



July 8, 2010

Mr. Donald Cialone Jr., Financial-Secretary
Auto Workers Local 686
524 Walnut Street
Lockport, NY 14094-3112

Case Number: [REDACTED]
LM Number: 044111

Dear Mr. Cialone:

This office has recently completed an audit of Auto Workers Local 686 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 you, President Paul Entwistle, and Bookkeeper Susan Blood on July 1, 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.

Reporting Violations

The audit disclosed violations 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 686 for the fiscal year ended December 31, 2009, was deficient in the following areas:

1. LM-2 Schedule 14 (Other Receipts)

Schedule 14 (Other Receipts) is used to report "major" receipts during the reporting period that do not conform to one of the defined items in Statement B (Receipts and Disbursements). Bank account transfers of \$100,415 from Club 686, a wholly owned subsidiary of the union, and Club 686 sales receipts of \$282,463 were improperly reported in Schedule 14. Bank transfers are not to be reported as receipts. Club 686 sales receipts should not be aggregated as a named payer to the union. These sales receipts should instead be reported in Schedule 14 of the detailed summary page on line 3 (All Other Receipts.) Additionally, receipts of \$95,265 from the union's New York State lottery operations were not reported in Schedule 14, line 3, and thus in item 48 (Other Receipts) of Statement B, as required by the instructions.

Also, receipts were improperly reported in Schedule 14 as named payers. Specifically, receipts of \$15,096 and \$21,443 were reported from named payers. However, such receipts represented collections from multiple individual payers not aggregating to \$5,000 or more, and should instead be reported in Schedule 14 on line 3.

2. LM-2 Schedule 19 (Union Administration)

Schedule 19 (Union Administration) is used to report "major" disbursements during the reporting period associated with union administration. A major disbursement includes any individual transaction of \$5,000 or more or total transactions to any single entity or individual that aggregate to \$5,000 or more and which cannot properly be reported elsewhere in Statement B. Transfers totaling \$97,571 from the union's Club 686 account to the union's main account were improperly reported in Schedule 19.

3. Failure to Report All Disbursements

Local 686 did not report all disbursements in Statement B. Specifically, disbursements from the union's lottery account to New York State totaling \$91,469 were not reported at all. These disbursements were also not reported in Schedules 15 through 19 as a named payee for itemized transactions totaling \$5,000 or more, or for disbursements aggregating to \$5,000 or more.

I am not requiring that Local 686 file an amended LM report for 2009 to correct the deficient items, but Local 686 has agreed to properly report the deficient items on all future reports it files with OLMS.

4. Failure to File Bylaws

The audit 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 it makes changes to its constitution or bylaws. Local 686 amended its constitution and bylaws in 2001, but did not file a copy with its LM report for that year.

Local 686 has now filed a copy of its constitution and bylaws.

Other Violation

Inadequate Bonding

The audit revealed a violation of LMRDA Section 502 (Bonding), which requires that union officers and employees be bonded for no less than 10 percent of the total funds those individuals or their predecessors handled during the preceding fiscal year.

Local 686's officers and employees are currently bonded through the UAW International Union. However, the audit revealed that supplemental bonding coverage exists for Club 686 officers and

employees in the amount of \$35,000. This supplemental policy is unacceptable in that it contains a deductible of \$350, which is a form of self-insurance and contrary to the LMRDA. Local 686 should obtain proper bonding coverage with no deductible for its officers and employees immediately. Please provide proof of bonding coverage to this office as soon as possible, but not later than August 6, 2010.

I want to extend my personal appreciation to Auto Workers Local 686 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,



Investigator

cc: Mr. Paul J. Entwistle, President
Mr. Mark S. Phelps, Trustee Chairman
Ms. Susan Blood, Bookkeeper