

U.S. Department of Labor

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March 31, 2009

Mr. Dennis Trudeau, President
Letter Carriers Branch 102
1727 North 4th Street
Sheboygan, WI 53081

LM File Number: 083-970
Case Number: [REDACTED]

Dear Mr. Trudeau:

This office has recently completed an audit of Letter Carriers Branch 102 under the Compliance Audit Program (CAP) to determine your organization's compliance with the provisions of the Labor-Management Reporting and Disclosure Act of 1959 (LMRDA). As discussed during the exit interview with you, Treasurer Frank Hoenick, and Trustee Mike Wallner on March 25, 2009, the following problems were disclosed during the CAP. The matters listed below are not an exhaustive list of all possible problem areas since the audit conducted was limited in scope.

Recordkeeping Violations

Title II of the LMRDA establishes certain reporting and recordkeeping requirements. Section 206 requires, among other things, that labor organizations maintain adequate records for at least five years by which each receipt and disbursement of funds, as well as all account balances, can be verified, explained, and clarified. As a general rule, labor organizations must maintain all records used or received in the course of union business.

For disbursements, this includes not only original bills, invoices, receipts, vouchers, and applicable resolutions, but also documentation showing the nature of the union business requiring the disbursement, the goods or services received, and the identity of the recipient(s) of the goods or services. In most instances, this documentation requirement can be satisfied with a sufficiently descriptive expense receipt or invoice. If an expense receipt is not sufficiently descriptive, a union officer or employee should write a note on it providing the additional information. For money it receives, the labor organization must keep at least one record showing the date, amount, purpose, and source of that money. The labor organization must also retain bank records for all accounts.

The audit of Branch 102's 2008 records revealed the following recordkeeping violations:

1. Failure to Record Receipts

Branch 102 did not record in its receipts records a check for dues in the amount of \$981.42 that was received in November 2008. Additionally, a single receipt entry in the branch's records often included multiple receipts. For example, dues checks from the National Association of Letter Carriers dated 4/11/08 and 4/25/08 in amounts \$1,028.55 and \$1,007.53, respectively, were recorded as a single entry in the receipt ledger dated 5/14/08 in the amount of \$2,043.59 (no additional information in the union's records was retained to account for the difference of \$7.51).

Mr. Hoenick advised that at each membership meeting in 2008 a fee of \$1 was collected from each member attending the meeting. The money collected was not recorded in any union record, nor was it deposited into the branch's checking account. Rather, the money collected was put into an envelope and later used to pay for picnic and holiday party expenses. Mr. Hoenick also advised that occasionally a retiree may donate an amount of money to be used toward the cost of the meal provided at the meeting. He further stated that these donations are not always recorded in the union's receipts records.

Union receipts records must include an adequate identification of all money the union receives. The records should show the date and amount received, and the source of each receipt of money.

2. Receipt Dates not Recorded

Entries in Branch 102's receipts journal reflect the date the union deposited money, but not the date money was received. During the opening interview, Mr. Hoenick advised that he normally deposits receipts within several days of receiving dues checks or other income and records the date of deposit in the receipt ledger rather than the date he actually received money.

Union receipts records must show the date of receipt. The date of receipt is required to verify, explain, or clarify amounts required to be reported in Statement B (Receipts and Disbursements) of the LM-3. The LM-3 instructions for Statement B state that the labor organization must record receipts when it actually receives money and disbursements when it actually pays out money. Failure to record the date money

was received could result in the union reporting some receipts for a different year than when it actually received them.

3. Reimbursed Expenses

Adequate documentation was not retained by Branch 102 for reimbursed expenses to officers and employees totaling more than \$3,400, including payments for meeting refreshments, picnic food and supplies, per diem, mileage, and Christmas party door prizes and other expenses.

- a. Meeting Refreshments: Branch 102 failed to retain adequate documentation for over \$1,000 in payments to officers and employees for refreshments provided at membership meetings. Mr. Hoenick advised at the opening interview that at each monthly membership meeting Branch 102 provides food and refreshments for members. The food is often paid for by Entertainment Chairperson Sherry Watson (or occasionally another officer or member) and she is subsequently reimbursed by the branch. The supporting documentation maintained by Branch 102 for these expenses is not sufficient because the purpose of the expense is not identified in the union's records.
- b. Picnic Expenses: Several officers and members were reimbursed for picnic related expenses totaling almost \$500. The receipts were bundled together in an envelope marked "picnic expenses," however no records were retained to identify the purpose of each expense, who incurred each expense, or how the expenses were paid.
- c. Per Diem Expenses: The audit revealed that Branch 102 disbursed over \$600 to officers for per diem during 2008. During the opening interview, Mr. Hoenick advised that Branch 102 does not require officers who travel to complete a voucher or any other documentation to claim per diem, rather the branch just pays per diem rates established by the Internal Revenue Service for each date of travel. However, the per diem rates paid to officers who traveled on union business during the audit year were not consistent with the rates identified in IRS Publication 1542 (Per Diem Rates for Travel within the Continental United States). For example, you, Vice President Robert Brunette, and Steward Richard Barts traveled to Appleton, WI in November 2008 for a conference. During the exit interview, you stated that all three of you stayed in Appleton overnight and received per diem for two days of travel. Check [REDACTED] was made payable to Mr. Hoenick for \$91 to disburse

per diem payments to those who attended the conference (approximately \$15.16 per person per day). However, the per diem rate for Appleton, WI was \$44 per day according to Publication 1542. There is no additional information on any union document that identifies the dates for which per diem was claimed or the amount claimed each day. Additional records must be maintained that identify the per diem rate received on each date of to enable OLMS to verify that such payments were properly reported on the Labor Organization Annual Report (Form LM-3).

- d. Reimbursed Auto Expenses: Union officers who received reimbursement for business use of their personal vehicles did not retain adequate documentation to support payments to them totaling at least \$875 during 2008. Branch 102 does not require mileage expenses to be documented on a voucher or any other union document. The only documentation for mileage claims in the branch's records included handwritten notes from officers asking for reimbursement for mileage for a certain trip. The officers did not identify the date of travel, the destinations traveled to or from, the mileage rate, or the business purpose of the travel.

The union must maintain records which identify the dates of travel, locations traveled to and from, and number of miles driven. The record must also show the business purpose of each use of a personal vehicle for business travel by an officer or employee who was reimbursed for mileage expenses.

- e. Christmas Party Expenses: During the exit interview, both you and Mr. Hoenick explained that door prizes are given away at the annual Christmas party. In addition, you also stated that there is also a football pool in which \$200 in cash is given away to four winning members. The entertainment committee chairperson receives a \$500 check from the branch to purchase the door prizes and provide the cash for the football pool. The documentation retained in support of these expenses failed to identify the union purpose of the expenses.

As previously noted above, labor organizations must retain original receipts, bills, and vouchers for all disbursements. The documentation must show the nature of the union business requiring the disbursement. The president and treasurer (or corresponding principal officers) of your union, who are required to sign your union's LM report, are responsible for properly maintaining union records.

4. Disbursements From the Petty Cash Fund

Branch 102 collected money from members at meetings that was kept in a petty cash fund and used to pay for party and other expenses. However, adequate records were not retained to support disbursements made from the fund or that identify the amounts collected and deposited to the fund.

Based on your assurance that Branch 102 will retain adequate documentation in the future, OLMS will take no further enforcement action at this time regarding the above violations.

Reporting Violations

The audit disclosed a violation of LMRDA Section 201(b), which requires labor organizations to file annual financial reports accurately disclosing their financial condition and operations. The LM-3 filed by Branch 102 for fiscal year ending December 31, 2008, was deficient in the following areas:

1. Disbursements to Officers

At the exit interview on March 25, 2009, Mr. Hoenick stated that he did report any reimbursements to officers in Item 24 (All Officers and Disbursements to Officers). Mr. Hoenick advised that these payments, totaling more than \$4,300, were reported in either in Item 48 (Office and Administrative) or Item 54 (Other Disbursements). These payments include reimbursed expenses for food and refreshments at membership meetings and the annual picnic, per diem expenses, as well as mileage and other travel expenses.

The union must report most direct disbursements to Branch 102 officers and some indirect disbursements made on behalf of its officers in Item 24. A "direct disbursement" to an officer is a payment made to an officer in the form of cash, property, goods, services, or other things of value. See the instructions for Item 24 for a discussion of certain direct disbursements to officers that do not have to be reported in Item 24. An "indirect disbursement" to an officer is a payment to another party (including a credit card company) for cash, property, goods, services, or other things of value received by or on behalf of an officer. However, indirect disbursements for temporary lodging (such as a union check issued to a hotel) or for transportation by a public carrier (such as an airline) for an officer traveling on union business should be reported in Item 48 (Office and Administrative Expense).

Additionally, Mr. Hoenick explained that the lost wage payments were reported in Column E (Allowances and Other Disbursements) of Item 24. Page 3 of the LM-3 instructions states that disbursements for lost time or time devoted to union activities must be reported in Column D (Gross Salary) of Item 24.

2. Acquire/Dispose of Property

Item 13 (During the reporting period did your organization acquire or dispose of any assets in any manner other than by purchase or sale?) should have been answered, "Yes," because the union sold and gave away over \$150 worth of toys and \$60 in gift certificates at the summer picnic as well as over \$200 in door prizes at the Christmas party.

The union must identify the type and value of any property received or given away in the additional information section of the LM report along with the identity of the recipient(s) or donor(s) of such property. The union does not have to itemize every recipient of such giveaways by name. The union can describe the recipients by broad categories if appropriate such as "members" or "new retirees."

3. Failure to File Bylaws

The audit disclosed a violation of LMRDA Section 201(a), which requires that a union submit a copy of its revised constitution and bylaws with its LM report when it makes changes to its constitution or bylaws. Branch 102 amended its constitution and bylaws in 2007, but did not file a copy with its LM report for that year.

Branch 102 has now filed a copy of its constitution and bylaws.

I am not requiring that Branch 102 file an amended LM report for 2008 to correct the deficient items, but Branch 102 has agreed to properly report the deficient items on all future reports it files with OLMS.

Other Violations

The audit revealed a violation of LMRDA Section 502 (Bonding), which requires that union officers and employees be bonded for no less than 10 percent of the total funds those individuals or their predecessors handled during the preceding fiscal year. A quick formula for computing the amount of bonding coverage is: (Liquid Assets + Total Receipts) x 10% = Amount of Coverage Required.

Although Branch 102 is bonded through the Capitol Indemnity Corporation for \$10,000 (adequate coverage amount based on formula described above), at the time of the audit the bond policy contained a provision for a deductible of \$500 for each officer. However, self insurance by the union, in whole or in part, fails to meet the bonding requirements of the LMRDA. In addition, a labor organization may not deposit its own funds with a surety company to pay for losses sustained under a bond. A bond may not have a deductible since that is a form of self insurance.

Branch 102 obtained adequate bonding coverage and provided evidence of this to OLMS during the audit. As a result, OLMS will take no further enforcement action regarding this issue.

Other Issues

1. Signing Blank Checks

During the audit, Mr. Hoenick advised that you pre-sign blank checks. Article 12 of the Branch 102 bylaws require that all checks be signed by the president and treasurer. The two signature requirement is an effective internal control of union funds. Its purpose is to attest to the authenticity of a completed document already signed. However, signing a blank check in advance does not attest to the authenticity of a completed check, and negates the purpose of the two signature requirement. OLMS recommends that Branch 102 review these procedures to improve internal control of union funds.

2. Petty Cash Fund

As discussed above, Branch 102 operates a petty cash fund. However, adequate records of the fund have not been retained. OLMS recommends that, where unions maintain a petty cash fund, to ensure proper internal financial controls the fund be maintained as in "imprest" fund. At all times the fixed, total amount of the fund should equal the cash on hand plus the total of the receipts, invoices, or vouchers for expenses that have been paid out of the fund. Original invoices, cash register receipts, and other documentation associated with each expenditure must be kept. A check payable to "petty cash" is used to replenish the fund when cash runs low, and the amount of the check should equal the amount of the supporting documentation (receipts, etc.) on hand at the time of replenishment. It is also highly recommended that Branch 102 retain in written form some limitations for use of the fund.

3. Expense Documentation

The audit revealed that Branch 102 does not have a procedure in place for documenting expenses such as mileage, lodging, lost wages, or per diem and submitting those expenses to the branch for reimbursement. Such expenses, if documented at all, were found in the form of annotated handwritten notes on the bottom of lodging receipts or in the payroll ledger.

During the exit interview, I provided a sample expense voucher Branch 102 may use which identifies the type of information and documentation which must be retained for lost wages and other officer expenses. I highly recommend Branch 102 adopt a procedure that mandates officers and employees to properly document expenses and submit adequate supporting documentation before they receive any payment from the branch for lost wages or other expenses.

I want to extend my personal appreciation to Letter Carriers Branch 102 for the cooperation and courtesy extended during this compliance audit. I strongly recommend that you make sure this letter and the compliance assistance materials provided to you are passed on to future officers. If we can provide any additional assistance, please do not hesitate to call.

Sincerely,



Investigator

cc: Frank Hoenick, Treasurer
Robert Brunette, Vice President
Sherry Watson, Recording Secretary
Michael Wallner, Trustee