

U.S. Department of Labor

Office of Labor-Management Standards
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April 27, 2010

Mr. Theodore McNeal, President
Machinists AFL-CIO
District Lodge 110
PO Box 716
Havelock, NC 28532-0716

LM File Number 501-111
Case Number: [REDACTED]

Dear Mr. McNeal:

This office has recently completed an audit of IAM DL 110 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 Grand Lodge Auditor Bill Dameron, Secretary Treasurer Rowlinda Farrow, Office Manager Cherrie Sanders, and you on April 15, 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 District Lodge 110s 2009 records revealed the following recordkeeping violations:

1. Failure to Record Receipts

District Lodge 110 did not record in its receipts records some travel reimbursements from the Grand Lodge and refunds received from the IRS, Staples, and Workman's Compensation totaling at least \$1,520. For example, the local received reimbursements from the Grand Lodge for Directing Business Representative Ronald Shafer's travel expenses throughout the year totaling \$986. 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.

2. Receipt Dates not Recorded

Entries in District Lodge 110's Quicken program reflect the date the union deposited the money, while duplicate receipts reflect the date the check-off checks were written, but not the date money was received. Union receipts records must show the date of receipt. The date of receipt is required to verify, explain, or clarify amounts required to be reported in Statement B (Receipts and Disbursements) of the LM-2. The LM-2 instructions for Statement B state that the labor organization must record receipts when it actually receives money and disbursements when it actually pays out money. Failure to record the date money was received could result in the union reporting some receipts for a different year than when it actually received them.

Based on your assurance that District Lodge 110 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 District Lodge 110 for fiscal year ending December 31, 2009, was deficient in the following areas:

1. Disbursements to Officers and Employees (LM-2)

District Lodge 110 did not include some reimbursements to officers and employees totaling at least \$697 in Schedule 11 (All Officers and Disbursements to Officers) and Schedule 12 (Disbursements to Employees). It appears that the district lodge 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.

2. Receipts and Disbursements from 50/50 Raffles

District Lodge 110 did not report receipts and disbursements from 50/50 raffles conducted at monthly membership meetings. The labor organization must report financial information on Form LM-2 for all funds handled; even if they are not part of the labor organization's general treasury. Report the labor organization's receipts from all sources during the reporting period, such as raffles, in Schedule 14 (Other Receipts). Report the labor organization's disbursement from 50/50 Raffle proceeds as appropriate in Schedules 15 through 19. Report disbursements to Officers and Employees who receive winnings from the monthly 50/50 raffle in Column G of Schedules 11 and 12 (Other Disbursements not reported in D thru F).

3. Signatures

District Lodge 110 obtained the treasurer's signature only in both signature blocks on the Form LM-2. The completed Form LM-2 that is filed with OLMS must be signed by both the president and treasurer, or corresponding principal officers. If an officer other than the president or treasurer signs the report, enter the correct title in the field next to the signature and explain in Item 69, Additional Information.

I am not requiring that District Lodge 110 file an amended LM report for 2009 to correct the deficient items, but District Lodge 110 has agreed to properly report the deficient items on all future reports it files with OLMS.

Other Issues

Signing Blank Checks

During the audit, you advised that you and Secretary Treasurer Rowlinda Farrow sign checks where the amount is left blank. Your union's bylaws require that all checks be signed by the president and treasurer. The two signature requirement is an effective internal control of union funds. Its purpose is to attest to the authenticity of a completed document already signed. However, signing a blank check in advance does not attest to the authenticity of a completed check, and negates the purpose of the two signature requirement. OLMS recommends that District Lodge 110 review these procedures to improve internal control of union funds.

I want to extend my personal appreciation to IAM DL 110 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,



Lead Investigator

cc: Rowlinda Farrow, Secretary Treasurer