Risky Business:
Can You Recognize the Early Warning Signs that Threaten the Fiscal Health of Your Organization?

Jeffrey Lockwood,
New York State United Teachers
COMPETENCY: BUSINESS

• Competency progression levels:
  – Level 1: Foundational, Level 2: Mobilizing & Power Building, Level 3: Agenda Driving

• Themes:
  – Learn to develop ways to mitigate risk and to monitor for threats to an association’s fiscal health
  – Learn to use cash management, net assets and establishing reserves to mitigate financial uncertainty
  – Understand the importance of establishing and enforcing whistleblower policies, conflict of interest policies and codes of ethical conduct
Agenda

• Fiscal Responsibility – Definition & Genesis
• SWOT Analysis
• Fraud Alert
• “Financial Oversight” - A Checklist of:
  – Key Documents
  – Key Metrics
  – Key Policies
  – Internal Financial Control Checklist
Financial Responsibility

• FIDUCIARY DUTY
  – A duty to act for someone else’s benefit, while subordinating one’s personal interests to that of the other person. It is the highest standard of duty implied by law.
Genesis of Financial Responsibilities

• State Law
• Generally Accepted Accounting Principles
• Local Constitution
• National Affiliate(s)
• IRS and the U.S. Tax Code
• Agency Fee/Fair Share
State Law

• In New York State Article 20-A
  – § 722 - Officers Fiduciary Obligation
  – § 726 - Financial Reporting
  – § 727 - Accounting Requirements
  – § 725 - Enforcement Fiduciary
  – § 728 - Enforcement Accounting
Your Constitution

- Article - Governing Board Financial Duties
- Article - Annual Budget
- Article - Financial Reporting/Fiscal Year
- Article - Annual Audit
- Article – Reimbursement Guidelines
Minutes

• Official Record
• Illustrates your association is run similar to a business
SWOT Analysis -
Define and evaluate your:

• **STRENGTHS**

• **WEAKNESSES**

• **OPPORTUNITIES**

• **THREATS**
STRENGTHS

• Accountability
  – A culture that values the importance of proper internal controls

• Leadership & Staff
  – Highly motivated and experienced staff who exhibit fiduciary qualities
WEAKNESSES

• Audit Findings
  – Implement audit recommendations

• Internal Controls
  – Separate functions and duties wherever possible
OPPORTUNITIES

• Expand Non-Dues Revenues
  – Find new opportunities for collecting revenue in areas other than dues

• Financial Transparency & Clarity
  – Continually find ways to better communicate financial information to members
THREATS

• Regulation
  – Provide an environment that encourages educational opportunities to keep up to date on regulatory regulations

• External Issues
  • Friedrichs Case, ESEA Reauthorization, etc., etc., etc....
Fraud Alert!
Initial fishing email...

From: President@nea.org
To: CFO@nea.org
Subject: Wire Transfer

Please process a wire transfer payment in the amount of $250,000 by COB today. Wiring info below....
What budget code do you want this to? Is it an extraordinary expense? Are all the other officers on board?

>>>President@nea.org 02/08/16 11:48 AM>>>

Please process a wire transfer payment in the amount of $250,000 by COB today. Wiring info below....
Watch how the fraud mimics CFO response...

Yes. extraordinary expense. all the officers on board.

>>>CFO@nea.org 02/08/16 11:57 AM>>>  
What budget code do you want this to? Is it an extraordinary expense? Are all the other officers on board?

>>>President@nea.org 02/08/16 11:48 AM>>>  
Please process a wire transfer payment in the amount of $250,000 by COB today. Wiring info below....
Check your message source

Return-path: <mailer.spam@unknownbank.com
Received: from SM ([10.1.0.19])
    by nea.org, Feb, 8 2016
Received: from [10.1.0.39] by SM with ESMTP (Tumbleweed Email Firewall
    SMTP Relay (Email Firewall v6.5)); Fri, 05 Feb 2016 15:45:40 -0500
X-Server-Uid: 1DBA9718-3252-4E48-99A9-E3A6B36A8E30
Received: from President@nea.org ([67.208.184.93:5487]) by
    ([10.1.0.39:25]) with ESMTP via TCP;
X-MailFrom: <mailer.spam@unknownbank.com
Email Fraud Prevention Steps!

- Check...
- Confirm...
- Coach...
Teacher Left $50K to Union From Which She allegedly Took $808K

Newspaper Headlines

Typewriter ribbon key to $1.2M fraud case...

Police: Lady stole $10k from union...

Former BOCES Union Officer Accused of Stealing $438,000...

Union Leader Resigns Amid Embezzlement Allegations...

Former teachers’ union treasurer accused of stealing over $68,000...

Teacher Left $50K to Union From Which She allegedly Took $808K
• Financial Oversight:
  – Key Documents
  – Key Metrics
  – Key Policies
  – Internal Financial Control Checklist
Financial Oversight –
A Checklist of Key Documents:

– Constitution & Bylaws
– Meeting Minutes
– Annual Budget
– Periodic Financial Reports
– Annual Audit
– Tax Filings
– Fiduciary and Fidelity Bond Insurance
– Bank Statements
Financial Oversight – Key Metrics:

<table>
<thead>
<tr>
<th>KEY METRIC</th>
<th>Where to Find?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Surplus / Deficit</td>
<td>BUDGET</td>
</tr>
<tr>
<td>Cash &amp; Investment Balances</td>
<td>PERIODIC FINANCIAL REPORTS</td>
</tr>
<tr>
<td>Current Assets vs. Current Liabilities</td>
<td>AUDIT</td>
</tr>
<tr>
<td>Reserves / Net Assets</td>
<td>990 TAX FILINGS</td>
</tr>
</tbody>
</table>
## Sample Budget

### BOCES 1
**REVENUE AND EXPENSE BUDGET**  
**JULY 1, 2015 - JUNE 30, 2016**

*Balanced Budget*

<table>
<thead>
<tr>
<th>REVENUE ACCOUNTS</th>
<th>ADOPTED BUDGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member Dues</td>
<td>$52,000.00</td>
</tr>
<tr>
<td>Interest</td>
<td>$2,000.00</td>
</tr>
<tr>
<td>Fund Raising</td>
<td>$5,000.00</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$1,000.00</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td><strong>$60,000.00</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPENSE ACCOUNTS</th>
<th>ADOPTED BUDGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affiliation Dues</td>
<td>$27,500.00</td>
</tr>
<tr>
<td>Supplies</td>
<td>$2,800.00</td>
</tr>
<tr>
<td>Telephone</td>
<td>$1,750.00</td>
</tr>
<tr>
<td>Postage</td>
<td>$750.00</td>
</tr>
<tr>
<td>Newsletter Costs</td>
<td>$4,000.00</td>
</tr>
<tr>
<td>Insurance</td>
<td>$900.00</td>
</tr>
<tr>
<td>Executive Committee</td>
<td>$4,000.00</td>
</tr>
<tr>
<td>Other Meetings</td>
<td>$5,000.00</td>
</tr>
<tr>
<td>Officers’ Expenses</td>
<td>$4,800.00</td>
</tr>
<tr>
<td>Delegate Expenses</td>
<td>$4,000.00</td>
</tr>
<tr>
<td>Arbitration Expenses</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>Scholarships</td>
<td>$3,000.00</td>
</tr>
<tr>
<td>Miscellaneous Expenses</td>
<td>$500.00</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td><strong>$60,000.00</strong></td>
</tr>
</tbody>
</table>

**PROJECTED INCREASE (DECREASE) IN NET ASSETS**  
$ -

This budget was adopted by a board resolution at the June 2015 meeting.

Signed __________________________  
Secretary
# Sample Financial Statement

**BOCES 1**

**FINANCIAL STATEMENT**

**FOR THE TWELVE MONTHS ENDING JUNE 30, 2015**

<table>
<thead>
<tr>
<th>Statement of Financial Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking Account(s)</td>
</tr>
<tr>
<td>Savings Account(s)</td>
</tr>
<tr>
<td>Investment(s)</td>
</tr>
<tr>
<td><strong>TOTAL CASH ASSETS</strong></td>
</tr>
<tr>
<td>Add: Amounts Due to Local</td>
</tr>
<tr>
<td>Less: Accounts Payable</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Statement of Revenue and Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE ACCOUNTS</strong></td>
</tr>
<tr>
<td><strong>ADOPTED BUDGET</strong></td>
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<tr>
<td>Member Dues $52,000.00</td>
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<tr>
<td>Interest $2,000.00</td>
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<tr>
<td>Fund Raising $5,000.00</td>
</tr>
<tr>
<td>Arbitration Reimbursement $1,000.00</td>
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<tr>
<td>Miscellaneous $1,000.00</td>
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<td></td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
</tr>
<tr>
<td><strong>EXPENSE ACCOUNTS</strong></td>
</tr>
<tr>
<td><strong>INCREASE (DECREASE) IN NET ASSETS</strong></td>
</tr>
</tbody>
</table>
# Sample Local Balance Sheet

For the Years Ended June 30, 2015 and 2014

## Assets

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$42,944</td>
<td>$57,228</td>
</tr>
<tr>
<td>Accounts Receivable Dues</td>
<td>$9,152</td>
<td>$9,386</td>
</tr>
<tr>
<td>Scholarship Fund</td>
<td>$1,429</td>
<td>$2,927</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>$4,056</td>
<td>$725</td>
</tr>
</tbody>
</table>

**Total Current Assets**

- 2015: $57,581
- 2014: $70,266

| Furniture and Equipment        | $7,010 | $11,385|

**Total Assets**

- 2015: $64,591
- 2014: $81,651

## Liabilities and Fund Balance

<table>
<thead>
<tr>
<th>Current Liabilities</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$3,802</td>
<td>$1,118</td>
</tr>
<tr>
<td>Per Capita Dues Payable</td>
<td>$26,733</td>
<td>$30,657</td>
</tr>
<tr>
<td>Deposits</td>
<td>$0</td>
<td>$1,920</td>
</tr>
</tbody>
</table>

**Total Current Liabilities**

- 2015: $30,535
- 2014: $33,695

| Fund Balance                   | $34,056| $47,956|

**Total Liabilities and Fund Balances**

- 2015: $64,591
- 2014: $81,651
Financial Oversight – Key Policies

- Constitution & Bylaws
- Investments
- Travel Reimbursement Guidelines
- Whistleblower
- Conflict of Interest
- Code of Ethics
- Internal Control Procedures
Internal Financial Control Checklist

✓ Bank Statements
  – Two officers review bank statements each month
  – Reconciled monthly
  – Separate functions and duties (where possible)
Internal Financial Control Checklist

✓ Disbursements
  – Two signatures on ALL checks and accounts
  – Never pre-sign a blank check
  – Officer approval of larger or unusual expenses
Internal Financial Control Checklist

✔ Cash Control

- Timely deposits
- Payroll deduction
- No checks payable to "CASH"
- No cash cards (ATM)
- Watch direct billed credit cards
Session Outcomes

• The content from this session can be used in the following ways in your current position/role:
  – Leave with an understanding of your fiduciary responsibilities
  – Understand where to find pertinent financial information in your role as a local leader
  – Checklists will assist one to assess and implement internal financial controls to protect the resources of your members
Questions?

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jlockwood@nysutmail.org