



September 17, 2014

Mr. Eugene Melville Jr., President  
Operating Engineers, AFL-CIO, Local Union 98  
PO Box 217  
2 Center Square  
East Longmeadow, MA 01028

Case Number: 110-1117647 [REDACTED]  
LM Number: 019823

Dear Mr. Melville:

This office has recently completed an audit of Operating Engineers, AFL-CIO, Local Union 98 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 and Treasurer Phillip Chaffee on September 15, 2014, 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 98's 2013 records revealed the following recordkeeping violations:

1. Failure to Record Receipts

Local 98 did not adequately record in its receipts records some member dues payments. Entries in Local 98's electronic receipts system reflect the date the union deposited money, but not the date money was received. Union receipts records must show the date of receipt.

For example, duplicate receipt #1234 dated 07/02/12 was issued to a member for a dues payment in the amount of \$386.50. This payment was not documented in the union's electronic receipt system until 08/01/12. During the audit it was confirmed that the payment was documented on the August 1<sup>st</sup> electronic receipts system and deposited in the bank with the August 1<sup>st</sup> receipts deposit.

Additionally, duplicate receipt # 1254 dated 08/06/12 was issued to a member for \$400, which was a down payment on an initiation fee of \$625. The \$400 payment was not recorded in the electronic receipts system until 09/05/12.

Failure to fully record the date and purpose for which money is received and then deposit those funds at the next available opportunity may lead to manipulation of union funds. 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.

Local 98 has indicated that it will open an escrow account for the purpose of recording and depositing payments that are made for initiations and/or membership change of status, so that cash and check dues payments are not retained in the union's office after daily receipt reports and corresponding deposits are made.

## 2. General Reimbursed and Credit Card Expenses

Local 98 did not retain adequate documentation for credit card expenses incurred by President Melville totaling at least \$851.36. For example, a review of President Melville's expenses for the audit year disclosed that the following expenses lacked supporting receipts:

- \$80.00, 06/28/12, Stewarts Shop, Pownal, VT
- \$90.00, 08/06/12, Exxonmobil, Lanesboro, MA
- \$85.01, 10/09/12, Exxonmobil, East Longmeadow, MA
- \$83.35, 10/26/12, Exxonmobil, East Longmeadow, MA
- \$60.00, 10/29/12, Exxonmobil, Bennington, VT
- \$50.00, 12/03/12, Exxonmobil, Bennington, VT
- \$83.99, 12/12/12, Shell Oil, Bennington, VT
- \$87.00, 04/02/13, Shell Oil, Lee, MA
- \$80.00, 04/15/13, Shell Oil, Pittsfield, MA
- \$77.01, 05/07/13, Shell Oil, Northampton, MA
- \$75.00, 05/20/13, Stewarts Shop, Hoosick, NY

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.

3. Meal Expenses

Local 98 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. For example, President Melville incurred a \$40.00 meal expense at West Lake Gourmet, Southampton, MA on 08/28/12, but the receipt for this meal contained no indication of the union purpose.

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.

4. Information not Recorded in Meeting Minutes

During the audit, you and Treasurer Chaffee advised OLMS that the executive board authorized the rental of an automobile for Business Agent Keith Hancock during the months of October – December 2012. However, the minutes of executive board meetings during that time period do not contain any reference to this authorization. To verify the legitimacy of this expense, OLMS contacted an executive board member and was informed that the authorization in question took place.

Additionally, during the opening interview, you and Treasurer Chaffee advised OLMS that expenses for officer travel are approved by the executive board and the membership, however, an expense of \$147.06 on 12/05/12 at the Borgata Hotel in Atlantic City, N.J. incurred by Treasurer Chaffee while attending the Northeastern States Conference was not supported by a corresponding authorization in meeting minutes.

Minutes of all membership or executive board meetings must report any disbursement authorizations made at those meetings.

Based on your assurance that Local 98 will retain adequate documentation in the future, OLMS will take no further enforcement action at this time regarding the above violations.

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 98 for the fiscal year ended 06/30/2013, was deficient in the following areas:

Disbursements to Officers and Employees

Local 98 did not include some payments to officers and employees totaling at least \$1,558 for airline tickets purchased from Southwest Air for travel by President Melville's wife as

well as the purchase of airline tickets from Southwest Air for Treasurer Chaffee's wife. Records revealed that Local 98 was reimbursed for these personal expenses by Melville and Chaffee, but the expenses were not itemized under Melville or Chaffee's name in the LM-2 Report 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.

I am not requiring that Local 98 file an amended LM report for 2013 to correct the deficient items, but Local 98 has agreed to properly report the deficient items on all future reports it files with OLMS.

#### Other Issues

##### 1. Duplicate Receipts

Review of union records revealed that some members of Local 98 pay cash dues directly to the union. Local 98 records dues payments in the union's receipts journal and electronic receipts system, but does not always issue duplicate receipts to cash dues payers. OLMS recommends that Local 98 use a duplicate receipt system where the union issues original pre-numbered receipts to all members who make cash 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.

##### 2. Personal use of Credit Cards

The audit revealed that Local 98 permits officers and employees to use union credit cards to pay for personal expenses. Although the audit disclosed that officers and employees promptly repaid Local 98 for the personal expenses they charged, OLMS does not recommend policies that allow personnel to make personal purchases with union credit cards because this may lead to misuse of union funds.

The audit also disclosed that airline tickets purchased from Southwest Airline on 12/26/12 for Treasurer Chaffee and his wife totaling \$1,823.20 were for travel to an IFEBP Benefit Funds training program. IUOE Local 98 was reimbursed \$1300 directly from Chaffee for this travel, but a \$523.20 balance was left unpaid. OLMS confirmed that the Operating Engineers Local 98 Benefit Funds reimbursed the \$523.20 balance to Local 98 during the audit.

I want to extend my personal appreciation to Operating Engineers, AFL-CIO, Local Union 98 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. Phillip Chaffee, Treasurer  
Mr. James M. Heinzman, CPA