify (e.g. Do part-time or only full-time employees qualify? How long must individuals be employed to qualify?).

### **Other Paid Absences**

The policy must clearly identify the type of absences that will be paid, conditions required to qualify, how balances are accumulated, when payments will be made, and under what circumstances accumulated balances expire.

### **EMPLOYEE SEVERANCE**

#### **PAYMENTS**

The affiliate must have a policy which addresses any payments required to be made in the event of employee severance from service. The policy must state the conditions necessary to qualify for any payments due to severance (e.g., required years of service, part-time vs. full-time, no payment if terminated for cause). It must clearly identify how the amount of severance is to be calculated, identify the maximum allowable, if there is a maximum, and state when it is to be paid. The value of the vested severance balance should be reflected as a liability in the affiliates' financial statements at the end of the year

#### **CREDIT CARDS**

AFSCME strongly recommends against the use of union-owned credit cards. Adequate procedures for prompt reimbursement of authorized expenditures eliminate the need for the use of a credit card that creates exposure of the union to potentially excessive liabilities.

If an affiliate chooses to provide officers and/or employees with credit cards that are billed directly to the union, the written policy or procedures manuals must clearly identify the union positions which qualify for use of a card and define the types of authorized expenditures. The policy must

also clearly state that personal charges on the affiliate's credit card are strictly prohibited.

To ensure that the affiliate does not pay the credit card company for any charges incurred on the union-owned credit card without proper documentation the policy must require all authorized users to provide an itemized expense report detailing each and every charge made as well as its specific union purpose. The actual credit card receipt and the itemized sales slip must be attached to the expense report.

Credit cards of individuals (employees or officers) 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.

#### **LEASED/OWNED AUTOMOBILES**

Should an affiliate opt to provide its officers and/or employees with automobiles, written policy or procedures manuals must explain the authorized use of the auto-mobile. The establishment of auto allowances or prompt reimbursement of mileage for union business use of a personal automobile generally eliminates the need for affiliates to lease or own cars.

The policy should provide details of the types of both authorized and prohibited usage. Approval of individuals authorized to use a union-leased or owned automobile should be clearly documented in the minutes of the membership or Executive Board meetings.

Policy must require the employee to

maintain contemporaneous usage logs. The value of any personal usage (including commuting) must be reimbursed to the affiliate or if such usage is authorized by the membership or the Executive Board to be union-paid, the value must be included as taxable income to the employee and reported on the employee's W-2 form.

Union leased or owned automobiles may not be provided to any officer or employee who receives an auto allowance.

### **EXPENDITURES**

In general, policies for expenditures should encourage adherence to the requirements of the Financial Standards Code, applicable laws, and other sound business practices.

Policy must require that expenditures be properly authorized by one of the methods identified in the Financial Standards Code and must be for legitimate union business purposes. Extravagant and/or unnecessary expenditures should be prohibited. Larger expenditures require the use of appropriate purchasing procedures such as competitive bidding to ensure that the best price and terms are obtained.

### **EXPENSE REIMBURSEMENTS**

Policy must clearly identify the types of

union activities for which expenditures will be reimbursed. It must require the use of expense reports to document all reimbursements to officers, employees and members. Each item to be reimbursed must be documented to indicate its date, amount and union purpose. Original receipts must be attached and each expense report must be approved.

The policy must also identify the union positions authorized to approve the reports. In the case of employee expense reimbursements, approval must be from the employee's supervisor; for officer expense reimbursements, expense reports should be approved by the Executive Board or a committee of officers selected for that purpose.

### **AUDITS**

Policy should indicate the frequency of which audits are to be performed and whether audits are to be performed by a Certified Public Accountant or by Trustees elected for that purpose in accordance with the provisions of the affiliate's constitution.

All Councils and any Local Union having 2,000 or more members must have an annual audit prepared by a Certified Public Accountant, performed in accordance with Generally Accepted Auditing Standards. All other affiliates are encouraged to use a CPA to perform an audit, review or compilation of the financial records.

## **AFSCME FINANCIAL STANDARDS CODE - APPENDIX G**

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### **REPORTS TO INTERNATIONAL UNION**

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<b><u>Report Name</u></b>	<b><u>Who Must File</u></b>	<b><u>Information Required</u></b>	<b><u>Due Date</u></b>
CPA Audit Report	All Councils and any Local Union having 2,000 or more members	Copy of CPA Annual Audit Report, SAS 115 letter and Management Letter	Following acceptance by membership or Executive Board
Annual Budget	Councils and Local Unions having 2,000 or more members	Budget should be approved By Executive Board in advance of its fiscal year	10 days after adoption plus prompt notification of any modifications
Quarterly Financial Statement	Councils and Local Unions having 2,000 or more members	Balance Sheet and Income Statement	Following acceptance by membership or Executive Board
Local Union Annual Financial Report	All Local Unions	Complete the form sent to the financial reporting officer which includes a balance sheet and income statement.	Due by May 15 or four and one-half months after fiscal year end
Surety Bond Report	Councils, Local Unions, Retiree Chapters and Retiree Sub-Chapters	Complete the form sent to the financial reporting officer reporting assets which include cash and investments balances at the end of the previous calendar year and receipts handled during the previous calendar year.	March 1

# AFSCME FINANCIAL STANDARDS CODE - APPENDIX H

## REPORTS TO GOVERNMENTAL AGENCIES

<u>Report Name</u>	<u>Report Name</u>	<u>Due Date</u>
IRS Form 990-N	Affiliates must file a 990-N “e-postcard” with the IRS online at <a href="http://epostcard.form990.org">http://epostcard.form990.org</a> , if their gross receipts are normally \$50,000 or less.	May 15 or four and one-half months after fiscal year end.
IRS Form 990-EZ or 990	Affiliates must file IRS Form 990-EZ if their gross receipts are over \$50,000 and less than \$200,000, and total assets are less than \$500,000. Affiliates with gross receipts \$200,000 and over or total assets of \$500,000 or more are required to file IRS Form 990.  Failure to file IRS Forms 990-EZ or 990 carries a penalty to the affiliate of \$20.00 per day until filed with a maximum penalty of the lesser of \$10,000 or 5% of the gross receipts for the year. Failure to file a 990 series form with the IRS for three (3) consecutive years will result in the IRS automatically revoking the affiliate’s tax exempt status.	May 15 or four and one-half months after fiscal year end.
IRS Form 990-T Exempt Organization Business Income Tax Return	Tax form required of not-for-profit organizations who are involved in taxable activities.	May 15 or four and one-half months after fiscal year end
IRS Form 1120-POL U.S. Income Tax Return for Certain Political Organizations	Affiliates with investment income in excess of \$100 for the tax year which also made political contributions in excess of \$100 for the tax year. May not apply to affiliates having a qualified “Separate Segregated Fund” for use in making political contributions	March 15 or two and one-half months after fiscal year end
Labor Department Form LM-2	Affiliates with private sector employee(s) who have annual receipts greater than \$250,000	90 days after fiscal year End
Labor Department Form LM-3	Affiliates with private sector employee(s) who have annual receipts less than \$250,000 and more than \$9,999	90 days after fiscal year end.
Labor Department Form LM-4	Affiliates with private sector employee(s) who have annual receipts less than \$10,000	90 days after fiscal year end.
DHS Form I-9 Employment Eligibility Verification	Affiliates must have a Form I-9 on file to document that each employee is authorized to work in the United States.	

<b><u>Report Name</u></b>	<b><u>Who Must File</u></b>	<b><u>Due Date</u></b>
IRS Form SS-4 Application for Employer Identification Number	All newly chartered affiliates must file for an Employer Identification Number (EIN) with the IRS immediately.	As soon as possible after being chartered
IRS Form W-2 Wage and Tax Statement	Affiliates paying wages, allowances, stipends, reimbursed dues, lost time payments and any other taxable payments to officers or employees must file IRS Form W-2 summarizing payments and withholding made to each officer and/or employee.	To officer and/or employee by January 31.
IRS Form W-3 Transmittal of Wage and Tax Statements	Affiliates filing IRS Form W-2's must transmit the W-2's to the Social Security Administration with IRS Form W-3.	February 28.
IRS Form W-4 Employee's Withholding Allowance Certificate	Affiliates must have a W-4 on file for all individuals receiving wages, allowances, stipends, reimbursed dues, lost time payments, and other taxable payments to allow for the correct amount of federal income tax withholding.	
IRS Form 940 Employers Annual Federal Unemployment Tax Return	Affiliates must file IRS Form 940 annually to report all wage payments, including lost time, allowances and reimbursed dues payments.	Due by January 31.
IRS Form 941 Employers Quarterly Federal Tax Return	Affiliates must file quarterly IRS Form 941 payroll tax returns for all wage payments, including lost time, allowances and reimbursed dues payments.	Quarterly as follows: April 30 July 31 October 31 January 31
IRS Form 1096 Annual Summary and Transmittal of U.S. Information Returns	Affiliates filing 1099-MISC Forms must transmit those forms to the IRS using IRS Form 1096.	February 28.
IRS Form 1099-MISC Miscellaneous Income	Affiliates making taxable non-salary payments of \$600 or more to individuals during the calendar year must report those payments on IRS Form 1099-MISC. A 1099 cannot be issued for wages (e.g., lost time, allowances and reimbursed dues).	To individuals by January 31.
IRS/Labor Department Form 5500	Affiliates who sponsor employee benefit plans subject to ERISA. NOTE: Affiliates with any involvement with provision of benefits to members (e.g. insurance trusts) should seek professional advice to determine filing requirements.	End of the 7th month after the plan year ends.

# GLOSSARY OF TERMS

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<b>Affiliate</b>	Subordinate body (for example, Council, Local, Chapter, Retiree Chapter, Retiree Sub-Chapter, Organizing Committee and any entity managed by one or more affiliates.)
<b>Allowances</b>	Payments made to officers for out-of-pocket expenses incurred while conducting affiliate business. These payments are also known as stipends. Receipts are not required to document these payments. W-2's must be issued to all officers who are paid allowances/stipends during the calendar year and filed with the IRS. Payroll taxes must be withheld and payroll tax forms must be filed for all allowance payments to officers.
<b>Audit</b>	Examination of the affiliate's financial records conducted by Trustees or Certified Public Accountant(s) (CPA).
<b>Bank Debit Card or ATM Card</b>	Cards issued by a bank allowing an individual to draw cash out of an Automatic Teller Machine (ATM) or make purchases that are charged directly to bank account. Bank Debit and ATM Cards are prohibited and may not be used by AFSCME affiliates.
<b>Bank Reconciliation</b>	Reconciliation upon receipt of each statement of the balance on the bank statement to the balance in the check register.
<b>Budget</b>	Projection of income and expenses for the coming year.
<b>Cash Book</b>	Financial record book used to record all receipts and disbursements. Recorded amounts should be totaled monthly.
<b>Constitution</b>	Document that governs an affiliate's structure and system of governance.
<b>Dues Rebate</b>	Portion of local union dues remaining from the union dues that were collected by the Council on behalf of the local union after International and Council per capita taxes (PCT) have been deducted.
<b>EIN</b>	Employer Identification Number. This is also known as TIN (Taxpayer ID Number). Every union affiliated with AFSCME must have an EIN issued by the IRS and that number must be on file with the Auditing Department of the International Union. Failure to have an EIN or to place it on file with the Auditing Department jeopardizes the affiliate's status as a non-profit organization.

<b>Expenditure Authorization</b>	Approval of all disbursements by the affiliate. All expenditures must be authorized by constitution, law, contract or vote.
<b>Expense Advance</b>	Payment made to an individual for affiliate expenses that have not yet been incurred. If the individual receives an advance against expenses (e.g., for the convention), the individual must submit an expense report and receipts for all expenses other than per diem incurred. If the expenses exceed the amount of the original advance, a check may be issued to the individual for the additional cost. If the expense is less than the amount of the advance, the difference must be collected from the individual immediately and deposited in the affiliate's account. <b>An expense report should be submitted within 30 days of the conclusion of the business travel to document the expense advance.</b>
<b>Expense Report</b>	Document explaining each expenditure made by an individual for which reimbursement is to be made by the union. Each item to be reimbursed will require supporting documentation, such as receipts, and adequate explanation of the union purpose for the costs incurred.
<b>Financial Standards Code</b>	Minimum bookkeeping standards, rules and procedures established to ensure that all affiliates fairly and fully account for the finances of the affiliate. All affiliates are required to comply with the provisions of the Code.
<b>Financial Statement</b>	A listing of income and expenses as well as a statement of assets owned and bills owed. Should be prepared by all affiliates each month.
<b>Form I-9 (DIS)</b>	Form used by employers to demonstrate that each employee is a U.S. citizen or legal resident.
<b>Form LM-2, LM-3 or LM-4 (DOL)</b>	U.S. Department of Labor financial report which must be filed by affiliates with private sector employee(s). Due within 90 days after the end of the affiliate's fiscal year. LM-2 -- income greater than \$250,000. LM-3 -- income less than \$250,000. LM-4 -- income less than \$10,000.
<b>Form SS-4 (IRS)</b>	Application for Employer Identification Number. The preferred method of applying however is online at <a href="http://www.irs.gov">www.irs.gov</a> . The application should be filed by affiliate with the IRS immediately upon being chartered.



<b>Form W-2 (IRS)</b>	Wage and Tax Statement. Summary of all wages, allowances, reimbursed dues and lost time payments. W-2 must show total wages or payments, federal income taxes withheld, Social Security and Medicare taxes withheld and state taxes withheld.
<b>Form W-3 (IRS)</b>	Transmittal of Income and Tax Statements (W-2s) to the Social Security Administration due by February 28th each year.
<b>Form W-4 (IRS)</b>	Employee's Withholding Allowance Certificate. Completed by all individuals receiving wages, allowances, reimbursed dues and lost time payments to allow for the correct amount of federal income tax withholding.
<b>Form 940 (IRS)</b>	Annual Federal Unemployment Tax Return due on or before January 31st each year. All lost time, allowance/stipend and reimbursed dues payments must be included as wages.
<b>Form 941 (IRS)</b>	Quarterly Payroll Tax Return which must be filed for all wage payments, including lost time, allowance/stipend and reimbursed dues payments.
<b>Form 990-N "e-postcard" (IRS)</b>	Annual electronic filing requirement for small exempt organizations. Affiliates are required to file a Form 990-N if their normal gross receipts averaged \$50,000 or less over the last three (3) years.
<b>Form 990 &amp; 990-EZ (IRS)</b>	Informational Return of Organizations Exempt from Income Tax. Affiliates not eligible to file Form 990-N "e-postcard" are required to file IRS Form 990-EZ if they have prior year gross receipts totaling over \$50,000 and less than \$200,000 and prior year total assets totaling less than \$500,000. Affiliates with annual receipts of \$200,000 or more or total assets of \$500,000 or more are required to file IRS Form 990.
<b>Form 990-T (IRS)</b>	Tax form required of not-for-profit organizations who are involved in taxable activities.
<b>Form 1096 (IRS)</b>	Annual Summary and Transmittal of Forms 1099-MISC to the IRS due by February 28th each year.
<b>Form 1099-MISC (IRS)</b>	Form used to report all taxable non-salary payments of \$600 or more made to all individuals during the calendar year. A 1099 cannot be issued for wages (e.g., allowances, stipends, reimbursed dues and lost time payments).

<b>Form 1120-POL (IRS)</b>	U.S. Income Tax Return for Certain Political Organizations. Affiliates are required to file IRS Form 1120-POL if they have investment income in excess of \$100 for the tax year and also make political contributions in excess of \$100 for the tax year. Does not apply to affiliates having a qualified “Separate Segregated Fund” for use in making political contributions.
<b>Lost Time</b>	Payment made to an officer or member as compensation for taking uncompensated leave from their job to perform union duties. Lost time is considered to be payment of wages. Federal income, Social Security, Medicare and state income taxes must be withheld and payroll tax forms must be filed for all lost time payments.
<b>LUAFR</b>	Local Union Annual Financial Report submitted to report the financial activity for the previous fiscal year and to assist the International in evaluating the financial practices of the Local Union.
<b>Minimum Dues</b>	Minimum monthly fee charged to all members of AFSCME International to participate in and benefit from services provided by the International, Council and Local Union. The Minimum Dues rate, established by the International Constitution, increases each January based on the average wage increase received by AFSCME members over the 12 month period ending the preceding July 31st.
<b>Officer</b>	Elected official of the affiliate who is a member of the Executive Board that governs and has decision-making authority on behalf of the affiliate.
<b>PCT</b>	Per Capita Tax. The portion of union dues paid to the International Union and Councils to service the membership on a national and state or council level.
<b>Per Diem Non-Taxable</b>	Meal allowance for overnight out-of-town union-related business, up to the maximum federal rate allowed. The maximum daily non-taxable rates authorized to be paid by the federal government depend on the city of the overnight stay. An expense report with documentation of overnight stay must be filed to allow these payments to be treated as “accountable” and therefore non-taxable.
<b>Per Diem Taxable</b>	General daily allowance to cover incidental costs, for which no accounting is required. Also, out of town per diem in excess of the allowable federal rate is taxable to the extent that the payment exceeds the federal guidelines. All taxable per diem payments must be included in the recipients annual W-2

**Reimbursed  
Expenses  
Accountable  
Plan**

Payment(s) made to an individual for charges incurred on behalf of the affiliate. If the payment represents reimbursement to the individual for actual expenses paid, documented and submitted to the affiliate, the payment to the individual is treated as a non-taxable reimbursed expense. The individual must submit paid receipts for all expenses incurred. By submitting paid receipts to the affiliate, the individual has accounted for expenses and neither the individual nor the affiliate is required to report the payments or the expenses to the IRS.

**Reimbursed  
Expenses  
Non-Accountable  
Plan**

Payment(s) made to an individual as compensation for costs incurred or expected to be incurred in performing union services for which no expense report or other accounting for these funds is required. All payments made under the “Non-Accountable Plan” are considered compensation and are treated as taxable income to the recipient. Examples of these payments include auto allowances, officer allowances, stipends and convention advances for which no accounting is required or expected.

**Surety Bond  
Certificate of  
Coverage**

Certificate issued by the bond underwriter that states the coverage level of the affiliate based on the total assets and receipts reported on the Surety Bond Report. The Certificate of Coverage can be obtained from the Auditing Department upon request.

**Surety Bond  
Premium**

Amount each affiliate is charged for their surety bond coverage.

**Surety Bond  
Report**

Report to be completed by each affiliate listing the total of all bank accounts and investments as of the prior calendar year end plus all cash receipts of the affiliate during the prior calendar year. All affiliates must file a Surety Bond Report with the International Union as required by the International Constitution.

**Trustees**

Trustees are elected “Officers” but are not members of the Executive Board. They have neither voice nor vote on matters before the Executive Board. Trustees are responsible for conducting the annual or more frequent audits of the affiliate’s financial records required by the affiliate’s constitution, or for seeing that outside experts are employed to conduct such audits.

# **TRUSTEES AUDIT GUIDE**

## **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 chief financial officer complete and file the “Local Union Annual Financial Report” and annual “Surety Bond Report” 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.

CPA’s are required to issue a SAS 115 letter when internal control issues have been identified during the course of their audit. A CPA will also typically issue a “Management Letter” upon completion of the engagement, in which operational or other issues that may require remedial action to be taken are noted. Officers/Trustees must obtain copies of the CPA’s Engagement Letter, SAS 115 letter, Management Letter, and Audit Report. Trustees are responsible to ensure 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 must obtain the following records for the year or period being examined:

- Cash Book or Cash Receipts/Disbursements Journal (A manual Cash Book does not need to be maintained by affiliates using automated accounting systems that provide information comparable to that found in the Cash Book.)
- Printouts from automated accounting systems as detailed in Article III, Section 1, A 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)
- Duplicate 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, fax machine, 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 Cash Book, 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. Duplicate deposit slips and copies of the receipt transmittal documents (e.g., dues deduction rosters, rebate summaries, copies of deposited checks) should be retained.

1. Compare amounts listed in Cash Book to duplicate deposit slips and

amounts shown on bank statements.

2. Review supporting documentation for cash received (e.g., dues deduction lists.)
3. Verify that the explanation of the type of receipt agrees with entry in the Cash Book or check register.
4. Verify that totals are properly computed in the Cash Book 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, 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 officers or their designees. 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 Cash Disbursements Journal or in the automated accounting system.

All disbursements should 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. Compare each canceled check to the bank statement to see that a

canceled check exists for each paid check shown on the bank statement.

2. Compare amounts on canceled checks to amounts in the Cash Book or automated accounting system and checkbook.
3. Compare payee on check to payee listed in Cash Book, check register and checkbook.
4. Examine the endorsement 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 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 Cash Book or check register to supporting documentation to verify that expenses are properly classified.
9. Verify that the Cash Book is properly totaled.
10. Verify that the checkbook or check register is properly maintained in order to reflect the current balance at all times.

## **BANK RECONCILIATION**

All bank statements, canceled checks and voided checks must be retained in the union's records by the principal financial officer. The canceled checks which are retained with any statement should be kept with that statement regardless of the date or number appearing on the check. 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 Cash Book or check register, notations on paid bills). However, some banks and credit unions do not automatically provide canceled checks. If the canceled checks are not available, the principal financial officer must take steps to obtain copies of those checks, (fronts and back), and ensure that they are maintained with each month's bank statement.

1. Review monthly bank reconciliation to see that amounts shown for Cash Receipts and Cash Disbursements agree with totals in Cash Receipts and Cash Disbursements Book or check registers, and reconcile any differences.
2. Compare cash balance on the financial statement to bank reconciliation balance and to 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 copies to the entries in the Cash Book or check register.
5. Obtain an explanation from the financial officer for any unusual transaction reflected on the bank statement.
6. Obtain an explanation and supporting documentation from the bank or credit union for any unusual transaction.
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 Cash Receipts and Cash Disbursements Book or check register.
3. Verify that the balance in the bank statement agrees with the balance shown on the financial statement.
4. Verify that the signatures authorizing the withdrawals are the signatures authorized by the affiliate's constitution.

5. 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 expenses must be documented by a report showing payee, amount, nature of expense, specific union purpose and applicable original invoices or receipts. The expense report must be signed when submitted by the individual requesting reimbursement and approved by the appropriate officer or supervisor. The reimbursement must be authorized in the minutes.

1. Review the expense reports for a) authorization, b) original supporting documentation, c) nature of expense, d) signature of individual submitting request for reimbursement and e) signature of approving authority.
2. Compare for compliance with affiliate's policy for reimbursement of expenses, e.g., per diem, automobile mileage and other limitations and restrictions.
3. Compare amount shown on voucher to actual 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 are reimbursed, it 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 each and 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. Basically, a non-accountable plan does not require the filing of an expense report, but treats all payments to individuals as taxable compensation.

1. Obtain copies of minutes authorizing 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 being reported to the government and relevant payroll taxes being withheld and deposited for **non-accountable** payments.

## CREDIT CARD CHARGES

AFSCME strongly recommends against the use of union-owned credit cards as they circumvent the requirement that two officers sign all disbursement checks.

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 each and 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 of the charges adequately documented.

Credit cards of individuals (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 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 on an expense report signed and submitted by the responsible person for the charge.
5. Verify that the policy prohibits personal use of the union credit card(s).
6. Verify that itemized expense reports were submitted by all authorized users of the credit card prior to payment to the credit card company.
7. 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.

8. 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 Cash Disbursements Book 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**

Authorized allowances 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 must be distinguished from expense advances.)

- a) Expenses advanced must be accounted for by submission of supporting documentation to the Local Union. Allowances DO NOT require documentation, only approval.
- b) Allowances are treated as taxable income to the recipient. Reimbursed expenses are not taxable.

### **LOST TIME**

Payments for lost time constitute taxable income to the recipient and must be reported. Lost time payments should be supported by authorization, purpose, and basis for amounts paid.

Payments for lost time can be based on the actual salaries lost by an individual, or a rate approved by the executive board. Some government agencies consider payment of lost time, where the individual was actually 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 payment.
3. See that records reflect purpose for which lost time was used.
4. Verify that W-2s were filed for all lost time paid.
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 shown by monthly financial statement to Cash Receipts and Cash Disbursements Books.
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. 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 \$10,000 or 5% of the gross receipts of the affiliate for the year. Failure to file a 990 series form for three (3) consecutive years may 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 electronically for those qualifying affiliates who have annual receipts in excess of \$250,000. LM-3 needs to be filed for qualifying affiliates who have annual receipts less than \$250,000. LM-4 needs to be filed for qualifying affiliates who have annual receipts less than \$10,000.

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 and that all affiliates file a “Surety Bond Report” annually.

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.
3. Check to see that the annual Surety Bond Report was completed and forwarded to the International Union for the most recent 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 possible or if space permits.

1. Check to see that all records of the union are retained in their original form 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 made to the Executive Board and to the membership.
2. Check to see that all recommended adjustments in record keeping 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 should be written to show 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" -- which lists issues that need to be reviewed by the Executive Board.
5. Inquire as to whether the CPA issued a SAS 115 letter regarding internal control and review the finding.
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

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.

	<u>Trustee Audit Questions</u>	<u>Answers</u>
1.0	Are bank statements <u>and</u> canceled checks (or front and back copies) 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?	
1.3	Is a completed bank reconciliation attached to each bank statement?	
1.4	Are canceled checks (or front and back copies) returned by the bank along with the bank statements?	
2.0	Is a canceled check (or front and back copy) on file to support each disbursement reflected on the bank statement?	
2.1	Is each canceled check signed by two officers?	
2.2	Is a cash disbursements journal or automated accounting system maintained?	
2.3	Is <u>each</u> check (including void checks) listed in the check register and cash disbursement journal?	
3.0	Are bank receipts maintained for all deposits?	
3.1	Are bank receipts matched to bank statements to confirm the deposit is recorded by the bank?	
3.2	Is a cash receipts journal or automated accounting system maintained?	

	<u>Trustee Audit Questions</u>	<u>Answers</u>
3.3	Is each cash receipt identified and explained in the checkbook and cash receipts journal?	
4.0	If the local has a petty cash fund, is the balance (and checks to replenish it) \$100 or less?	
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 expenditures properly authorized by Executive Board or Membership vote on specific expenditures, recurring obligations, contracts, or annual budgets?	
5.2	Do minutes of Executive Board or Membership meetings reflect specific approval of each unusual or large expenditure?	
6.0	Do all expenditures serve a legitimate union purpose?	
7.0	Are paid bills filed in an orderly and organized manner?	
7.1	Are the check number, date and amount paid written on filed bills?	
7.2	Is an expense report on file to document each reimbursement to officers, members and employees?	
7.3	Are employee expense reports approved by appropriate supervisors?	
7.4	Are officer expense reports approved by the Executive Board or a committee of officers selected for that purpose?	
7.5	Do expense reports have adequate original receipts attached and is the union business purpose properly documented?	

	<u>Trustee Audit Questions</u>	<u>Answers</u>
8.0	If the affiliate has a credit card, are itemized expense reports on file that account for <u>each</u> and <u>every</u> credit card charge?	
8.1	If the affiliate has a credit card, are itemized credit card charges reported on expense reports and reconciled to the credit card statement?	
8.2	If the affiliate has a credit card, were itemized expense reports submitted by all authorized users prior to payment to the credit card company?	
9.0	Are monthly financial statements prepared and given to the Executive Board and membership?	
9.1	Do monthly financial reports reflect the following? - Income by source and total income      Yes ___ No ___ - Expenses by type and total expenses      Yes ___ No ___ - Total cash at month's start and end      Yes ___ No ___ - A list of unpaid bills at month end      Yes ___ No ___	
10.0	Are lost time payments, officer allowances, and stipends supported by proper documentation, including approval in the minutes of membership or Executive Board meetings?	
10.1	Are payroll taxes withheld from lost time payments, officer allowances, and stipends with W-2's issued for all these payments?	
10.2	If the affiliate is required to file IRS Form 990 or 990-EZ (annual receipts total over \$50,000), has the form been filed on time (by May 15 or 4 ½ months after fiscal year end)?	
10.3	If the affiliate's annual receipts are \$50,000 or less, was the electronic postcard IRS 990-N filed by May 15 <sup>th</sup> or 4 ½ months after the fiscal year end?	
10.4	Did the affiliate file a Surety Bond Report for the past year? Due March 1st each year).	
10.5	Did the affiliate file the Local Union Annual Financial Report for the past year? (Due May 15th or 4 ½ months after fiscal year end).	



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

	<u>Trustee Audit Questions</u>	<u>Answers</u>
11.0	Are any checks pre-signed?	
12.0.	Are any checks made payable to “Cash”?	
13.0	Does the affiliate have a Bank Debit Card or ATM Card?	



American Federation of State, County and  
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