



July 15, 2005

Paul Moede, President
AFGE Local 2722
E2633 Rockledge
Casco, WI 54205

Re: ✓

Dear Mr. Moede:

This office has recently completed an audit of AFGE Local 2722 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 Mr. Porrett and Mr. Williams on July 5, 2005, 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 record keeping requirements. Section 206 requires, among other things, that adequate records be maintained 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, all records used or received in the course of union business must be retained. This includes, in the case of disbursements, not only the retention of original bills, invoices, receipts, and vouchers, but also adequate additional documentation, if necessary, showing the nature of the union business requiring the disbursement, the goods or services received, and the identity of the recipients of the goods or services. In the case of receipts, the date, amount, purpose, and source of all monies received by the union must be recorded in at least one union record.

The following record keeping deficiencies were revealed during the audit of Local 2722's 2004 records:

- 1) Union officers failed to retain adequate documentation for reimbursed expenses and for expenses which were direct-paid by the union. The following checks lacked adequate documentation:

Check #	Payee	Amount
9	Bruce Curtis	\$44.00
	AFGE	\$100.00
	Paul Moede	\$35.00

4	AT&T Universal	\$194.75
	Payee	Amount
	Unknown (sympathy card donation)	\$54.00
	AFGE	\$130.00
	Paul Moede	\$16.25
	Paul Moede	\$21.48
	Paul Moede	\$260.00
	Comfort Inn	\$459.54

The date, amount, and business purpose of every expense must be recorded on at least one union record.

- 2) Local 2722 failed to retain documents that supported specific receipts, including check stubs from both the Northern Council and the International Union.
- 3) Local 2722 failed to accurately record in its records some employer dues check-off checks as well as several other checks from different sources. On several occasions, many different sources of income were grouped together and recorded as a single receipt of money. Union receipts records must include an adequate identification of each receipt of money. The records should show the exact date that the money was received, the identity of the source of the money, and the individual amount received from each source.

In the case of money collected from members by the treasurer for donations to sick or disabled members, the amount of money received from each source of income must be identified in some union record. In the case of money collected from members for the purchase of t-shirts, the same holds true; the amount of money received from each member must be identified in some union record. The sign-up sheet that was posted in the break room that identifies the individuals who ordered the t-shirts (and the quantity of t-shirts ordered by each person), would satisfy this recordkeeping requirement.

- 4) Local 2722 failed to retain voided checks.
- 5) Adequate records were not maintained for various payments to you and other officers for per diem and mileage expenses.

Local 2722's by-laws do not have a provision for officer or employee expenses. The past practice of the local has been to authorize a set amount of money for the expenses of each officer to attend the convention. The disbursements are authorized by the membership at a meeting prior to the

convention. Mr. Porrett indicated at the organizational interview that the purpose of the expense payments are to cover all expenses, except lodging, which is direct paid by the local. Local 2722 does not pay lost wages; if a convention falls during the workday of an officer, the officer is expected to use personal/vacation time from work to attend. However, the local does not require the officers to retain or turn in meal receipts, maintain a record of mileage, nor are they expected to return any money to the local when they return.

Records must be retained to properly account for and explain any expense payments. In the case of mileage expenses, records must be maintained which identify the date of travel, locations traveled to and from, number of miles driven, and business purpose of each use of a personal vehicle. In the case of payments for per diem, records must be kept which identify the date(s) of travel and the business purpose of the travel requiring the disbursements. The information is required to be maintained to verify and support disbursements reported in Item 24, Column E (All Officers and Disbursements to Officers) of the Labor Organization Annual Report (Form LM-3) required to be filed by your union.

With respect to documentation retained in support of specific disbursements, the record retention requirement includes not only the retention of original bills, invoices, receipts, and vouchers, but also additional documentation, if necessary, showing the nature of the union business requiring the disbursement, the goods or services received, and all the recipients of the goods or services. In most instances, this documentation requirement can be most easily satisfied with a sufficiently descriptive receipt. If a receipt is not sufficiently descriptive, a note can be written on it providing the additional information. An exception may be made only in those cases where 1) other equally descriptive documentation has been maintained, and 2) there is evidence of actual oversight and control over disbursements.

I have also enclosed a sample voucher that the local may choose to use. The itemized voucher is self explanatory and may prove to be a useful tool in determining the amounts to be reported at end of the fiscal year. Regardless of how the local chooses to document these expenses, some record must be kept to enable OLMS to verify the figures reported on the LM report.

The IRS has established both mileage and per diem rates. Beginning Jan. 1, 2005, the standard mileage rates for the use of a car (including vans, pickups or panel trucks) was 40.5 cents a mile for all business miles driven. The standard mileage rates for business, medical and moving purposes are based on an annual study of the fixed and variable costs of operating an automobile. Money received in excess of the this mileage rate is subject to the withholding standards set by the IRS.

Similarly, the IRS has established per diem rates based on locale. Please refer to IRS Publication 1542 for additional information on per diem rates.

As agreed, provided that Local 2722 maintain adequate documentation for its disbursements in the future, no additional enforcement action will be taken regarding this violation.

Reporting Violations

The CAP disclosed a violation of LMRDA section 201(b), because the Labor Organization Annual Report (Form LM-3) filed by Local 2722 for fiscal year ending April 30, 2004, was deficient in the following areas:

- 1) Item 12 (political action committee funds) was erroneously answered "yes". However, during the organizational interview with Mr. Porrett and Mr. Williams on May 12, 2005, Mr. Porrett informed me that Local 2722 does not have their own political action fund, rather the local contributes to a state legislative action fund. In this case, Item 12 should be answered "No."
- 2) Item 14 (audit/review of books) was erroneously answered "yes". During the organizational interview, Mr. Porrett informed me that the two members are selected to audit the books on an annual basis. Page six of the LM-3 instructions state that this item should not be answered "yes" if the audit or review was performed by an audit committee or trustees of your organization.
- 3) The dues structure in Item 23 (dues and fees) was erroneously reported as \$336.50/biweekly. During the organizational interview, Mr. Porrett informed me that the dues rate was \$12/biweekly.
- 4) Local 2722 failed to report some disbursements to officers in Item 24. All direct disbursements to your union's officers and some indirect disbursements made by your organization on behalf of its officers must be included in the amounts reported in item 24. A "direct disbursement" to an officer is a payment made by your organization to an officer in the form of cash, property, goods, services, or other things of value. An "indirect disbursement" to an officer is a payment made by your organization to another party (including credit card companies) 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 Expenses).

The payments made to you for postage/printing costs related to the monthly newsletter, the payments to officers, including yourself, for expenses during the convention, as well as the payment to you for picnic food expenses, must be reported in column E (Allowances and Other Disbursements) of Item 24.

The total from Item 24, Column F, Line 11 should be reported in Item 45 (To Officers).

- 5) Local 2722 erroneously reported a figure in Item 32 (Accounts Payable). The local had no accounts payable during FYE 4/30/04.

- 6) The figures reported in Item 25(A) (Cash at the Beginning of the Year) for fiscal year ending April 30, 2004, Item 44 (Total Receipts), and item 55 (Total Disbursements) do not reconcile with the amount reported in item 25(B) (Cash at the End of the Year), as is shown below.

Cash on Hand beginning of year	\$80.00
plus Total Receipts	\$6,853.00
less Total Disbursements	<u>\$7,113.00</u>
Equals	(\$180.00)

Amount of cash on hand at end of year reported on LM-3: \$527

The total amount of cash on hand at the beginning of the year plus the total receipts received during the year less the total disbursements made during the year should equal the amount of cash your union actually had on hand at the end of the year

There may be several reasons why the cash figures do not reconcile. It appears that the cash figure reported at the beginning of the year is not accurate. Several line items in the cash receipts section (Items 38-43) and the cash disbursements section (Items 45-54) are inaccurate as well.

I have enclosed an error summary for the LM-3 report submitted for fiscal year ending April 30, 2004 which includes additional reporting errors that are not addressed in this letter, but must be corrected.

It will be necessary for Local 2722 to file amended LM-3 report for fiscal year ending April 30, 2004 to correct the deficient items discussed above. The necessary reporting forms and instructions are enclosed for your use. You may also use the electronic forms software available from OLMS to complete the amended reports. One copy of the amended report should be submitted to this office at the above address as soon as possible, but no later than 08/05/05. Before mailing, review the reports thoroughly to be sure they are complete, accurate, and signed properly with original signatures.

Other Issues

The CAP disclosed a violation of LMRDA section 201(a) which requires that unions submit a copy of their current constitution and bylaws with its LM report when bylaw changes are made. Local 2722 has never filed a copy of their by-laws with OLMS. Two copies of Local 2722's constitution and bylaws have now been filed.

Recordkeeping Suggestions

During the initial interview, Mr. Williams advised that you sometimes sign blank checks in advance. The countersignature requirement is an effective internal control of union funds. Its purpose is to attest to the authenticity of a completed document already signed. However, countersigning a blank

check in advance does not attest to the authenticity of a completed check, and completely circumvents and undermines the whole purpose of the countersignature requirement. You may want to revise your check disbursement method.

Considering Local 2722 does handle some cash, one method of strengthening the local's financial safeguards is to issue a written receipt for money paid to the local, whether by cash or by check, especially for the purchase of t-shirts, other logo items, and donations, and to maintain a duplicate of the receipt in Local 2722's records. Itemized, pre-numbered duplicate receipt books are widely available at nominal cost, and, when used properly, can be a complete record of each individual receipt amount.

I want to extend my personal appreciation for your and your entire staff's cooperation and courtesy during this compliance audit. If we can be of any assistance in the future, please do not hesitate to call.

Sincerely,
700 —

Investigator

cc: Jerry Porrett, Treasurer

LM 501-490