



Internal Controls & Fiduciary Responsibilities

Building Trust Through Accountability

OFFICER TRAINING PROGRAM



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Icebreaker: Protect the Treasury

OPENING ACTIVITY — THINK · PAIR · SHARE

DISCUSSION PROMPT

"Think of a time you witnessed or heard about a financial mistake in any organization — it could be a church, school, club, or workplace."

- What went wrong?
- What could have prevented it?

ACTIVITY FORMAT



Think
1 min



Pair
2 min



Share
3 min

**Every organization handles money.
Today we learn how to handle it RIGHT.**

What You Will Learn Today

Five objectives to guide your training journey



OBJECTIVE 1

Define internal controls and explain why they matter



OBJECTIVE 2

Understand your fiduciary duties under federal law — LMRDA Section 501



OBJECTIVE 3

Identify the Six Pillars of Internal Controls



OBJECTIVE 4

Recognize red flags for financial mismanagement







What Are Internal Controls?






The foundation of financial integrity in every organization

Definition

Internal controls are the **policies, procedures, and practices** an organization puts in place to:

-  Safeguard assets against loss, waste, or misuse
-  Ensure accurate and reliable financial reporting
-  Promote operational efficiency
-  Encourage compliance with laws and regulations

Why They Matter

-  Prevent fraud and theft
-  Ensure accurate records
-  Build member trust and confidence
-  Satisfy federal reporting requirements (LM reports)
-  Protect officers from personal liability



Without controls, even well-intentioned officers are exposed to risk.

Your Fiduciary Duty Under Federal Law

LMRDA Section 501 — Labor-Management Reporting and Disclosure Act



Duty of Loyalty

Act solely in the interest of the membership, not personal gain.



Duty of Care

Exercise reasonable judgment and diligence in managing union funds.



Duty of Good Faith

Act honestly and transparently in all financial dealings.



Duty to Account

Maintain accurate records and make them available for review.

The Six Pillars of Internal Controls

The foundational safeguards that protect your local's treasury



01

Segregation of Duties

No single person controls an entire financial transaction from start to finish.



02

Authorization

All expenditures require proper approval per bylaws before funds are disbursed.



03

Documentation

Every dollar in and out must have a complete paper trail — receipts, vouchers, invoices.



04

Reconciliation

Bank statements reconciled monthly by someone other than the check signer.



05

Independent Audits

Annual audits conducted by a qualified independent party — not internal officers.



06

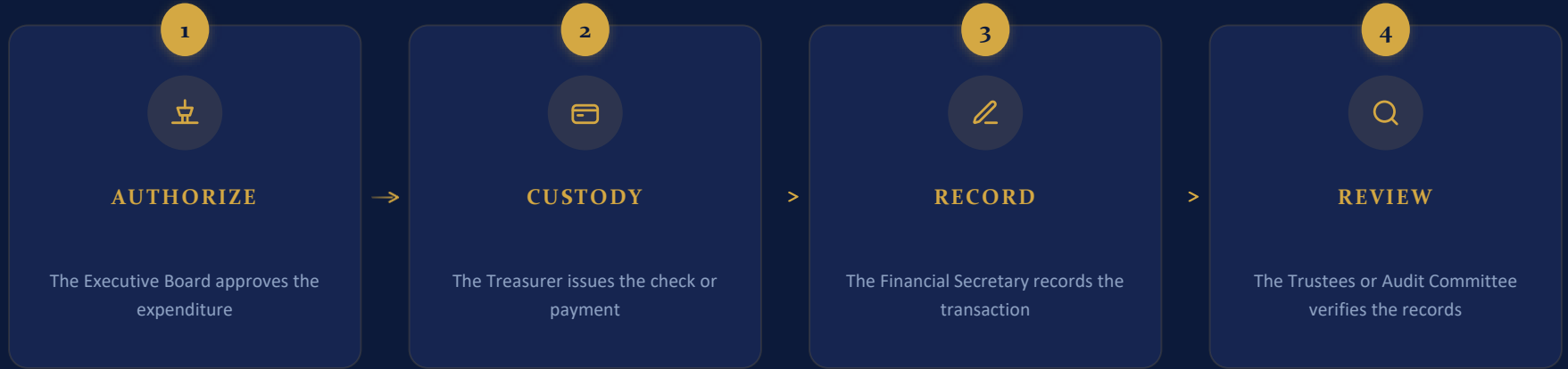
Physical Safeguards

Secure storage of checks, cash, records, and all financial documents under lock and key.

 Together, these six pillars form a comprehensive defense system for your local's financial integrity.

Segregation of Duties in Practice

No single officer should control the full cycle of a financial transaction.



💡 Why? Because even good people make mistakes — and segregation catches them.



Scenario 1: The Missing Deposit

⚠️ CASE STUDY

Local 555 collects **\$12,000** in dues and assessments for the month of March. The Recording Secretary counts and documents **\$12,000**. The Treasurer takes the funds to deposit at the bank. The bank receipt shows only **\$9,500** was deposited. **No one notices for two months.**

💬 DISCUSSION QUESTIONS

1

What internal control failures allowed this to happen?

2

Who is responsible — the Treasurer, the Executive Board, or both?

3

What procedures would have prevented this?



Knowledge Check 1

1 Under LMRDA Section 501, union officers have a fiduciary duty to:

- A) The International Union
- C) The Executive Board only

B) The membership of the organization

D) The U.S. Department of Labor

2 Which internal control requires that no single person handles an entire financial transaction?

A) Documentation

C) Segregation of Duties

B) Authorization

D) Physical Safeguards

3 How often should bank statements be reconciled?

A) Quarterly

C) Monthly

B) Annually

D) Only during audits

Red Flags: **What to Watch For**

Recognize the warning signs of financial mismanagement or fraud.



Missing or Incomplete Documentation

Receipts, invoices, or financial records that are absent, incomplete, or altered.



Unexplained Deposit Delays

Funds collected but not deposited promptly — gaps between receipt and banking.



One Officer Controls Everything

A single person signing, recording, and reconciling — no segregation of duties.



Resistance to Audits or Review

Pushback, excuses, or delays when independent audits or financial reviews are requested.



Unauthorized Expenditures

Spending without proper board authorization or lacking supporting documentation.



Lifestyle Inconsistent with Income

Sudden, unexplained upgrades in lifestyle that don't match an officer's known compensation.

- **One red flag is a concern.** Multiple red flags together demand immediate investigation and action.

Best Practices for Financial Officers

Protect yourself, your local, and your members.



01

Issue Receipts for ALL Money Received

No exceptions — every dollar collected must generate a written receipt.



02

Require Dual Signatures on Checks

All checks above the bylaw-set threshold require two authorized signatures.



03

Deposit Funds Within 24–48 Hours

Prompt deposits reduce risk of loss, theft, or misplacement of funds.



04

Reconcile Bank Statements Monthly

Always performed by someone other than the check signer for independence.



05

Maintain a Complete Paper Trail

Keep all invoices, vouchers, authorizations, and receipts on file.



06

Conduct an Annual Independent Audit

Report findings openly to the full membership for transparency.

✓ *These practices safeguard your treasury, satisfy federal requirements, and protect every officer from personal liability.*

Scenario 2: The Unauthorized Expense

“ The President of Local 200 purchases a **\$3,500 laptop** and **\$1,200 in office furniture** without Executive Board authorization. He presents the receipts at the next board meeting and asks for reimbursement after the fact. The Treasurer writes the check **without a vote**. **\$4,700**

UNAUTHORIZED

🗨 Discussion Questions

- 1 Was the expenditure proper under most union bylaws?
- 2 What is the Treasurer's liability for issuing the check without authorization?
- 3 What should the Executive Board do now?



Knowledge Check 2

QUESTION 1

Bank reconciliation should be performed by:

- A The Treasurer who signs the checks
- B The President
- C Someone other than the check signer** ✓
- D An outside CPA only

QUESTION 2

Which of the following is NOT an internal control?

- A Requiring dual signatures
- B Allowing verbal-only authorization for expenses** ✓
- C Conducting annual audits
- D Maintaining receipts for all transactions

QUESTION 3

Physical safeguards include:

The Stakes Are **Real**

Consequences of fiduciary failure under federal law



Civil Liability

Officers can be **sued in federal court** by the union or its members for breach of fiduciary duty.



Criminal Prosecution

Embezzlement carries up to **5 years imprisonment** and **\$250,000 in fines** under 29 U.S.C. § 501(c).



Career Destruction

Convicted officers are **barred from holding union office for 13 years** after conviction.



Harm to Members

Every dollar stolen or wasted is a dollar **taken from working families** who trusted you with their dues.



Fiduciary violations are **federal offenses** — ignorance of the law is not a defense.

Building a Culture of Accountability

Accountability is not punishment — it is protection.

☆ Lead by Example

Officers must model the transparency they expect from others.

1

🎓 Educate Continuously

Provide regular training on financial procedures for all officers and stewards.

2

💬 Encourage Questions

Create an environment where members feel safe asking about finances.

3

📄 Report Regularly

Provide clear, accessible financial reports to the membership at every meeting.

4

👁️ Welcome Oversight

Treat audits and reviews as tools for trust, not threats.

5



Key Takeaways



Internal controls are your first line of defense against fraud, error, and liability.



Fiduciary duty under LMRDA Section 501 is a legal obligation, not a suggestion.



Segregation of duties is the single most important control — never let one person handle all financial functions.



Documentation is your best friend — if it's not written down, it didn't happen.



A culture of accountability protects everyone — officers, members, and the organization.



Thank You

Questions & Discussion



CLOSING REFLECTION

What is **ONE** change you will implement in your local after today's training?



"Protecting the treasury is protecting the trust of every member who pays dues."