



September 30, 2010

Ms. Tiffany N. Lawson, Secretary-Treasurer
Government Employees AFGE AFL-CIO
Local 1770
PO Box 70027
Ft. Bragg, NC 28307-0027

Case Number: [REDACTED]
LM Number: 501332

Dear Ms. Lawson:

This office has recently completed an audit of Government Employees AFGE AFL-CIO 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 President Jonathan Steele, Executive Vice President Wesley Scott, Accountant Richard Jarvies and you on September 24, 2010, 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 of the LMRDA and Title 29 of the Code of Federal Regulations (C.F.R.) Section 403.7 require, among other things, that labor organizations maintain adequate records for at least five years after reports are filed by which the information on the reports can be verified, explained and clarified. Pursuant to 29 C.F.R. Section 458.3, this recordkeeping provision of the LMRDA applies to labor organizations subject to the requirements of the Civil Service Reform Act of 1978 (CSRA) as well. Therefore, as a general rule, labor organization must retain 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 Local 1770's 2009 records revealed the following recordkeeping violations:

1. General Reimbursed and Credit Card Expenses

Local 1770 did not retain adequate documentation for direct disbursements, reimbursed expenses and credit card expenses incurred by Don Gambill and Larry Vetch totaling at least \$7403.00. For example, the local failed to maintain documentation to support a \$1,000 disbursement to FAST Break Basketball camp, itemized receipts for the Grand Sierra Resort in August 2009, and receipts for disbursements to Don Gambill and Larry Vetch's personal credit cards.

As noted above, labor organizations must retain original receipts, bills, and vouchers for all disbursements. 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.

2. Meal Expenses

Local 1770 did not require officers and employees to submit itemized receipts for meal expenses totaling at least \$1,468.00. The union must maintain itemized receipts provided by restaurants to officers and employees. These itemized receipts are necessary to determine if such disbursements are for union business purposes and to sufficiently fulfill the recordkeeping requirement of LMRDA Section 206.

Local 1770 records of meal expenses did not always include written explanations of union business conducted or the names and titles of the persons incurring the restaurant charges. Union records of meal expenses must include written explanations of the union business conducted and the full names and titles of all persons who incurred the restaurant charges. Also, the records retained must identify the names of the restaurants where the officers or employees incurred meal expenses.

3. Disposition of Property

Local 1770 did not maintain an inventory of gift cards, hats, t-shirts, and other property it purchased, sold, or gave away. The union must report the value of any union property on hand at the beginning and end of each year in Item 28 of the LM-2. The union must retain an inventory or similar record of property on hand to verify, clarify, and explain the information that must be reported in Item 28.

4. Failure to Record Receipts

Local 1770 did not record in its receipts records some employer dues check off checks and some checks received from banks for interest earned on bank accounts totaling at least \$4,527.00. For example, interest earned on the checking account and ACH direct deposits were not recorded in QuickBooks. 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 the money.

5. Lack of Salary Authorization

Local 1770 did not maintain records to verify that the salaries reported in Schedules 11 (All Officers and Disbursements to Officers) and 12 (Disbursements to Employees) of the LM-2 was the authorized amount and therefore was correctly reported. The union must keep a record, such as meeting minutes, to show the current salary authorized by the entity or individual in the union with the authority to establish salaries.

Based on your assurance that Local 1770 will retain adequate documentation in the future, OLMS will take no further enforcement action at this time regarding the above violations.

Reporting Violations

Pursuant to 29 C.F.R., Section 458.3, the reporting requirement under 29 C.F.R. Section 403.2 (see Section 201(b) of the Labor-Management Reporting and Disclosure Act (LMRDA)) is made applicable to labor organizations subject to the requirements of the CSRA. This provision requires labor organizations to file annual financial reports that accurately disclose their financial condition and operations. The audit disclosed a violation of this requirement. The Labor Organization Annual Report (Form LM-2) filed by Local 1770 for the fiscal year ended December 31, 2009, was deficient in the following areas:

1. Fixed Assets

Local 1770 failed to report the details of the labor organization's fixed assets, such as office furniture and equipment owned by the labor organization at the end of the reporting period. The LM-2 instructions for Schedule 6 required that the organization include fixed assets that were expensed, fully depreciated, or carried on the labor organization's books at scrap value or other nominal value. Enter the cost or other basis of the fixed assets listed in Column (A) in Column (B). The depreciated or expensed value may be entered in Column (C).

2. Disbursements to Officers and Employees

Local 1770 did not include some reimbursements to officers and employees / payments to officers and employees totaling at least \$60,708.00 in Schedule 11 (All Officers and Disbursements to Officers) and Schedule 12 (Disbursements to Employees). It appears that the local erroneously reported these payments in Schedules 15 through 19.

The union must report in Column F of Schedules 11 and 12 (Disbursements for Official Business) direct disbursements to officers and employees for reimbursement of expenses they incurred while conducting union business. In addition, the union must report in Column F of Schedules 11 and 12 indirect disbursements made to another party (such as a

credit card company) for business expenses union personnel incur. However, the union must report in Schedules 15 through 19 indirect disbursements for business expenses union personnel incur for transportation by public carrier (such as an airline) and for temporary lodging expenses while traveling on union business. The union must report in Column G (Other Disbursements) of Schedules 11 and 12 any direct or indirect disbursements to union personnel for expenses not necessary for conducting union business, such as bonus bucks.

3. Itemized Disbursement or Receipt

Local 1770 did not properly report “major” transactions in Schedules 14 through 19. A “major” transaction includes any individual transaction of \$5,000 or more or total transactions to or from any single entity or individual that aggregate to \$5,000 or more during the reporting period and which the local cannot properly report elsewhere in Statement B. The audit found that local 1770 created itemization pages for outstanding checks that were re-entered and for “non-itemized transactions.” Outstanding checks should not be reported as a receipt. Non-itemized transactions should be reported on Line 5 of each Schedule 15 through 19 or Line 3 of Schedule 14.

Local 1770 failed to report Bonus Bucks refunds in Schedule 14. The LM-2 instructions for Schedule 14 require the labor organization to report receipts from all sources during the reporting period, other than those that must be reported elsewhere in Statement B, such as funds received from a parent body.

4. Benefits

Local 1770 failed to report all disbursements to Blue Cross/Blue Shield of North Carolina in Schedule 20. The LM-2 instructions for Schedule 20 require the labor organization to report the labor organization’s direct and indirect disbursements to all entities and individuals during the reporting period associated with direct and indirect benefits for officer, employees, members, and their beneficiaries, including disbursements for health insurance.

5. Failure to File Bylaws

Pursuant to 29 C.F.R. Section 458.3, the requirement under 29 C.F.R. Section 402.4 implementing LMRDA Section 201(a) is made applicable to labor organizations subject to the requirements of the CSRA. This provision requires labor organizations to file copies of any revised constitution and bylaws when it files its annual financial report. The audit disclosed a violation of this requirement. Local 1770 amended its constitution and bylaws in 2003, but did not file the required copies with its LM report for that year.

Local 1770 has now filed a copy of its constitution and bylaws.

Local 1770 must file an amended Form LM-2 for the fiscal year ended December 31, 2009, to correct the deficient items discussed above. I explained to you the filing procedures and the availability of filing software on the OLMS website (www.olms.dol.gov). The amended Form LM-2 must be electronically filed as soon as possible, but not later than October 29, 2010. Before filing, review the report thoroughly to be sure it is complete and accurate, and properly signed with electronic signatures.

Other Issues

Duplicate Receipts

Members of Local 1770 pay dues directly to the union. You record dues payments in QuickBooks, but you do not always issue receipts to dues payers. The receipts you do issue are often handwritten on a generic piece of paper. OLMS recommends that Local 1770 use a duplicate receipt system where the union issues original pre-numbered receipts to all members who make payments directly to the union and retains copies of those receipts. A duplicate receipt system is an effective internal control because it ensures that a record is created of income which is not otherwise easily verifiable. If more than one duplicate receipt book is in use, the union should maintain a log to identify each book, the series of receipt numbers in each book, and to whom each book is assigned.

I want to extend my personal appreciation to AFGE Local 1770 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,



Senior Investigator

cc: Mr. Jonathan Steele, President
Mr. Richard Jarvies, Accountant