

U.S. Department of Labor

Employment Standards Administration
Office of Labor-Management Standards
Division of International Union Audits
1341 G Street, N.W., Room 201
Washington, D.C. 20005



May 22, 2009

Ms. Rita C. Schwartz
President
National Association of Catholic School Teachers
1700 Sansom Street, Suite 903
Philadelphia, PA 19103

RE: International Compliance Audit Program (I-CAP)
National Association of Catholic School Teachers (NACST)
LM File Number 000-360

Dear President Schwartz:

The Office of Labor-Management Standards (OLMS) within the Department of Labor recently completed a compliance audit of the National Association of Catholic School Teachers (NACST) to determine 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 May 7, 2009, the I-CAP Team conducted an exit interview via telephone with you; William J. Blumenstein, Secretary-Treasurer; and Ms. Frances Verna, Certified Public Accountant. During the exit interview, the I-CAP Team reviewed audit findings, specified actions that the NACST 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 in both scope and duration.

Reporting Violation - LMRDA Section 201(a)

Section 201(a) of the LMRDA requires that every labor organization that amends its constitution and bylaws file a copy of the revised documents when the union files its next annual financial report with OLMS.

1. The NACST's most recent constitution, amended on October 1987, had not been filed with OLMS at the start of the audit. Copies of this constitution have now been filed. The Form LM-2 instructions require that if the labor organization's constitution and bylaws were changed in the reporting period (other than rates of dues and fees), a dated copy of the new constitution and bylaws must be submitted to OLMS with the Form LM-2 for that reporting period (and as an electronic attachment to the Form LM-2). The I-CAP Team informed the NACST of its responsibility to submit all future changes to its constitution to OLMS as an electronic attachment to its next Form LM-2.

Reporting Deficiencies - LMRDA Section 201(b)

Section 201(b) of the LMRDA requires that every labor organization file with OLMS an annual financial report that accurately discloses the union's financial condition and operations. The following deficiencies were noted on the NACST Form LM-2 for the fiscal year ending August 31, 2008. The deficiencies identified in this section must be corrected in an amended Form LM-2 for the fiscal year ending August 31, 2008. Further, subsequent Form LM-2 filings must be prepared so as not to contain these deficiencies.

2. The NACST reported the incorrect maximum amount recoverable under its fidelity bond. The Form LM-2 instructions require labor organizations to enter in Item 14 (Fidelity Bond) the maximum amount recoverable for a loss caused by any officer, employee, or agent of the labor organization who handled the labor organization's funds. The union reported that \$50,000 was the maximum amount recoverable. However, review of the bonding policy revealed that \$70,000 was maximum amount recoverable. The union must correct Item 14 to reflect the correct maximum amount recoverable under the fidelity bond.
3. The NACST reported the incorrect number of members in Item 20 (Number of Members) and failed to report the categories of membership in Schedule 13 (Membership Status). The Form LM-2 instructions require labor organizations to enter the total number of members and the categories tracked by the labor organization. Although the NACST had approximately 4,183 members during the reporting period, the union reported it had zero members. The union must correct Item 20 to reflect the correct number of members and correct Schedule 13 to reflect the categories of membership.
4. The NACST reported the incorrect dues rate in Item 21 (Dues and Fees). The Form LM-2 instructions require that regular dues, fees or other periodic payments that a member must pay to be in good standing, including the

calendar basis for the payment, must be listed in Line (a) of Item 21. The union entered the amount of \$72 per year in Item 21. According to a motion passed by the NACST Executive Committee in 1993, the dues rate is \$60 per year. The NACST must correct Item 21(a) to reflect the proper dues amount.

5. The ending cash balance reported in Line 22(B) (Cash) is understated by \$66,611 because two money market accounts and two certificates of deposit (CD) were incorrectly excluded from the balance. The Form LM-2 instructions for Item 22 require the reporting of cash on hand and on deposit and further advise that cash on deposit includes the following: funds in banks, credit unions and other financial institutions, such as checking accounts, savings, accounts, certificates of deposit, and money market accounts. Neither the money market accounts nor the CDs were omitted from the Form LM-2, but they were, incorrectly, reported elsewhere. The NACST reported the balances of the money market accounts and the CDs in Schedule 5 (Investments) and also, incorrectly, reported one certificate of deposit as a disbursement in Schedule 4 (Purchase of Investments and Fixed Assets). The NACST must include the balances of the two money market accounts and the CDs in the cash balance in Line 22 (Cash).
6. As noted above, the NACST incorrectly reported the value of a certificate of deposit (CD) in the amount of \$15,000 as a disbursement in Schedule 4 (Purchase of Investments and Fixed Assets) and Line 60 (Purchase of Investments and Fixed Assets). The Form LM-2 instructions require CDs to be treated as cash and be reported in Line 22 (Cash). Hence, the purchase of a CD is not a cash disbursement, but simply the conversion of one form of cash to another form of cash. The NACST must remove the CD from Schedule 4 and Item 60 as a disbursement and include it in the cash balance in Item 22.
7. The NACST investment balance reported in Schedule 5 (Investments) and Line 26 (Investments) is overstated by \$275,218. The union, incorrectly, double-reported the amount of \$238,975 in both Line 2 (Total Book Value of Marketable Securities) and in Line 5 (Total Book Value of Other Investments). The union also incorrectly reported the balances of two money market accounts totaling \$36,243 in Lines 1 and 2 and the balance of a CD totaling \$15,368 in Line 6. The union must remove the amount of \$238,975 from Line 5 and remove the balances for the two money market funds and the CD from Lines 1, 2 and 6 of Schedule 5.
8. The NACST incorrectly reported per capita tax receipts of \$248,736 in Item 36 (Dues and Agency Fees). This amount should have been reported in Item 37 (Per Capita Tax), as the NACST collects per capita tax, rather than dues. The Form LM-2 instructions require that labor organizations report dues received

directly by the organization from members in Item 36. The Form LM-2 instructions require intermediate or parent body labor organizations to report the per capita tax portion of dues received directly by the labor organization from members of affiliates or from affiliates in Item 37. The union must report the per capita tax received in Line 37.

9. The NACST reported "Prepaid Expenses" and "Legal Fees" as descriptions of assets in Column (A) of Schedule 7 (Other Assets). These descriptions are not sufficient to identify the type of asset. 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 asset. More detailed descriptions in Column (A) of Schedule 7 are required.
10. The NACST incorrectly described the liability for wage taxes as "Accounts Payable" in Column (A) of Schedule 10 (Other Liabilities). The Form LM-2 instructions require that other liabilities must be described in Column (A) and may be classified by general groupings or bookkeeping categories. However, the Form LM-2 instructions further state that payroll taxes withheld but not yet paid and other unpaid payroll taxes should be listed separately. The union must adequately describe this liability in Column (A) of Schedule 10.
11. The NACST reported two officers (William J. Blumenstein, Secretary-Treasurer and Michael Milz, Vice President), along with all disbursements to them, on Schedule 12 (Disbursements to Employees) when they are required to be reported on Schedule 11 (All Officers and Disbursements to Officers). The union must remove these two officers from Schedule 12 and include them, along with all disbursements to them, on Schedule 11.
12. The NACST failed to report personal expenses, for extra-night hotel stays by officers and for the travel of spouses or other family members who accompanied officers on trips involving official union business, in Schedule 11 (All Officers and Disbursements to Officers). Such expenses were initially paid for by the union and later reimbursed to the union by the officer. Disbursements for extra-night hotel stays and for the travel of the spouse or other family member must be reported next to the appropriate officer's name in Column (G) of Schedule 11. The Form LM-2 instructions require that disbursements essentially for the personal benefit of the officer and not necessary for conducting official business of the labor organization be reported in Column (G) of Schedule 11 as an "Other Disbursement" to that officer.

13. The NACST incorrectly reported indirect disbursements for officer and employee lodging and airfare for union business next to the officers' and employees' names in Schedules 11 and 12. The Form LM-2 instructions require that indirect disbursements for temporary lodging (room rent charges only) or transportation by public carrier necessary for conducting official business while the officer/employee is in travel status away from his or her home and principal place of employment with the labor organization, if payment is made by the labor organization directly to the provider or through a credit arrangement, be reported in disbursement Schedules 15 through 19, rather than Schedules 11 and 12. The union must remove these disbursements from Schedules 11 and 12 and accurately report them in Schedules 15 through 19, as applicable.
14. The NACST reported "Legal Representation" as the purpose for disbursements to Spear Wilderman in Column (C) of Schedule 15 (Representational Activities). This description is not sufficient to identify the purpose. The description should be specific enough to disclose the type of legal representation provided in order to clarify if the disbursements are correctly reportable in Schedules 15, 16, 17, 18, or 19. A more detailed description in Column (C) of Schedule 15 is required.
15. The NACST reported disbursements to Hare Brothers Printing in the amount of \$5,164, for the printing of newsletters in Schedule 15 (Representational Activities). Newsletter disbursements are generally associated with union administration and should be reported in Schedule 19 (Union Administration).
16. The NACST reported the incorrect amount of a contribution paid to the John J. Reilly Memorial Scholarship Fund. Union records disclosed that NACST contributed \$13,500 to the scholarship fund; however, only \$250 was reported on the Form LM-2. The NACST must report the correct amount of this disbursement and prepare an itemization page for this disbursement in Schedule 17 (Contributions, Gifts and Grants).
17. The NACST did not report its employer portion of Federal Insurance Contributions Act (FICA) taxes paid in Item 65 (Direct Taxes), although the union reported payment of the employee portion of such taxes in Schedule 12 and Item 67 (Withholding Taxes and Payroll Deductions). The Form LM-2 instructions require that all taxes assessed against and paid by the union, including FICA taxes as an employer, be reported in Item 65.
18. The NACST reported incorrect totals in Schedule 15 and Item 50 (Representational Activities), Schedule 17 and Item 52 (Contributions, Gifts

and Grants), Schedule 18 and Item 53 (General Overhead), and Schedule 19 and Item 54 (Union Administration) due to misclassification, omitted amounts, and misreported amounts. Certain of these inaccuracies have been previously described (see deficiency items #13, 15 and 16). The audit revealed several other inaccuracies involving smaller amounts that are not described in this letter, but were communicated separately by the I-CAP Team to the union. The union must report accurate disbursement amounts and allocate them to the appropriate disbursement categories, including Schedules 15, 17, 18, or 19.

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 report is filed. Records over five years must be maintained if they are necessary to verify reports filed within the last five years. Records, such as meeting minutes that note approval for officer salary increases, must be maintained for as long as they remain necessary to verify the current financial activities of the union. There were instances noted during this audit where the NACST did not comply with the recordkeeping requirements of Section 206. During the exit interview, you were informed that adequate records necessary to document all financial transactions, regardless of the amount, must be maintained for a minimum of five years.

19. NACST officers and employees did not consistently submit itemized receipts for meal expenses. The NACST must maintain itemized receipts provided by restaurants to officers and employees. These itemized receipts are necessary to determine if such disbursements are for union business purposes and to fulfill the recordkeeping requirement in LMRDA Section 206.
20. The NACST records pertaining to meal expenses did not always include the names and titles of the persons incurring the restaurant charges. In order to comply with LMRDA Title II, union records of meal expenses must include the full names and titles of all persons who incurred the restaurant charges, as well as written explanations of union business conducted.

Bonding - LMRDA Section 502

Section 502 of the LMRDA requires that every person who handles funds or other property of the union shall be bonded for no less than ten percent of the total funds

handled by those individuals or their predecessors during the preceding fiscal year, but in no case more than \$500,000. The audit disclosed a violation of LMRDA Section 502.

21. The NACST bonding policy was not in compliance with LMRDA requirements because coverage was per occurrence as opposed to per person. Further, the bonding policy did not provide coverage in the categories of computer fraud, forgery, or alteration and funds transfer fraud. The NACST must amend its coverage to fully comply with LMRDA Section 502 in the above areas.

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.

22. Although the NACST fidelity bond, which is a Commercial Crime Bonding Policy, meets most requirements of a labor organization bond, the policy does not include all non-compensated dues collectors, shop stewards, shop chairpersons, and volunteers in the definition of "employee". The I-CAP Team recommends that the NACST have a rider attached to its policy, amending the definition of "employee" to include these additional categories.
23. Bank reconciliation reviews, when performed, were not documented. NACST officials advised that such reviews are performed on occasion by the National President; however, the reviews could not be verified. The I-CAP Team recommends that the NACST require the reviewer to perform monthly reconciliations and initial the reconciliation as evidence of the review.

Other Issue

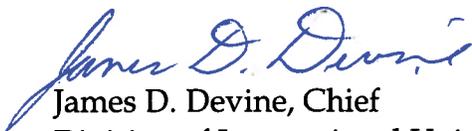
Section 201(a) of the LMRDA requires every covered labor organization to file a report with the Secretary of Labor that provides organizational information including statements about its operating procedures, names and titles of officers, initiation fees, dues, and references to various constitutional provisions - along with the constitution and bylaws. This initial union information report must be signed by the union's president and secretary or corresponding principal officers and, as required by LMRDA Section 207(a), must be filed within 90 days after the labor organization first becomes subject to the LMRDA. 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.

24. Five NACST local unions did not consider themselves subject to the LMRDA. Thus, these five organizations failed to file, with OLMS, the required informational and financial LM reports mandated by the LMRDA. During the audit, the I-CAP advised the NACST that these organizations were subject to the requirements of the LMRDA. The NACST has agreed to notify these organizations of the filing requirements.

As discussed during the exit interview, the NACST 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 August 31, 2008. The response letter should identify the corrective actions implemented by the NACST based on the results of this compliance audit. We will schedule an on-site follow-up in approximately six months to review corrective actions taken, to discuss the amended Form LM-2 report filed by the NACST, and to assist your organization in complying with the LMRDA requirements.

Please accept my appreciation for the cooperation and courtesy extended by you and your staff during this compliance audit. If you have any questions, please do not hesitate to contact me.

Sincerely,



James D. Devine, Chief
Division of International Union Audits

cc: William J. Blumenstein, Secretary-Treasurer