

U.S. Department of Labor

Employment Standards Administration
Office of Labor-Management Standards
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July 27, 2006

Mr. Mitchell Choy, President
Machinists Local Lodge 2053
W3032 State Road 33
Iron Ridge, WI 53035-9711

Re: Case Number

Dear Mr. Choy:

This office has recently completed an audit of Machinists Local Lodge 2053 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 Secretary Treasurer Gregory Scott and you on July 7, 2006, 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 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 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 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.

In the case of receipts, the date, amount, purpose, and source of all money received by the union must be recorded in at least one union record. Bank records must also be retained for all accounts.

The audit of Local Lodge 2053's 2005 records revealed the following recordkeeping violations:

1. Receipts

Lodge 2053 failed to maintain records identifying the exact date that some monies were received from members and from District Lodge 121. Funds were recorded in QuickBooks as received on the date of deposit into the local's M&I checking account, and photocopies of the received checks were created and retained. Records should show the exact date that money was received, the identity of the source of the money, and the individual amount received from each source. As noted in the Labor Organization Annual Report (Form LM-3) instructions, the report is required to be prepared using the cash method of accounting. Under the cash method of accounting, receipts are recorded when money is actually received by your organization and disbursements are recorded when money is actually paid out by your organization. Failure to record the exact date that monies were received could result in some receipts being reported in a different year than they were actually received.

2. Supporting Records for Disbursements

Lodge 2053 typically retains in its records vouchers and receipts attached to check stubs. However, adequate documentation was not retained for some purchases and some reimbursements to officers. As an example, no supporting documentation was retained for a lodging expense for [REDACTED] and Vice President Virginia Blank at the Midwest Staff Conference. As another example, adequate supporting documentation was not retained for checks issued to you on March 4, 2005 (for an unknown expense) and September 26, 2005 for a gasoline purchase for a rental car.

Lodge 2053 failed to retain [REDACTED] statements for January through June, though statements for July through December were retained in union records.

Finally, Lodge 2053 had a credit card and retained credit card statements for April through December. However, no statements were retained for January through March. The audit revealed the union issued no payments to the credit card during

that period. During the audit, Lodge 2053 contacted the credit card company, which confirmed that the account was closed on July 6, 2006, and that the account has a zero balance.

3. Disposition of Property

The audit revealed that items are donated by members and raffled off to all members at membership meetings. Lodge 2053 records the recipient and the type of property given away in its meeting minutes, but does not record the value of the property in any record. Records must be retained that identify the type and value of any property given away, as well as the recipients of such property, in order to verify, clarify, and support information required to be reported in Item 56 (Additional Information) of the LM-3. Records must also be maintained that identify the source, value, and the date received of any property donated to the union.

4. Lost Wages

Some vouchers submitted by union personnel for lost wages do not identify the union business conducted that required lost wages be incurred. For example, on three instances, Mr. Scott submitted a "Request for Lost Time" voucher where the union business conducted and dates for lost time were not recorded. The lost wage claims must identify each date lost wages were incurred, the number of hours lost on each date, the applicable rate of pay, and a description of the union business conducted.

As agreed, provided that Lodge 2053 maintains adequate documentation as discussed above in the future, no additional enforcement action will be taken regarding these violations.

Reporting Violation

The CAP 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 Labor Organization Annual Report (Form LM-3) filed by Lodge 2053 for fiscal year ending December 31, 2005 was deficient in the following areas:

1. LM-3 Item 24 (All Officers and Disbursements to Officers)

The names of some officers and the total amounts of payments to them or on their behalf were not reported in Item 24 (All Officers and Disbursements to Officers). "Officer" is defined in section 3(n) of the LMRDA as "any constitutional officer, any person authorized to perform the functions of president, vice president, secretary, treasurer, or other executive functions of a labor organization, and any member of its executive board or similar governing body." In the case of Lodge 2053, trustees Greg Jacobson, Renee Decker, and Randy Frey held office during 2005 but are not identified in Item 24. The audit revealed that during 2005, these officers received payments totaling at least \$6,800. All persons who held office during the year must be reported in Item 24 regardless of whether or not they received any payments from the union.

2. Acquire/Dispose of Property

Item 13 (Acquire or dispose of any assets in any manner other than by purchase or sale) should have been answered, "Yes," because during union meetings the union gave away prizes donated by members. The type and value of any property received or given away must be identified in the additional information section of the LM report along with the identity of the recipient(s) or donor(s) of such property.

3. Certificates of Deposit Reported As Investments

Local Lodge 2053 improperly reported two certificates of deposit, valued as \$40,000, as investments in Statement A (Assets and Liabilities). For LM reporting purposes, a certificate of deposit is considered cash (regardless of the term length) and reported in Item 25 (Cash) of Statement A. The purchase or redemption of a certificate of deposit is a transfer of cash from one account to the other and, therefore, should not be reported as a receipt or disbursement.

4. Failure to File Bylaws

The CAP 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 constitution or bylaw changes are made. Lodge 2053 amended its constitution and bylaws in 2005, but a copy was not filed with its LM report for that year. During the audit, you provided for me a copy of the lodge's latest bylaws, dated 07/06/06.

Other

1. Verification of lost time claims

Lodge 2053 reimburses officers and employees for wages lost while conducting union business. Officers and employees typically submit vouchers that identify the date and amount of each claim. However, the claims are not verified by comparing the dates and amounts claimed to employer payroll records. Verification of lost time claims submitted by union personnel by either allowing trustees to compare lost time claims to employer records or by requiring union personnel to submit proof of lost wages claimed (for example; time cards) can be an effective internal control for such payments. You may want to consider revising your internal controls to include a method for verifying lost time claims.

2. Countersignature (Signing Blank Checks)


The audit revealed that you and Treasurer Scott pre-signed some blank checks. Your union's bylaws require that all checks be signed by the president and treasurer. 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. I recommend that Local Lodge 2053 review these procedures to improve internal control of union funds.

I want to extend my personal appreciation to Machinists Local Lodge 2053 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 are passed on to future officers. If we can provide any additional assistance, please do not hesitate to call.

Sincerely,


Investigator

cc: Rick Fischer, Grand Lodge Auditor
Gregory Scott, Treasurer


LM 009-051