

U.S. Department of Labor

Employment Standards Administration
Office of Labor-Management Standards
Division of International Union Audits
Washington, D.C. 20210



September 21, 2009

Mr. William Burrus
President
American Postal Workers Union, AFL-CIO
1300 L Street, NW
Washington, DC 20005

RE: International Compliance Audit Program (I-CAP)
American Postal Workers Union, AFL-CIO (APWU)
LM File Number 000-510

Dear President Burrus:

The Office of Labor-Management Standards (OLMS) within the Department of Labor recently completed a compliance audit of the American Postal Workers Union, AFL-CIO (APWU), to assess its compliance with the provisions of the Labor-Management Reporting and Disclosure Act of 1959 (LMRDA). The audit was conducted under the OLMS International Compliance Audit Program (I-CAP).

On July 28, 2009, the I-CAP Team conducted an exit interview with Terry Stapleton, Secretary-Treasurer; Elizabeth Conolly, Controller; Sue Peetoom, Executive Assistant to the Secretary-Treasurer; and Dan Smith, Legal Counsel. During the exit interview, the I-CAP Team reviewed audit findings, specified actions that the APWU must take to correct the deficiencies identified, and recommended actions to enhance the union's internal controls. This letter captures the 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 both in scope and duration.

Reporting Deficiencies - LMRDA Section 201(b)

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 identified in this section must be corrected in an

amended Form LM-2 for the fiscal year ending December 31, 2007. Also, if your union's Form LM-2 for fiscal year ending December 31, 2008 contains any of reporting deficiencies noted in this closing letter, that report must also be amended. Further, any subsequent Form LM-2 filings must be prepared so as not to contain these deficiencies.

1. The APWU did not report the required information for Question 10 (Trusts or Funds) in Item 69 (Additional Information) related to the APWU Texas LLC, the APWU Holding Corporation, the APWU Tampa LLC and the APWU New Jersey LLC, which are wholly owned corporations, reportable as trusts. The Form LM-2 instructions require the full name, address, and purpose of each trust to be reported in Item 69. The APWU must report the required information for the wholly own corporations for Question 10, in Item 69.
2. The APWU did not report the required information in Item 69 (Additional Information) for Question 15 (Acquisition or Disposition of Assets) related to assets that were transferred from the APWU to the Texas and Tampa LLCs. The Form LM-2 instructions require labor organizations to describe in Item 69 the manner in which the labor organization acquired or disposed of assets. The description should include the type of asset, its value, and the identity of the recipient or donor, if any. The APWU must report all required information for Question 15, in Item 69.
3. The APWU did not accurately report the end-of-the-reporting-period accounts receivable balance in Item 23 (Accounts Receivable) and Schedule 1 (Accounts Receivable Aging Schedule). The APWU reported an ending balance of \$304,345; however the amount recorded in the general ledger was \$300,049. Also, the union incorrectly included in this balance credits in the amounts owed for some of the accounts receivable balances. Approximately \$2,500 in credits were included as offsets. The union should not off-set the amounts owed with credits. The APWU must determine the correct amount for the accounts receivable ending balance and accurately report the amount in Item 23 and Schedule 1.
4. The APWU did not report accounts receivable written off as non-collectable in Schedule 1 (Account Receivable Aging Schedule). The APWU wrote off trusteeship expenses in the amount of \$53,478 for a local. The Form LM-2 instructions require labor organizations to report all accounts that were liquidated, reduced or written off during the reporting period in Schedule 1.
5. The APWU incorrectly reported the disposal of fixed assets in Schedule 3 (Sales of Investments and Fixed Assets). The Form LM-2 instructions require labor organizations that acquire or dispose of any assets in a manner other than purchase or sale to answer "Yes" to Item 15 and to describe in Item 69 (Additional Information) the manner in which the labor organization acquired or

disposed of the assets. The description should include the type of asset, its value, and the identity of the recipient or donor, if any. The APWU scrapped some office furniture, equipment, and other fixed assets. The union must remove these assets from Schedule 3 and fully describe the disposition in Item 69.

6. The APWU reported "Other Deposits" as a description of assets in Column (A) of Schedule 7 (Other Assets). This description is not sufficient to identify the type of assets. The Form LM-2 instructions require that other assets must be described in Column (A) and may be classified by general groupings or bookkeeping categories, such as utility deposits or inventory of supplies for resale, as long as the description is sufficient to identify the type of assets. More detailed descriptions in Column (A) of Schedule 7 are required.
7. The APWU incorrectly reported the membership counts for Active Cash Paying Members (reported as "Full Dues Cash Pay" on the 2007 LM-2 report) and Full Dues Paying Retiree Members (reported as "Full Per Capita Retiree" on the 2007 LM-2 report) in Schedule 13 (Membership Status). The membership counts were transposed for these classifications of members. The APWU must correct the membership numbers reported in Schedule 13.
8. The APWU reported an incorrect amount of funds that was received from the APWU Officer Retirement Fund in Schedule 14 (Other Receipts). The itemization page reported a receipt in the amount of \$11,656; however the correct amount should have been \$21,128. The APWU must correct the itemization page and accurately report the amount received in Schedule 14.
9. The APWU reported incorrect amounts in the itemization pages for Schedule 15 (Representational Activities) and in the cash disbursements journal for at least two vendors. The union reported disbursements totaling \$23,902 to PCH Office Company, LLC and \$7,050 to Reliant Energy in Schedule 15 itemization pages; however, the correct amounts should have been \$26,075 and \$13,712, respectively. The APWU must correct the itemization pages and accurately report these amounts in Schedule 15.
10. The APWU reported "Consulting Fees/Exps" as the purpose for disbursements to Economic Consulting Services in Column (C) of the itemization page for Schedule 15 (Representational Activities) and as the purpose for disbursements to James Ferguson and to IBM in Column (C) of the itemization page for Schedule 18 (General Overhead). This description is not sufficient to identify the purpose of the disbursements. The description should be specific enough to disclose the type of services provided. More detailed descriptions in Column (C) of the itemization pages for Schedules 15 and 18 are required.

11. The APWU did not complete all required itemization pages for Schedules 15 through 19. The Form LM-2 instructions require an itemization page for each payee for whom there is an individual disbursement of \$5,000 or more or total disbursements that aggregate to \$5,000 or more during the reporting period. For example, the APWU did not report a disbursement to the Hilton Washington for \$81,647.35 in an itemization page for any Schedules 15 through 19. The APWU must report all major disbursements of \$5,000 or more, individually or in aggregate, in itemization pages for Schedules 15 through 19.
12. The APWU incorrectly reported indirect disbursements for officer and employee automobile expenses in Schedule 18 (General Overhead). Specifically, the APWU made payments to Central Parking System, Colonial Parking Inc., and Logan Circle Amoco for parking expenses and for auto expenses on behalf of certain officers and employees. The Form LM-2 instructions require that direct and indirect disbursements to officers or employees be reported next to their names in Schedules 11 (All Officers and Disbursements to Officers) or 12 (Disbursements To Employees), as appropriate. The union must report these disbursements in Schedules 11 and 12 next to the respective officer's or employee's name.
13. The APWU reported "Legal Fees/Exps" as the purpose for disbursements in Column (C) of the itemization pages for Schedules 18 (General Overhead) to the following firms: Abraham Bauer & Spaulding PC; McElroy Deutsch Mulvaney & Carpenter LLP; Pillsbury Winthrop Shaw Pittman LLP; Leonard Carder LLP; Cooley Shrair PC; Edelstein and Payne; and O'Donnell Schwartz & Anderson. This description is not sufficient to identify the purpose of the disbursements. The description should be specific enough to disclose the type of legal services provided in order to ensure the disbursements are correctly reported in the appropriate schedule. More detailed descriptions in Column (C) of the itemization pages for Schedule 18 are required.

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 maintained 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 APWU did not comply with the recordkeeping requirements of Section 206. During the exit interview, the union was

informed that adequate records necessary to document all financial transactions, regardless of amount, must be maintained for a minimum of five years.

14. The APWU did not maintain documentation in sufficient detail to verify the accuracy and completeness of the membership figures reported in Item 20 (Number of Members) and Schedule 13 (Membership Status) on the Form LM-2.
15. The APWU did not retain adequate documentation for all transactions reported in the general ledger. Specifically, the APWU did not maintain any documentation to explain or support a \$7,452 reclassification and a \$1,408 income posting. Labor organizations must retain documentation necessary to support all transactions.
16. The APWU officers and employees did not consistently submit itemized receipts for meal expenses. Itemized receipts supplied by restaurants must be maintained by the APWU as such receipts are necessary to determine whether such disbursements are for union business purposes and to fulfill the recordkeeping requirement in LMRDA Section 206.
17. The APWU did not retain adequate documentation for all reimbursed expenses incurred by its officers and employees. In certain instances, receipts were not retained for officer and employee meal, taxi, internet service, and lodging expenses. Labor organizations must retain original receipts, bills, and vouchers for all disbursements.
18. The APWU did not always retain adequate documentation in support of mileage reimbursements to officers and employees. The APWU must maintain records that identify the departure and arrival locations, including the complete addresses, as well as the dates of travel and the number of miles driven.

Office Holding Prohibitions – LMRDA Section 504

Section 504 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. It is also a violation of Section 504 for another person to willfully and knowingly hire, retain, employ or otherwise place the barred person in a prohibited capacity.

19. The APWU does not conduct criminal background checks of its officers. In order to ensure individuals do not hold office in violation of LMRDA Section 504, the I-CAP Team recommends that the APWU establish a system to determine whether any officer has a disqualifying criminal record. During the exit interview, the I-CAP Team emphasized the importance of verifying background information.

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.

20. The audit revealed that APWU does not maintain a log for receipt of incoming cash or checks. Since there is no separate record accounting for all incoming receipts, this creates a potential risk for missing receipt items. The I-CAP Team recommends that one staff member receive all incoming cash and checks, make a list of each item and forward the list to the Controller. The Controller should then reconcile the canceled deposit slips to the incoming cash and check list to ensure that all receipts that were received were then deposited.
21. The APWU does not document the review of incoming cash and checks. APWU indicated that reviews are performed; however the reviews could not be verified. The I-CAP Team recommends that the APWU require the reviewer to initial incoming receipts documentation.

Other Matters

22. The I-CAP audit revealed that the APWU does not prepare any LM-2 workpapers. The lack of organized, comprehensive workpapers that detail all entries from the general ledger into the LM-2 report contributed to inaccuracies and deficiencies on the Form LM-2 filing. We recommend that the APWU prepare and maintain workpapers that identify how detailed transactions flow from the supporting documentation for all transactions through to the Form LM-2 report.

As discussed in the exit interview, the APWU must submit, within thirty days from the date of this letter, a response letter to this closing letter, and an amended Form LM-2 for the fiscal year ending December 31, 2007 and, if necessary, an amended Form LM-2 for the fiscal year ending December 31, 2008. The response letter must identify the corrective actions implemented by the APWU based on the results of the compliance audit. We will schedule an on-site, follow-up audit in approximately six months to review corrective actions taken, to discuss the amended Form LM-2 report(s) filed by the APWU, and to assist your organization in complying with LMRDA requirements.

We want to express our appreciation for the cooperation and courtesy extended by you and your staff during this compliance audit. If we can be of any assistance in the future, please do not hesitate to call us.

Sincerely,

A handwritten signature in blue ink that reads "James D. Devine". The signature is written in a cursive style with a large initial 'J'.

James D. Devine, Chief
Division of International Union Audits

cc: Terry Stapleton, Secretary-Treasurer