



GUIDELINES FOR FINANCIAL REVIEW COMMITTEES

MARCH 2017

**FINANCIAL SERVICES DEPARTMENT
AMERICAN FEDERATION OF TEACHERS, AFL-CIO
555 NEW JERSEY AVENUE, NW
WASHINGTON, DC 20001**



FROM THE SECRETARY-TREASURER

To the Financial Review Committee:

An audit of the union's financial records is a valuable tool in safeguarding the unions' funds. In an ideal world, each local or state federation would contract with an outside accounting firm to perform an audit on an annual basis and issue a report of the findings. Unfortunately, such audits are expensive and beyond the means of many affiliates.

Combining the recognition of the value of an audit with the knowledge that an audit is not available to many affiliates because of its cost, the following amendment to the AFT Constitution was adopted at the 2004 and 2010 AFT Conventions:

Article IX, Section 1, 2, 3 and 4

Section 1. AFT affiliates with 2,500 or more members, excluding retirees, are required to submit to the AFT annually, and within six months of the close of the affiliate's fiscal year, an audit of its financial statements—in accordance with generally accepted auditing standards—by an independent CPA whose firm does not have responsibility for the affiliate's regular bookkeeping or for preparation of its routine financial statements. The audit must be prepared in accordance with generally accepted accounting principles. Appended to the audit submission must be a letter signed by the affiliate's principal officer and the auditor certifying that the audit has been presented at a specified regular or special meeting of the affiliate's governing body and published and made available to the members.

Section 2. AFT affiliates with 1,000 but fewer than 2,500 members, excluding retirees, are required to submit to the AFT annually, and within six months of the close of the affiliate's fiscal year, an audit or a review of its financial statements – in accordance with generally accepted auditing standards – by an independent CPA whose firm does not have responsibility for the affiliate's regular bookkeeping or for preparation of its routine financial statements. The audit or review must be prepared in accordance with generally accepted accounting principles. Appended to the audit or the review submission must be a letter signed by the affiliate's principal officer and the CPA certifying that the audit or review has been presented at a specified regular or special meeting of the affiliate's governing body and published and made available to the members. If financial irregularity or financial malfeasance is indicated, the three full-time AFT officers may require an affiliate to submit an audit, rather than a review. If an affiliate is notified that it must submit an audit, the requirement to do so shall remain in place until the three full-time AFT officers inform the affiliate that it is no longer required.

Section 3. AFT affiliates with fewer than 1,000 members, excluding retirees, are required to submit to the AFT annually, and within six months of the close of the affiliate's fiscal year, an audit of its financial statements by an independent CPA in accordance with generally accepted auditing standards or a financial review of the affiliate's financial statements conducted by an internal audit committee in accordance with AFT guidelines for audit committees. Appended to the audit or financial review must be a signed certification by the affiliate's principal officer that the current audit or financial review has been presented at a specified regular or special meeting of the affiliate's governing body and published and made available to the members.

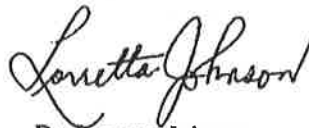
CPA review or financial review, pursuant to Section 1, 2 or 3 of this Article, conducted at the affiliate's expense. Such an analysis will include an examination of the financial records and a reporting of the results to the membership of the affiliate and to the AFT executive council.

As members of your union's financial review committee, you have an important job. The officers of your union are relying on you to attest to the fact that they are, indeed, handling the union's funds properly, and the membership are relying on you to ensure that their dues are being used properly and the union funds are safe.

The purpose of this publication is to provide the financial review committee with the guidelines for conducting the financial review mandated by Article IX, Sections 1, 2, and 3. These guidelines were adopted by the AFT Executive Council at its meeting in July, 2004.

Given the varying sizes of AFT locals, it is difficult to answer all of the questions that may arise during the course of an audit in a single publication. If you have questions, please contact the AFT Financial Services Department at (202) 879-4493.

In Unity,

A handwritten signature in cursive script that reads "Lorretta Johnson".

Dr. Lorretta Johnson
Secretary-Treasurer

LJ:JF:mkr
opeiu2
afl-cio

INSTRUCTIONS

This publication assumes that your local or state federation has appointed a financial review committee of three to five members to review the union's finances in lieu of an audit by an outside accounting firm. The financial review committee should be established under the provisions of your local or state federation's constitution dealing with committees. Because the committee will be reviewing the treasurer's work, he or she cannot be a member of the financial review committee, although the treasurer will have to work with the committee to provide documents and answer questions.

The purpose of this review is to make sure that the financial statements are accurate by verifying the data and documents from which they are produced, and to assure the membership that the union's funds are being handled properly. It is not the purpose of this review to identify and report only on mistakes in the financial records or those things that the current officers may not be doing properly. You will be trying to determine if, in general, the local or state federation's funds are being properly accounted for.

We have tried to make the review process as easy as possible by putting the procedures in a step-by-step process; however, there will be variations from local to local in the manner in which books are kept. In performing the review, you should complete all steps, although you may not be able to perform all activities within each step. These guidelines assume that the financial review committee will examine every receipt and disbursement and the documents supporting them. If your local or state federation has a large volume of transactions (more than 200 per year), you might want to test a statistical sample of the transactions. A statistical sample might consist of every fifth transaction, for example. The sample should change every year so as not to establish an identifiable pattern.

Exceptions to the proper procedures that are described in these guidelines should be discussed with the treasurer and, if significant, noted in the financial review committee's report as described later in this publication.

Your local probably operates on a fiscal year that is different from the calendar year. The local's fiscal year will determine when you perform your review. The review should be performed as soon as possible after the close of the fiscal year and submitted to AFT within six months of the end of the fiscal year (January 1 for a fiscal year ending June 30).

For those who are not familiar with accounting terminology, we have supplied a glossary at the back of this publication defining some of the terms that are used with which you may not be familiar.

Reviewing a computerized accounting system will be almost identical to reviewing a manual accounting system. The documentation and reports in a computerized system will probably be more complete or more sophisticated. It is also possible that, through error or design, not all transactions will be included in the financial statements; therefore, it will be important to print out all entries in a computerized system.

In conjunction with this review, you may also wish to read the "Keeping the Records Straight," section of "The Essentials for Union Administration" handbook.

If you have any questions about performing the review, please contact the AFT Financial Services department at (202) 879-4493.

STEP 1: REVIEW INTERNAL CONTROLS

Examine canceled checks, financial reports and Executive Board minutes to perform the tasks listed below. If your bank or credit union does not return canceled checks, examine the duplicate copies of the checks.

- ☐ Determine where the checkbooks and financial records are kept. Are the checkbook and permanent financial records kept in a secure location, accessible only to those who have the authority to write checks? If not, the financial review committee should recommend changes in those practices.
- ☐ Examine the front side of each check written during the period. Do two officers sign all transactions? Are signature stamps used on checks? (Signature stamps generally have a thicker signature than a ballpoint pen and the signature always looks the same). Examine the signature card for the bank or credit union that authorizes the signatories on the account. Does the signature card say that two signatures are required? If not, the financial review committee should recommend corrective action.
- ☐ Examine the endorsement on the back of each check. Was the check endorsed by the person or firm to whom it was written? If not, further investigation should be made.
- ☐ Determine the starting and ending check numbers for checks written during the period. Look for missing check numbers. Are those checks voided or properly accounted for? Voided checks should be marked "VOID" across the front of the check and kept in the checkbook or other secure place.
- ☐ Look at the blank checks in the checkbook. Are there any blank checks that have already been signed by one officer so that another officer can use the check without having to wait for another signature? If so, the financial review committee should require that this practice be discontinued.
- ☐ Checks should rarely, if ever, be made payable to "Cash". Even checks to reimburse petty cash should be made payable to an individual responsible for petty cash, such as "Mary Jones - Petty Cash". While examining the front side of each check, look at the payee to determine if checks are always made payable to an individual or company. Closely examine any checks made payable to cash and recommend corrective action, as necessary.
- ☐ Look through the Executive Board minutes for the year. Are financial reports made at every regularly scheduled meeting? These reports should be in writing and attached to the Executive Board minutes.
- ☐ Examine your local or state federation's constitution. Does it have a requirement for a budget and assign the responsibility for preparing and adopting the budget? Examine the Executive Board minutes to see if a budget was adopted for the year. (This may have been done at the end of the previous year and may be included in the minutes for that year). Are budgets approved within the financial means of the union? Was any action taken during the year to amend the budget?
- ☐ Examine the Executive Board minutes to see if Executive Board members authorize expenditures not included in the budget. Most expenditures will be included in the budget and will not require special approval of the Executive Board. Expenditures not included in the budget (i.e. - leases, contracts, loans or new bank accounts or investments) should be approved by the Executive Board and included in the minutes.

- ☐ Examine insurance policies to determine that the union is adequately insured. These policies should include a liability policy, hazard insurance for fire or theft, and workers' compensation insurance if there are employees. A Fidelity Bond insuring the union against employee dishonesty is available through AFT. Locals with members in the private sector are required to be insured against employee dishonesty in an amount equal to 10% of the previous year's total income.
- ☐ Is there a written accounting manual or written procedure to ensure proper internal controls? If not, the financial review committee should recommend the adoption of such procedures.

STEP 2: REVIEW CASH RECEIPTS (INCOME)

Examine deposit tickets, cash receipts journals and bank statements to verify the following practices. Some locals with only a few transactions each month may not have a cash receipts journal. If your local does not maintain a cash receipts journal, examine the references to deposits on the check stubs.

A sample bank statement is shown in Appendix A on page 18 and a sample cash receipts journal is shown in Appendix B on page 19.

☐ TIMELINESS OF DEPOSITS

It is important that funds be deposited immediately after they are received to guard against misplacing checks before they are deposited and to ensure that the maximum amount of interest is earned on interest-bearing accounts. Verify that deposits are made promptly after funds are received. This is done by comparing the date on the documents that were received with the deposit date in the cash receipts journal (see example on page 19) and the date of the deposit on the bank statement (see example on page 18). If deposits are made by mail, there may be a few days difference between the date that the funds were recorded in the cash receipts journal and date that the bank listed the deposit on the statement.

☐ ACCURACY OF DUES DEDUCTIONS

Verify the receipt of payroll deductions from the employer to ensure that all deposits were made and are shown on the bank statements. The number of checks to be deposited will vary according to the employer's system for remitting dues.

- ☐ Some employers send checks monthly, while others remit dues following each pay period. Other employers have separate payrolls for certified and classified employees. All funds received should be deposited first to the checking account. If the funds are to be saved or invested for later use, a check should then be written for the deposit to the savings account or other investment. Payroll deduction checks should not be deposited directly to the savings account or other investment.

- ☐ Also, check the accuracy of the employer's calculations. The employer will usually include a listing of all members from whom dues were deducted, and the amount deducted from each member, along with the payroll deduction check. Verify that the dues rate used by the employer was the correct dues rate for each pay period.

- ☐ If the deduction amount is the same for all members, simply count the number of members on the list and multiply that number by the dues amount to make sure that the employer sent the correct total to the union. Count the actual names on the list rather than relying on the employee totals that may be provided on the employer's list.

- ☐ If the deduction amounts are different for two or more classes of employees, you will have to count the number of members at each dues rate and multiply that number for each class of employees; then add the totals for each class of employees to verify the total dues

amount. Check the dates of employer deductions and be certain that no pay period was skipped. The financial review committee should report any discrepancies to the treasurer so that he or she may take corrective action with the employer.

☐ **COMPARISON WITH UNION'S RECORDS**

The union should have a copy of each dues deduction authorization submitted to the employer showing the date that it was submitted. Check the employer's payroll deductions against the union's membership records to verify that all deductions were made for members who were enrolled for payroll deductions.

- ☐ Financial review committees of state federations will verify the per capita payments from locals, rather than dues from members. Review the per capita forms to make sure that the locals paid the correct per capita amount for each month and that the number of members in each category multiplied by the per capita rate for each category produces the correct total for each payment.

☐ **DIRECT DUES**

Not all members will sign an authorization for payroll deduction and those who do not will pay their dues directly to the local. The local must maintain records to track the dues payment status of direct dues members. (Ledger cards are available free from AFT for this purpose). Is there a process in place for billing these members for unpaid dues? Trace all deposits of direct dues paying members through the members' dues records, the cash receipts journal and the bank statement. This will verify that the payment status of members is correct and that all receipts were deposited. For example, see the entries for Robert Smith, Mary Jones and Carla Webster in the cash receipts journal (Appendix B). You should make sure that entries such as these in your local's records are included in the local's dues records.

☐ **OTHER INCOME**

Trace the deposit of any miscellaneous receipts through the cash receipts journal (Appendix B) and the bank statement (Appendix A). Compare the amounts shown in the cash receipts journal or on the check stubs and make sure that all of those amounts are listed on the bank statements.

☐ **GRANTS FROM AFT OR OTHERS**

If your local or state federation is receiving grants from AFT or others, make sure that the grant money has been received and that funds are being used in accordance with agreements. Misuse of grants can hurt in future requests for grants. Also ensure that financial reports or narrative reports are prepared on a timely basis as required by grant agreements.

☐ **NON-CASH ITEMS**

Verify that all deposits shown on the bank statements are included in the cash receipts journal or in the checkbook. The primary cause for differences here will be items for which no deposit was made by the union, such as interest on the account or corrections to deposit amounts made by the bank. Because no deposit was made for these transactions, the treasurer may have overlooked them on the bank statements. For example, see the deposit correction on the bank statement (Appendix A). This amount must be transferred to the cash receipts journal, (see example in Appendix B) in order to reconcile the account.

STEP 3: REVIEW CASH DISBURSEMENTS (EXPENDITURES)

Examine checks, check stubs, cash disbursement journals and bank statements to verify the following practices. Some locals with only a few transactions each month may not have a cash disbursement journal.

A sample bank statement is shown in Appendix A, and a sample cash disbursement journal is shown in Appendix C on page 20.

- ☐ Are all expenditures paid by check?
- ☐ Do the appropriate union officers authorize all checks? (See Step 6 on page 9 for details.)
- ☐ Are checks pre-numbered and written in numerical order? Make sure that all check numbers are accounted for.
- ☐ Review canceled checks for proper payee and endorsement. Voided checks must never be destroyed, but should be clearly marked "VOID" across the face of the check and the check should be retained.
- ☐ Verify that each check disbursed is supported by adequate documentation in the form of an original invoice, voucher or receipt. Compare paid invoices, vouchers and receipts with canceled checks. A lease or a contract, instead of a monthly invoice may support some disbursements, like rent.
- ☐ Verify that all disbursements are entered in the cash disbursement journal.

STEP 4: BALANCE THE CHECKBOOK

The treasurer should have reconciled the checking account every month shortly after the statement was received from the bank. The principle behind balancing the checkbook is that there may be deposits that were mailed or checks that were written that have not yet cleared the bank as of the date of the statement. The bank statement has to be reconciled to the union's financial records. This reconciliation can be done as of the last day of each month, no matter what date during the month the statement is received. Simply list transactions dated between the statement date and the end of the month as outstanding.

If your union's treasurer has been balancing the checkbook at the end of each month, your job will be that much easier. You will only have to review his or her work. Using the form shown on page 8 will probably make your reconciliation easier. The process is the same as that which you may use to balance your personal checkbook at home. Here are the steps involved in balancing the checkbook at the end of each period:

- ☐ Sort the canceled checks in numerical order and check them off in the check stubs, the check register or the cash disbursement journal as having cleared the bank. If your bank does not return canceled checks, use the list of checks on the bank statement to check off those items that have cleared the bank.
- ☐ Make sure that any bank charges, interest earned or similar transactions are entered in the checkbook and appropriate journals.

- ☐ Copy the beginning balance from the checkbook and place it on Line A of the reconciliation form.
- ☐ Total all of the deposits for the period from the cash receipts journal (if one is maintained) or from the checkbook. List that total on Line B of the reconciliation form.
- ☐ Add Lines A and B and put the total on Line C.
- ☐ Add the total of all of the transactions in the cash disbursements journal (if one is maintained) and place that total on Line D.
- ☐ Subtract Line D from Line C and place that total on Line E. Make sure this total is the same as the ending balance in the checkbook.
- ☐ Copy the ending bank balance from the bank statement onto Line F.
- ☐ List all of the deposits listed in the cash receipts journal or the checkbook that do not appear on the bank statement. Place that total on Line G.
- ☐ Add Lines F and G and place that total on Line H.
- ☐ List all of the checks contained in the cash disbursement journal or the checkbook that have not yet cleared the bank in the section for outstanding checks. (Caution - there may also be checks from previous periods that have not yet cleared). Place that total on Line I.
- ☐ Subtract Line I from Line H and enter that amount on Line J. This is the adjusted bank balance and should be the same as the ending checkbook balance.
- ☐ If the adjusted bank balance does not equal the ending checkbook balance, you will have to find the differences. Most often, those differences arise from deposit corrections or bank charges that appear on the bank statement but were not recorded in the union's books. Another common mistake is listing a check as outstanding when it has actually cleared the bank or by failing to list an outstanding check.

BANK RECONCILIATION

Account name and number: _____

For the period: _____

Checkbook balance, beginning of period (A) _____

Add: Total deposits (B) _____

Subtotal (C) _____

Less: Total expenditures this period (D) _____

Checkbook balance, end of period (E) _____

Bank balance, end of period (F) _____

Add: Deposits not on statement

Date Amount	Date Amount
----------------	----------------

_____	_____	(G) _____
_____	_____	

Subtotal (H) _____

Less: Total of outstanding checks (I) _____

Adjusted bank balance (J) _____

OUTSTANDING CHECKS

Check #	Amount	Check #	Amount	Check #	Amount	Check #	Amount
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____

Total _____

STEP 5: BALANCE OTHER ACCOUNTS

Your union may have other cash accounts in addition to the checking account such as savings accounts or other investments. The procedures for reconciling those accounts will be the same as for the checking accounts, with a few exceptions.

First, there will be far fewer transactions in those accounts. Secondly, there will probably not be any checks written on those accounts, so the documents to be totaled will likely be deposits, transfers and withdrawal tickets. Using the same format shown in Step 4, follow these procedures to reconcile those other accounts.

- ☐ Place the beginning balance on Line A.
- ☐ Total all of the deposits to the account and list that total on Line B.
- ☐ Add Lines A and B and place that total on Line C.
- ☐ Total all of the withdrawals from the account and list that total on Line D.
(This is the ending balance for the period.)
- ☐ Place the ending statement balance on Line F.
- ☐ Total all of the deposits not shown on the statement and place that total on Line G.
- ☐ Add Lines F and G. Place this total on Line H.
- ☐ Total all withdrawals that do not appear on the statement, if any, and place that total on Line I.
- ☐ Add Lines H and I to determine the adjusted bank balance (Line J). This should be the same as the balance in the union's checkbook (Line E).
- ☐ Use special care to trace all withdrawals and transfers to other union cash accounts.

STEP 6

EXAMINE SUPPORTING DOCUMENTS

Each transaction should have a document that supports it. This is true for receipts, disbursements and transfers between accounts. The purpose of this step is to ensure that all transactions have such justification.

- ☐ Verify that each receipt (income item) has documentation to support it. This may be in the form of a letter that accompanied the check, a check stub, or a voucher from the firm that sent the check. If cash was received, a receipt should have been issued to the payer. Make sure that the amount in the documentation agrees with the amount deposited.
- ☐ Verify that each disbursement has documentation to support it. This will usually be in the form of an invoice, an expense voucher, a receipt issued by the payee, or a similar document. All invoices should be original copies so as to avoid duplicate payments. Make sure that the amount in the documentation agrees with the amount deposited.
- ☐ If a payment is a recurring payment, the documentation may be in the form of a long-term lease or contract. For example, monthly rent payments are not usually invoiced, but there should be a lease in the file to document the amount of the payments and the due dates.
- ☐ If a payment is an unusual one, it may be supported by a copy of the appropriate Executive Board minutes. All transactions that are not included in the budget, all new bank accounts or investments, and all long-term leases or contracts should be approved by the Executive Board and reported in the minutes.
- ☐ Has an investment policy been adopted? For example, must all deposits be in banks insured by the Federal Deposit Insurance Corporation (FDIC)? Careful attention should be paid to FDIC limits (currently \$100,000) to protect the union's funds.
- ☐ Keep a list of all transactions that are not documented and discuss them with the treasurer.

STEP 7: VERIFY THE ACCURACY OF THE FINANCIAL STATEMENTS

In Steps 1 through 5, you have verified the totals in the financial records and reconciled those totals to the bank statements. The financial statements are a summary of the financial records and, therefore, should reflect the totals that you have already verified. A sample Balance Sheet and a sample Statement of Income and Expenditures are shown in Appendix D (page 21) and Appendix E (page 22).

The same income and expense categories should be used in the union's budget, financial records and financial statements.

- ☐ Verify that the total of each of the categories in the cash receipts records is listed as income on the Statement of Income and Expenditures.
- ☐ Verify that the total of each of the categories in the cash disbursement records is listed correctly on the Statement of Income and Expenditures.
- ☐ Verify that the totals of income and expenditures are correct, and that the difference between the two (surplus or deficit) is correct.

- ☐ Verify that the checking account balance and the balances of all other assets and liabilities are listed correctly on the Balance Sheet.
- ☐ Verify that the totals of the assets and liabilities are correct.
- ☐ Verify that the beginning Fund Balance is the same as the ending Fund Balance for the previous year.
- ☐ Verify that the change in the Fund Balance is the same as the surplus or deficit for the current year.

STEP 8: WRITE THE FINANCIAL REVIEW COMMITTEE REPORT

Now that you have verified the totals contained in the financial records, reconciled them to the bank statements, and traced them through the financial reports, you are ready to write the Financial Review Committee's report.

The report should be written on the union's letterhead and contain the following information:

- ☐ The name and local number of the organization.
- ☐ The dates encompassed by the review.
- ☐ Whether or not the books were found to be in good order.
- ☐ Any deficiencies that were uncovered.
- ☐ The live **signatures** of all committee members to show that all concur with the report.
- ☐ Footnote any items that are important to the union's financial position but are not clearly explained in the financial statements. Examples of footnotes are contained in the sample financial review committee reports on pages 13-16.
- ☐ **ATTACH A COPY OF THE UNIONS BALANCE SHEET AND STATEMENT OF INCOME AND EXPENDITURES TO THE FINANCIAL REVIEW COMMITTEE'S REPORT.**
- ☐ **APPENDED TO THE WRITTEN FINANCIAL REVIEW MUST BE A SIGNED CERTIFICATION BY THE AFFILIATE'S PRINCIPAL OFFICER (SEE PAGE 17) THAT THE CURRENT FINANCIAL REVIEW HAS BEEN PRESENTED AT A SPECIFIED REGULAR OR SPECIAL MEETING OF THE AFFILIATE'S GOVERNING BODY AND PUBLISHED AND MADE AVAILABLE TO THE MEMBERS.**
- ☐ **A COPY OF THE FINANCIAL REVIEW COMMITTEE'S REPORT AND THE FINANCIAL STATEMENTS MUST BE SENT TO THE AFT WITHIN 6 MONTHS OF THE LOCAL'S FISCAL YEAR END (JANUARY 1 FOR A FISCAL YEAR ENDING JUNE 30).**

SUBMIT YOUR AUDIT REPORT ONE OF THREE WAYS...

1. Go to <http://arts.aft.org>
If you have fewer than 1,000 members, you have the option to complete the fillable forms or upload a .pdf of your audit report.

If you have 1,000 or more members, you only have the option to upload a .pdf of your audit report.

2. You can send a .pdf via email to:
Auditreports@aft.org

3. You can send a copy of your audit report via postal mail to:

**American Federation of Teachers, AFL-CIO
Affiliate Audit Reports
555 New Jersey Avenue, NW
Washington, DC 20001**

Please use the **Internal Audit Report Cover Sheet** as displayed on page 12, to ensure that your report is easily identified.

Sample **Financial Review Committee** reports/letters are shown on pages 13 -17. The first one shows a report in which no deficiencies were found; the second shows a report in which a deficiency was noted.

If, in performing your examination you discover that the records have so many deficiencies that you are having trouble writing your report, or if you discover that not all funds are accounted for, contact the **AFT Financial Services Department for advice at (202) 879-4493**.

AFT Local# _____



**INTERNAL AUDIT COMMITTEE
AUDIT REPORT COVER SHEET**

Local Name: _____

State: _____

Fiscal Year End Date (mm/dd) _____
(i.e. 6/30; 8/30, 9/30, 12/31)

Period covered: Beginning Date: _____ **End Date:** _____

Number of Members _____

SUBMITTED BY: _____ **TITLE** _____
(PLEASE PRINT)

SAMPLE AUDIT REPORT #1

Date

We have examined the financial records of the Sample Employees' Federation for the period July 1, 2015 through June 30, 2016, and found them to be in good order. This examination was performed by a committee made up of members of the Sample Employees' Federation and was not conducted in accordance with generally accepted accounting principles.

Based upon our examination, we consider the attached financial statements for the period July 1, 2015, through June 30, 2016, to be an accurate summary of transactions conducted during that period.

Sincerely,

John Smith, Chair
SEF Financial Review Committee

Mary Jones, Member
SEF Financial Review Committee

Sylvia Franklin, Member
SEF Financial Review Committee

**NOTES TO AUDIT REPORT PREPARED BY THE FINANCIAL REVIEW COMMITTEE
OF THE
SAMPLE EMPLOYEES' FEDERATION**

FOOTNOTES:

- 1) The Sample Employees' Federation leases its offices under the terms of a five year lease, expiring August 31, 2018. The lease calls for monthly payments with annual increases tied to cost of living indexes described in the lease.
- 2) The Sample Employees' Federation has a loan outstanding from the Sample National Bank. The loan is dated November 1, 2013, in the amount of \$30,000 and requires monthly payments of principal and interest for a period of three years. The interest is computed at one percent above the bank's prime lending rate.

SAMPLE AUDIT REPORT #2

Date

We have examined the financial records of the Sample Employees' Federation for the period July 1, 2015 through June 30, 2016, and found them to be in good order. This examination was performed by a committee of members of the Sample Employees' Federation and was not conducted in accordance with generally accepted accounting principles.

During the course of our examination we discovered that, while there was adequate documentation maintained for all expenditures, documentation was not available for all income. This was primarily due to checks that were received that were not accompanied by letters or other documentation. In the future, if a check is received without documentation, a copy of the check will be made before the check is deposited.

Based upon our examination, we consider the attached financial statements for the period July 1, 2015 through June 30, 2016, to be an accurate summary of transactions conducted during that period.

Sincerely,

John Smith, Chair
SEF Financial Review Committee

Mary Jones, Member
SEF Financial Review Committee

Sylvia Franklin, Member
SEF Financial Review Committee

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- 1) The Sample Employees' Federation leases its offices under the terms of a five year lease, expiring August 31, 2018. The lease calls for monthly payments with annual increases tied to cost of living indexes described in the lease.
- 2) The Sample Employees' Federation has a loan outstanding from the Sample National Bank. The loan is dated November 1, 2013, in the amount of \$30,000 and requires monthly payments of principal and interest for a period of three years. The interest is computed at one percent above the bank's prime lending rate.

SAMPLE CERTIFICATION BY AFFILIATE'S PRINCIPAL OFFICER

Dr. Lorretta Johnson, Secretary-Treasurer
American Federation of Teachers
555 New Jersey Ave., NW
Washington, DC 20001

Dear Secretary-Treasurer Johnson:

Please find attached the financial review for the Sample Employees'
Federation for the fiscal year ending June 30, 2016. The financial review
was presented to the _____ on _____.
(Affiliate's governing body) (Date of presentation)

The financial review has been published and is available to our members.

Sincerely,

John J. Smith, President
Sample Employees' Federation

APPENDIX A

SAMPLE BANK STATEMENT

Sample Employees' Federation
123 Union Street
Anytown, US 00000

Statement Date
07/31/15

Account Number:
8098-40632-201

Balance as of 06/30/15	\$ 2,603.98
Add: Total Credits (Deposits)	\$ 1,470.00
Less: Total Debits (Checks and Other Charges)	\$ 1,391.25
Balance as of 07/31/15	\$ 2,682.73

Date	Transaction	Amount	Balance
07/05/15	Deposit	1,250.00	3,853.98
07/07/15	Check 223	-350.00	3,503.98
07/07/15	Check 224	-99.75	3,404.23
07/09/15	Check 220	-25.00	3,379.23
07/18/15	Deposit	210.00	3,589.23
07/19/15	Deposit Correction	10.00	3,599.23
07/20/15	Check 225	-482.50	3,116.73
07/20/15	Check 226	-400.00	2,716.73
07/25/15	Customer Check Order	-34.00	2,682.73

Checks Cleared

220	25.00
*223	350.00
224	99.75
225	482.50
226	400.00

APPENDIX B

SAMPLE EMPLOYEES' FEDERATION CASH RECEIPTS JOURNAL JULY, 2015

Date	Payee	Amount	Dues	Legal Defense	Promo Sales	Interest	Other
07/05/2015	Sample ISD	1,250.00	1,250.00				
07/18/2015	Robert Smith	25.00	25.00				
07/18/2015	Mary Jones	25.00	25.00				
07/18/2015	Carla Webster	50.00	50.00				
07/18/2015	T-Shirt Sales	110.00			110.00		
July Totals		1,460.00	1,350.00	0.00	110.00	0.00	0.00

APPENDIX C

SAMPLE EMPLOYEES' FEDERATION CASH DISBURSEMENT JOURNAL JULY, 2015

Date	Payee	Ck No.	Amount	Per Capita	Rent	Telephone	Office			
							Supplies	Postage	Meetings	Other
07/05/2015	ABC Realty	223	350.00		350.00					
07/18/2015	Telephone Co.	224	99.75			99.75				
07/18/2015	AFT	225	482.50	482.50						
07/18/2015	State Fed	226	400.00	400.00						
07/18/2015	Holiday Inn	227	75.00						75.00	
07/28/2015	US Postmaster	228	58.00					58.00		
July Totals			1,407.25	882.50	350.00	99.75	0.00	58.00	75.00	0.00

APPENDIX D
SAMPLE EMPLOYEES' FEDERATION
BALANCE SHEET
JUNE 30, 2016

ASSETS

Cash, Checking Account	1,835.26
Cash, Savings Account	<u>2,721.58</u>
TOTAL ASSETS	<u><u>4,556.84</u></u>

LIABILITIES

Accounts Payable	0.00
TOTAL LIABILITIES	0.00

NET ASSETS

Net Assets Beginning, July 1, 2015	1,744.84
Changes in Net Assets	<u>2,812.00</u>
TOTAL NET ASSETS	4,556.84
TOTAL LIABILITIES AND NET ASSETS	<u><u>4,556.84</u></u>

APPENDIX E

SAMPLE EMPLOYEES' FEDERATION STATEMENT OF INCOME AND EXPENDITURES JULY 1, 2015 TO JUNE 30, 2016

INCOME	JULY, 2015
Dues From Members	\$ 79,881.00
Legal Defense Assistance	500.00
Promotional Sales	750.00
Interest Income	200.00
	<u>81,331.00</u>
EXPENDITURES	
AFFILIATIONS	
AFT Per Capita and Insurance	24,705.00
State Federation Per Capita	21,375.00
State AFL-CIO Per Capita	1,500.00
Central Labor Council Per Capita	750.00
	<u>48,330.00</u>
TOTAL AFFILIATIONS	48,330.00
ORGANIZING AND SERVICE	
Legal Defense of Members	1,500.00
Membership Recruitment	4,000.00
Monthly Newsletter	9,000.00
Promotional Supplies	500.00
	<u>15,000.00</u>
TOTAL ORG AND SERVICE	15,000.00
GOVERNANCE AND ADMINISTRATION	
Conferences/Conventions	3,000.00
Membership Meetings	800.00
Rent	3,600.00
Telephone	1,272.00
Office Supplies	2,000.00
Equipment	4,517.00
	<u>15,189.00</u>
TOTAL GOVERNANCE AND ADMIN	15,189.00
TOTAL EXPENDITURES	<u>78,519.00</u>
CHANGES IN NET ASSETS	2,812.00
NET ASSETS AT BEGINNING OF YEAR	1,744.84
NET ASSETS AT END OF YEAR	\$ <u>4,556.84</u>

GLOSSARY

Following are definitions of some terms that you may encounter when examining the financial records.

ACCRUAL BASIS ACCOUNTING	That system of accounting in which income is recognized when it is earned and expenditures are recognized when the liability is incurred. Accrual basis accounting requires maintaining accounts receivable and accounts payable in the financial records.
ASSET	An item of value owned by the union. An asset may be in the form of cash, securities, equipment, or real estate.
BALANCE SHEET	That part of the financial statements that lists the assets, liabilities and net assets of the union as of a specific date. (See sample, Appendix D)
CASH BASIS ACCOUNTING	That system of accounting in which income is recognized when it is received and expenditures are recognized when they are paid. Cash basis accounting ignores accounts receivable and accounts payable.
CASH RECEIPTS JOURNAL	A log of all monies received, listing each receipt by date, from whom it was received, the amount that was received, and for what purpose it was received. The cash receipts journal is usually maintained on a monthly basis.
CASH DISBURSEMENTS JOURNAL	A log of all monies spent, listing each disbursement by date, check number, to whom the money was paid, the amount that was paid, and the purpose for which it was paid. The cash disbursement journal is usually maintained on a monthly basis.
CREDIT	An accounting term used to describe an entry, which increases an income, liability or net worth account, and decreases an expense or asset account.
DEBIT	An accounting term used to describe an entry, which increases an expense or asset account, or decreases an income, liability or net worth account.
DEPRECIATION	A non-cash transaction to account for the decrease in the value of an asset due to wear through usage or the passage of time. Depreciation, if applicable, will appear as an expense in the Statement of Income and Expenditures. Accumulated depreciation is the total of depreciation that has been computed from one year to the next and will appear on the Balance Sheet.
FISCAL YEAR	The twelve-month period on which the union budgets and reports its financial activities. The fiscal year may or may not be the calendar year. The fiscal year is usually defined in the union's constitution.
GENERAL JOURNAL	A log of all transactions for which no deposits were made or no checks were written. Types of transactions usually included in the general journal are transactions on the bank statement, such as interest earned or bank charges, or transactions to reclassify entries from one account to another.
INTERNAL CONTROLS	A set of policies and procedures used within the organization's accounting system that protects the union's funds. Examples of internal controls are: a requirement for two signatures on every check, keeping blank checks in a locked drawer or cabinet, requiring regular treasurer's reports, etc.
LIABILITY	A liability is debt owed by the union. It may be in the form of a loan, accounts payable, payroll taxes owed, or any amount that must be paid in the future, such as severance pay or accumulated vacation pay.
NET ASSETS	The amount that would be left over if all of the union's assets had to be sold to satisfy all of the union's liabilities. Sometimes called Net Worth or Members' Equity.

PAYROLL JOURNAL	A log of transactions that pertain solely to payroll and payroll taxes. It is sometimes maintained separately from the cash disbursement journal.
STATEMENT OF INCOME AND EXPENDITURES	A part of the financial statements that summarizes all of the transactions for a specific period. The statement of Income and Expenditures shows what happened during the period; the Balance Sheet shows where the union ended up as a result of that activity. (See sample, Appendix E)
TRIAL BALANCE	A summary of the balances contained in the general ledger to verify that the general ledger is in balance. The balances used to prepare the trial balance must be as of the same date. Because some balances in the general ledger are positive (+) while others are negative (-), the total of the trial balance should be zero.

RECOMMENDED READING

“The Essentials for Union Administration” –a handbook prepared by AFT which includes most of the information you need for conducting the business of an effective union; Chapter 4 – “Finances/Records and Reporting” Section – **“Keeping the Records Straight”**

“Financial and Accounting Guide for Non-Profit Organizations”, by Malvern J. Gross, Jr. and William Warshauer, Jr.; John Wiley & Sons, New York.

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Audit Guidelines also available on AFT LeaderNet at:
<http://leadernet.aft.org>

- **Governance and Administration**
- **Affiliate Compliance**
- **Audits**
 - **Related Resources (Right side of screen) –
“Guidelines for Financial Review Committees”**