

**U.S. Department of Labor**

Employment Standards Administration  
Office of Labor-Management Standards  
Washington, D.C. 20210



January 25, 2007

Mr. W. Dan Pickett  
President  
Brotherhood of Railroad Signalmen, AFL-CIO  
917 Shenandoah Shores Road  
Front Royal, VA 22630-6418

RE: International Compliance Audit Program (I-CAP)  
Brotherhood of Railroad Signalmen (BRS)  
LM File Number 000-167

Dear President Pickett:

The Office of Labor-Management Standards (OLMS) within the Department of Labor completed a compliance audit of your organization under the International Compliance Audit Program (I-CAP). The purpose of this audit was to assess compliance with provisions of the Labor-Management Reporting and Disclosure Act of 1959 (LMRDA) by the Brotherhood of Railroad Signalmen (BRS). The I-CAP team conducted an exit interview on August 11, 2006 with Mr. Walter Barrows, BRS Secretary-Treasurer; Mr. William Phillips, BRS General Counsel; and Ms. Mary Geissler, Certified Public Accountant, to review its findings, including the issues and problem areas identified during the audit as well as actions required to correct deficiencies and recommendations to enhance the union's internal controls. This letter outlines the I-CAP audit's civil findings as generally discussed during the exit interview. It does not purport to be an exhaustive list of all possible problem areas, since the audit was limited in both scope and duration.

Officials of your organization were advised during the exit interview that an amended Labor Organization Annual Report, Form LM-2, for the fiscal year ending June 30, 2005, is required to be submitted within thirty days from the date of this letter to correct reporting and other deficiencies. Specific information regarding the deficiencies is presented below. Additionally, if your organization's Form LM-2 for fiscal year ending June 30, 2006, contains any of the reporting deficiencies noted in this closing letter, then that report must also be amended and submitted within thirty days from the date of this letter.

## Reporting Deficiencies – LMRDA Section 201

Section 201(b) of the LMRDA requires that labor organizations file with OLMS an annual financial report that accurately discloses the union's financial condition and operations. The following deficiencies were noted on the BRS Form LM-2 for the fiscal year ending June 30, 2005. The deficiencies identified in this section must be corrected in an amended Form LM-2 for the FY 2005 reporting period. Further, subsequent Form LM-2 filings must be prepared so as not to contain these deficiencies.

1. The BRS operated a store that maintained inventory and sold various union-related merchandise items. Although the union reported the purchase of supplies for resale in Item 59 (Supplies for Resale) and receipts from the sale of supplies in Item 39 (Sale of Supplies), the union did not report its inventory of merchandise as an asset in Schedule 7 (Other Assets), or elsewhere in Statement A (Assets and Liabilities). The BRS must report such inventory in Schedule 7 and Statement A.
2. The BRS purchased prepaid air miles for use by officers on official travel. Although the union correctly reported prepaid airfare in Item 28 and Schedule 7 (Other Assets) at the end of the reporting period, it incorrectly reported prepaid airfare in Item 23 (Accounts Receivable) at the beginning of the reporting period. Prepaid airfare must be reported in Item 28 and Schedule 7 (Other Assets) at both the beginning and the end of the reporting period.
3. The BRS did not report "O" for officer or "E" for employee next to each officer or employee's name in Column A on Schedule 2 (Loans Receivable). For each officer or employee listed, the union must indicate either "O" (officer) or "E" (employee).
4. The BRS reported only the last name and the first and middle initials of its officers and employees in Column A on Schedule 11 (All Officers and Disbursements to Officers) and Schedule 12 (Disbursements to Employees). The union must report the last name, first name, and middle initial of each officer and employee in Column A on Schedules 11 and 12.
5. The BRS incorrectly reported lump sum \$25,000 payments for moving expenses to officers W. Dan Pickett, Walter Barrows, and Jerry Boles in Column D (Gross Salary) of Schedule 11 (All Officers and Disbursements to Officers). The BRS incorrectly reported lump sum \$25,000 payments for moving expenses to employees Tim DePaepe and Kelly Haley in Column D (Gross Salary) of Schedule 12 (Disbursements to Employees). Because the

purpose of these payments was to pay moving expenses, not salary, the union must report these payments in Column G (Other Disbursements) of Schedules 11 or 12, as appropriate. Additional explanation regarding these transactions may be reported in Item 69 (Additional Information), but is not required.

6. The BRS reported \$1,477 in Item 67c (Withholding Taxes and Payroll Deductions – Total Withheld But Not Disbursed). The union must also report this payroll withholding liability in Item 33 and Schedule 10 (Other Liabilities).
7. The BRS inaccurately reported receiving \$109,978 in Item 40 (Interest) and \$8,299 in Item 41 (Dividends). The audit revealed different amounts for interest and dividends. The union indicated that the difference was because the amounts for interest and dividends were commingled in the general ledger and on the financial statements. The union must accurately report interest and dividend amounts received on Form LM-2.
8. The BRS reported disbursing \$22,975 to Geissler & Associates for the purpose of "Fiscal Year 2004 Audit" on an itemization page in Schedule 19 (Union Administration). The audit revealed that the union disbursed another \$2,000 to Geissler & Associates during in the fiscal year for the review of accounting records for affiliated locals and general committees. The audit also revealed that BRS was reimbursed by the affiliates in the amount of \$2,000 for these accounting services. It was determined that BRS "netted" these transactions and failed to report either the \$2,000 disbursement to Geissler & Associates or the \$2,000 in reimbursements from the affiliates on the LM-2 report. All cash flowing in and out of the labor organization must be reported on the LM-2 report. "Netting" is not permitted. The union must report this \$2,000 disbursement on the itemization page for Geissler & Associates in Schedule 19 (Union Administration) thereby reflecting a total of \$24,975 paid to Geissler & Associates. The union must also report the \$2,000 in reimbursements from the affiliates in Item 48 and Schedule 14 (Other Receipts).

#### Inadequate Recordkeeping – LMRDA Section 206

Pursuant to Section 206 of the LMRDA, every person required to file any report under LMRDA Title II shall maintain records on the matters reported that will provide in sufficient detail the necessary information from which the reports filed may be verified, explained, or clarified and checked for accuracy and completeness. All required records must be maintained for at least five years following the date the financial report is filed. Records over five years must be retained if they are necessary to verify reports filed within the last five years, for example, to verify

current financial activities of the union, such as meeting minutes that note approval for officer salary increases. There were instances noted during this audit where the BRS did not comply with the recordkeeping requirements of Section 206. During the exit interview, BRS officials were informed that adequate records necessary to document all financial transactions, regardless of the amount, must be maintained for a minimum of five years.

9. The BRS did not require officers and employees to submit receipts or other supporting documentation for any reimbursed expenses less than \$25. As a result of this policy, the officer and employee expense documentation maintained by the union was not adequate.
10. The BRS did not require officers and employees to submit itemized receipts for meal expenses. Itemized receipts provided by restaurants to officers and employees must be maintained by the union. These itemized receipts are necessary to determine if such disbursements are for union business purposes and to sufficiently fulfill the recordkeeping requirement as defined under LMRDA Section 206.
11. BRS records pertaining to meal expenses sometimes included no written explanation of union business conducted and only the initials of the persons incurring the restaurant charges. In order to comply with LMRDA Title II, union records pertaining to meal expenses must include written explanations of union business conducted and the full names and titles of all persons incurring the restaurant charges.

#### Officer Holding Prohibitions – LMRDA Section 504

Section 504(a) of the LMRDA prohibits persons convicted of certain offenses from holding labor organization office or employment for a period of thirteen years from the date of conviction or release from prison, whichever is later.

12. According to Mr. Walter Barrows and Mr. William Phillips, the BRS does not conduct criminal background checks of officers or employees to ensure that they do not hold office or employment in violation of LMRDA Section 504. The I-CAP team emphasized the importance of verifying background information to ensure compliance with Section 504, and recommends that the BRS establish a system for determining whether new officers and employees have disqualifying criminal records.

### Internal Controls

Adequate internal financial controls are essential to prevent the misuse of union funds and to support financial responsibility and other obligations under Title II and Title V of the LMRDA. Title V of the LMRDA stipulates, among other things, the fiduciary responsibility of officers of labor organizations. As a general rule, weaknesses in financial controls can lead to violations of Section 501 of the LMRDA.

13. The BRS did not adequately segregate duties for handling receipts. One staff member was responsible for stamping checks for deposit, entering receipts into the general ledger, preparing deposit slips, making deposits at the bank, and reconciling bank statements. The I-CAP team recommends that one staff member be assigned to receive and list the receipts and reconcile the list to the canceled deposit slips. Another employee should record receipts in the general ledger, and a third staff member should prepare the deposit slip and deposit the checks at the bank.
14. The BRS did not adequately segregate the duties for handling disbursements. The same individual noted above, who handled the receipt duties, also handled the disbursement duties. This individual was responsible for preparing, recording, delivering for signature, and disbursing the checks. This individual was also responsible for preparing, maintaining, and submitting payroll. To better safeguard union assets, the I-CAP team recommends that someone other than the check preparer/recorder should distribute checks for signature and disburse the signed checks to the appropriate payee. Also, someone other than the payroll preparer should submit the payroll.
15. The union did not have written procedures for processing cash receipts or disbursements. Although the union was able to articulate procedures, the BRS should develop and implement formal written policies and procedures to ensure union funds are adequately safeguarded and used strictly for union purpose.

As discussed during the exit interview, the BRS will submit, within thirty days from the date of this letter, an amended Form LM-2 for the fiscal year ending June 30, 2005, and a response letter to this closing letter. The response letter will identify the corrective actions implemented by the BRS based on the results of the compliance audit. Additionally, if your organization's Form LM-2 for fiscal year ending June 30, 2006, contains any of the reporting deficiencies noted in this closing letter, then that report must also be amended and submitted within thirty days from the date of this letter. We will schedule an on-site follow-up in approximately six months to review corrective actions taken, to discuss the amended Form LM-2 filed by the

BRS, and to continue cooperative efforts to prevent and/or correct LMRDA deficiencies.

Please accept my appreciation for the cooperation and courtesy extended by you and your staff during this compliance audit. If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Stephen J. Willertz".

Stephen J. Willertz, Acting Chief  
Division of International Union Audits