**10 STEP AUDIT**

**Step 1**

Trace cancelled checks to the bank statements and disbursement journal.

Locate the bank statement and cancelled checks. Place a check mark, in pencil, on the bank statement for each cancelled check. Make a list of any check numbers and amounts appearing on the bank statement for which you cannot find a cancelled check.

Compare the amounts on each cancelled check with the corresponding entries on the bank statement. Make sure that the amounts on the cancelled checks are the same as on the bank statement. Watch for amounts that may have been changed after the checks were returned from the bank. Make a note if any discrepancies are found.

Compare the information on these checks with the corresponding entries in your union’s disbursements journal. Make sure that the payee, the amount, the date, and the purpose on each cancelled check are properly recorded in the journal. Look for any discrepancies between the journal entries and the checks. Examine the endorsements, making sure they match the payees on the front of the checks. Make a note if any discrepancies are found.

You have completed Audit Step 1 and you should now have a good sense of the reliability and completeness of your union’s disbursements records. However, your examination of disbursements is not over. The next step is designed to help you determine whether the checks issued from your union’s bank account were for legitimate union purposes.

**Step 2**

Scan the disbursement journal and record unusual entries

Review the disbursements journal entries. Look at the type and frequency of your union’s disbursements. You will probably see recurring payments for per capita taxes, hall rent, and officer salaries and expenses. Approval for these disbursements should be found in the constitution and bylaws or the membership meeting minutes. Make a list of any entries that appear to be questionable or out of the ordinary, such as:

* checks for unusually large amounts
* checks for unusual purposes
* large checks to unfamiliar payees
* checks payable to cash
* checks where no purpose is recorded
* checks written out of sequence
* duplicate payments for salaries or expenses to the same individual checks identified as loans

Review the supporting bills/invoices, vouchers, and membership meeting minutes for all the checks you have listed. Determine whether they were for legitimate union purposes and whether they were properly authorized. Make a list of any payments that do not appear to be supported with credible back-up documentation or membership approval.

**Step 3**

Trace employer dues checkoff to the receipts journal and bank statements

Locate the employer checkoff statements. Compare the amounts posted on these statements with the corresponding entries in the receipts journal. Make a note if any discrepancies are found.

Trace the checkoff receipt entries from the receipts journal to related entries on bank statement. Make a note if any discrepancies are found.

You have completed Audit Step 3 and, as a result, you now know whether employer dues checkoffs were properly recorded and deposited into your union’s bank account. The next audit step is designed to help you determine whether your union’s non-dues income has been properly recorded and deposited.

**Step 4**

Confirm that receipts from all other sources have been properly recorded and deposited.

Review the receipts journal entries. Look for the type and frequency of non-dues money coming into your union, such as proceeds from

* the sale of jackets, hats, and other items
* interest or dividends earned on your union’s bank accounts
* income from hall rentals
* vending machine receipts or rebates
* union-sponsored raffles
* your parent body for conventions, strike fund assistance, or per capita tax rebates

Make a note of any items that seem unusual or inappropriate.

Trace these receipts from your union’s receipts journal to corresponding entries on your bank statement. Make a note if any discrepancies are found.

**Step 5**

Identify all bank accounts, verify their ending balances, and review withdrawals / transfers.

Make a list of the name, location, type of account, and account number for each of your union’s bank accounts. Determine what happened to the proceeds from any union accounts closed during the audit period. Determine whether the initial deposit into any accounts opened during the audit period can be traced from one of the union’s other bank accounts.

Prepare a liquid assets inventory that shows the ending balances for each of your union’s bank accounts.

Determine whether all withdrawals from your union’s savings, money market, or certificate of deposit accounts during the audit period were used for legitimate union purposes as approved by your membership. Make a note if any discrepancies are found.

You have completed Audit Step 5 and, as a result, you should have confirmed the location and value of your union’s liquid assets. The next audit step is designed to help you determine the location and value of your union’s fixed assets.

**Step 6**

Inventory fixed assets.

Determine if your union prepared an inventory of fixed assets prior to your audit period and, if so, verify the existence of all items on the list.

Confirm that any missing items were properly disposed of as approved by the membership.

Suggest that the principal financial officers add or delete items to the fixed asset inventory as appropriate.

**Step 7**

Confirm that the LM annual financial report for the latest completed fiscal year was filed on time.

Locate your union’s latest LM-3 annual financial report.

Determine whether this report was filed on time and, if not, remind the principal financial officers that it must be filed on time in the future (within 90 days after the end of the local’s fiscal year).

**Step 8**

Determine whether financial records were properly maintained.

Make a list of any significant financial records identified during Audit Steps 1-6 that were not maintained by your union, such as employer checkoff statements, bank statements, bills, vouchers, and invoices.

Advise the principal officers of your union that these financial records must be maintained for a period of at least 5 years, as required by the LMRDA.

**Step 9**

Ensure that all officers and employees who handle funds are adequately bonded.

Locate your union’s latest bonding certificate and verify that your union is covered by its provisions.

Confirm that the amount of bonding coverage is at least 10% of the receipts and assets handled during the prior fiscal year.

**Step 10**

Confirm that no officers or employees were loaned funds by your union.

Verify that no loans were made by your union to officers and employees.