



November 17, 2010

Mr. Patrick Landgraf, President/Business Manager
Sheet Metal Workers AFL-CIO Local 18
2201 Springdale Road
Waukesha, WI 53186

Case Number: [REDACTED]
LM Number: 515-429

Dear Mr. Landgraf:

This office has recently completed an audit of Sheet Metal Workers AFL-CIO Local 18 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 Financial Secretary-Treasurer Randy Krocka and Secretary Janis Richardson on November 12, 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 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 Local 18's 2009 records revealed the following recordkeeping violations:

1. Failure to Maintain Bank Records

Local 18 failed to retain the December 2008 Johnson Bank statements for the Euro dollar investment account, the automobile account, the political action league account, the vacation fund account, the postage account, and the PAC checking account. Local 18 also failed to retain the July 2009 Johnson Bank statement for the building fund account. During the audit, I obtained copies of the missing bank statements from Johnson Bank. As a general rule, all types of records created or used during the course of union business must be maintained by the union for five years.

2. Reimbursements to Officers and Credit Card Expenses

Local 18 did not retain adequate documentation for reimbursed expenses and credit card expenses incurred by Financial Secretary-Treasurer Randy Krocka, Recording Secretary Keith Kemper, Business Representative Nicholas Liesch, Business Representative Rodger Jackson, Business Representative Craig Wagner, Organizer Joshua Garner, former Organizer David Vandenberg, and you totaling at least \$17,900. For example, supporting documentation was not retained for at least \$1,800 in lodging expenses charged to the union credit cards assigned to Mr. Krocka, Mr. Jackson, and Mr. Wagner. As another example, Local 890 did not require officers and employees to submit itemized meal receipts for meal expenses totaling at least \$13,400. For meal expenses, Local 890 only retained the credit card signature receipt showing the name of the vendor, the date, and the amount of the expense.

Local 890's records of meal expenses did not always include written explanations of union business conducted or the names and titles of the persons incurring or receiving the benefit of the restaurant charges. For example, receipts retained for two meal expenses incurred by Mr. Vandenberg at Damon's Sports Bar and Grill in Janesville, WI did not include the full names and titles of people present on the receipt. As another example, a receipt retained for a \$97.19 meal expense incurred by Mr. Wagner at Cantina in Bloomington, MN also did not include the full names and titles of people present on the receipt.

As noted above, labor organizations must retain original receipts, bills, and vouchers for all disbursements. Itemized receipts provided by restaurants to officers and employees must be retained. 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. 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. The president and treasurer (or corresponding principal officers), who are required to sign your union's LM report, are responsible for properly maintaining union records.

3. Reimbursed Auto Expenses

Union officers and employees who received reimbursement for business use of their personal vehicles did not retain adequate supporting documentation to support payments to them totaling at least \$600 during 2009. For example, supporting documentation was not retained that identified the dates of travel, locations traveled to and from, and number of miles driven for \$196.90 in mileage paid to Mr. Vandenberg on June 29, 2009. As another example, supporting documentation retained for at least \$432 in mileage paid to Mr. Vandenberg and you failed to identify the locations traveled to and from and the number of miles driven on each day.

Local 18 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.

4. Lack of Salary Authorization

Local 18 did not maintain records to verify that the salaries reported in Schedule 12 (Disbursements to Employees) of the LM-2 for the two organizers were the authorized amounts and were therefore correctly reported. Mr. Krocka advised that the executive board authorized a former business representative to become an organizer and be compensated at the same level as the business representatives during the November 4, 1989 executive board meeting. However, the organizers' salaries were later reduced by Local 18 to 42 hours a week (business representatives are paid at 44 hours a week), but Mr. Krocka was unable to provide any documentation for the decrease in the organizers' pay. The initial authorized salary amount for the organizers was recorded in the union's meeting minutes for November 4, 1989; however, Local 18 did not retain any documentation for the decrease in the organizers' pay.

In the case of all other officers and employees, authorized salary amounts were identified in Local 18's collective bargaining agreement with Office and Professional Employees Local 9 for the secretaries and Local 18's general election rules for the full-time and part-time officers and business representatives. Local 18 must keep a record, such as meeting minutes, to show the current salary authorized by the entity or individual with the authority to establish salaries.

5. Book balance in QuickBooks does not reflect actual cash balance on hand

The book balance for Local 18's general fund checking account maintained in QuickBooks is not accurate and is substantially different from the balance reported on the bank reconciliation worksheets prepared by Local 18's accountant, the balance reported on the bank statements, and the cash balance reported in Item 22(B) (Cash – End of Reporting Period) of the Labor Organization Annual Report (Form LM-2) filed for September 30,

2009. The general ledger serves as Local 18's principal source of accounting information, is used to prepare internal financial reports, and is used by Local 18 to identify financial information reported on the LM-2. The cash balance as of June 30, 2009 that is identified on the accountant's workpaper as reconciled to the bank statement is \$415,497.05, and the cash balance reflected in QuickBooks is \$431,433.29. Further, no records were retained that explain the difference between the two figures. Mr. Krocka indicated during the exit interview that he thinks the general ledger balance was incorrect because of problems with transactions that cleared the general fund checking account still showing up as outstanding in QuickBooks. In an attempt to fix this problem, Mr. Krocka deleted some of the outstanding transactions in QuickBooks that had cleared Local 18's checking account. As noted above, adequate records must be maintained so that the information reported on the LM-2 report may be verified, explained, or clarified, and checked for accuracy and completeness.

Based on your assurance that Local 18 will retain adequate documentation in the future, OLMS will take no further enforcement action at this time regarding the above violations. However, Local 18's records will be reviewed by OLMS again within the next year to ensure that the above recordkeeping violations have been corrected.

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 Labor Organization Annual Report (Form LM-2) filed by Local 18 for the fiscal year ended September 30, 2010, was deficient in the following areas:

1. Acquire/Dispose of Property

Item 15 (During the reporting period did your organization acquire or dispose of any assets in any manner other than by purchase or sale?) was answered, "Yes," because Local 18 gave away food and drink tickets to members that attended Laborfest; however, Local 18 failed to report the value and the number of the food and drink tickets distributed to the membership in Item 15. A review of Local 18's executive board meeting minutes revealed that Local 18 was authorized to purchase at least \$800 in food and drink tickets from the Milwaukee Area Labor Council to distribute to members attending Laborfest. The audit also revealed that Local 18 failed to report at least \$9,000 in Visa gift cards given to pin recipients at the 25/40/50/60 Pin Banquets during the year in Item 15. A review of the documentation provided by Mr. Krocka that identified the recipients of the Visa gift cards revealed that Local 18 gave away 184 gift cards. 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. For reporting purposes, each recipient need not be itemized. Recipients can be described by broad categories, if appropriate, such as "members" or "new retirees."

2. Disbursements to Officers and Employees

Local 18 did not include some reimbursements to officers and employees totaling at least \$14,213 in Schedule 11 (All Officers and Disbursements to Officers) and Schedule 12 (Disbursements to Employees). Local 18's general ledger indicates that seven executive board members, four trustees, two conductors, two wardens, and Secretary Julie Ellis received payments for expenses totaling at least \$14,200. However, nothing was reported in Column F (Disbursements for Official Business) of Schedules 11 and 12 for these 15 officers and Ms. Ellis. It appears that these payments were erroneously reported in Item 5 (All Other Disbursements) on the Detailed Summary Page for Schedules 15 through 19.

Local 18 erroneously reported in Schedule 11 the names of some individuals who are not officers of the union. During the exit interview, Mr. Krocka confirmed that Local 18's business representatives are not members the union's executive board and that the union's bylaws do not identify them as officers of the union. The total payments to the six business representatives should be reported in Schedule 12.

Direct disbursements to officers and employees for reimbursement of expenses they incurred while conducting union business must be reported in Column F of Schedules 11 and 12 (Disbursements for Official Business). In addition, indirect disbursements made to another party (such as a credit card company) for business expenses union personnel incur must be reported in Column F of Schedules 11 and 12. However, 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 must be reported in Schedules 15 through 19. Any direct or indirect disbursements to union personnel for expenses not necessary for conducting union business must be reported in Column G (Other Disbursements) of Schedules 11 and 12.

I am not requiring that Local 18 file an amended LM report for 2009 to correct the deficient items, but Local 18 has agreed to properly report the deficient items on all future reports it files with OLMS.

Other Issues

1. Expense Policy

As I discussed during the exit interview with Mr. Krocka and Ms. Richardson, the audit revealed that Local 18 does not have a clear policy regarding the types of expenses personnel may claim for reimbursement and the types of expenses that may be charged to union credit cards. For example, Mr. Krocka stated during the audit that officers and employees are authorized to use union credit cards assigned to them to pay for meal expenses incurred in their "home area," if they are meeting with a contactor, member, or another officer or employee to discuss union business. However, Local 18's expense

policy, "Full and Part Time Officer Travel Expense Guidelines," states that the policy for meals within the state is:

"Meals. These costs will be approved only if you are traveling outside your home area. For example, if a general membership meeting is held in Milwaukee the Milwaukee full and part time officers would not be compensated for meals. If your meals are compensable, a limited and reasonable number of alcoholic beverages will be allowed with dinner..."

It appears that Local 18's practice is not consistent with this policy. OLMS recommends that unions adopt written guidelines concerning such matters to help ensure effective internal controls and safeguard union assets. I recommend that Local 18 review its current policy, and make any necessary changes to the policy to reflect its current practice with regard to meal expenses.

2. Checks Voided in QuickBooks that Cleared Local 18's Checking Account

During the exit interview, I advised Mr. Krocka that Local 18 erroneously voided two checks in QuickBooks during the audit year that cleared Local 18's checking account at Johnson Bank. OLMS recommends that unions routinely reconcile all checking accounts to ensure that all disbursements are properly reflected in union records and there are proper internal financial controls over disbursements.

I want to extend my personal appreciation to Sheet Metal Workers Local 18 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. Randall Krocka, Financial Secretary-Treasurer