

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. 20210



September 10, 2008

Ms. Lori Ames
President
United Service Workers Union, IUJAT
138-50 Queens Boulevard
Briarwood, New York 11435-2642

RE: International Compliance Audit Program (I-CAP)
United Services Workers Union, IUJAT (USWU)
LM File Number 529-203

Dear President Ames:

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

On November 2, 2007, the I-CAP Team conducted an exit interview with Mr. Edward L. Byrne, Secretary-Treasurer; Mr. Vincent Panettieri, independent accountant; and Mr. Richard Greenspan, outside counsel. At that time, and during a follow-up conference call conducted on September 3, 2008, the I-CAP Team reviewed the audit findings, specified actions that the USWU must take to correct the deficiencies identified, and recommended actions to enhance the union's internal controls. This letter captures the audit's findings as generally discussed during the exit interview and follow-up conference call. 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 Deficiencies - LMRDA Section 201

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 USWU Form LM-2 for the fiscal year ending September 30, 2006. The deficiencies identified in this section must be corrected in an amended Form LM-2 for the report period ending September 30, 2006. Additionally, if your union's Form LM-2 for fiscal year ending September 30, 2007 contains any of the reporting deficiencies noted in this closing letter, that report must also be amended. Further, subsequent Form LM-2 filings must be prepared so as not to contain these deficiencies.

1. The USWU answered "Yes" to Item 10 (Trusts or Funds) and reported the full name, address, and purpose of two trusts, and that the trusts file reports with the Employee Benefits Security Administration (EBSA), in Item 69 (Additional Information). The USWU did not, however, report the relevant file number (EIN) of the two trusts in Item 69. Per the Form LM-2 instructions, the union must provide in Item 69 the full name, address, and purpose of each trust, the name of any government agency, such as EBSA, with which the trust files a publicly available report, and the relevant file number of the trust.
2. The USWU answered "Yes" to Item 17 (Contingent Liabilities) and explained that it was party to certain lawsuits and an administrative action in Item 69 (Additional Information). However, the union did not report sufficient detail in Item 69. Per the Form LM-2 instructions, the union must list in Item 69 the identity of the claimant or creditor for each contingent liability and the case number, court, and caption for each administrative or judicial action.
3. The USWU did not report any accounts receivable in Item 23 (Accounts Receivable) or Schedule 1 (Accounts Receivable Aging Schedule). The audit determined that the union had accounts receivable of at least \$19,207 for union dues not received as of September 30, 2006. The Form LM-2 instructions require the union to report the total of all accounts receivable at the start and end of the reporting period in Item 23 and Schedule 1.
4. The USWU reported total investments in Line 7 of Schedule 5 (Investments) and Item 26 (Investments) at market value, which was higher than cost. The Form LM-2 instructions require the total book value of all the labor organizations' marketable securities be specifically reported at the lower of cost or market. The union must report its total investments at cost in Schedule 5 and Item 26.

5. The USWU did not report the value of proprietary merchandise and office supply inventory on hand in Schedule 7 (Other Assets) and Item 28 (Other Assets). The union estimated the value of the proprietary merchandise to be \$2,617 as of September 30, 2006 but did not provide an estimate of the value of the office stock. The union must report the value of merchandise and office supply inventory in Schedule 7 and Item 28 as required by the instructions for the Form LM-2.
6. The USWU did not report any accounts payable in Schedule 8 (Accounts Payable Aging Schedule) or Item 30 (Accounts Payable). The Form LM-2 instructions require the total of all accounts payable at the start and end of the reporting period to be reported in Schedule 8 and Item 30. The audit determined that the union had accounts payable of at least \$18,343 as of September 30, 2006. Accounts payable must be properly reported in Schedule 8 and Item 30.
7. The USWU incorrectly described an investment in the amount of \$5,555 as "First Federal S & L" in Line 3 of Schedule 5 (Investments). This marketable security investment was determined to be GNMA bonds, not First Federal S & L. The description for this investment should be reported as GNMA bonds in Line 3 of Schedule 5.
8. The USWU did not include the cost, depreciation, and value of one of its USWU-owned vehicles in Schedule 6 (Fixed Assets). The vehicle's title and insurance documents identify USWU as the owner, even though the vehicle is used by the International Union of Journeymen and Allied Trades (IUJAT). Although IUJAT pays all costs associated with the vehicle, it is still registered in the name of USWU. The Form LM-2 instructions require reporting details of all fixed assets, such as land, buildings, automobiles and other vehicles, and office furniture and equipment owned by the labor organization in Schedule 6. Further, the I-CAP Team could not confirm other amounts reported in Schedule 6 because all assets could not be identified and located and/or the cost and value could not be verified. In order to satisfy the reporting requirements for fixed assets and report accurate and verifiable amounts in Schedule 6, all fixed assets must be identified and located; a physical inventory must be conducted; and all asset costs and values must be determined and accurately reported.
9. As mentioned above, the USWU owns a vehicle that is not reported in Schedule 6 (Fixed Assets). In addition, USWU did not report the liability

associated with this vehicle in Schedule 9 (Loans Payable). The Form LM-2 instructions require reporting details of all loans payable on which the labor organization owed money at any time during the reporting period. The union must report the loan for this USWU-owned vehicle in Schedule 9.

10. The USWU reported "Exchanges" as descriptions of assets in Column (A) of Schedule 7 (Other Assets) and Schedule 10 (Other Liabilities). The Form LM-2 instructions require that other assets and liabilities must be described in sufficient detail to identify the type of assets or liabilities. The union must include more detailed descriptions of these transactions, such as "Inter-Affiliate Transfers," in Schedules 7 and 10.
11. The USWU inadequately described the type of business or job classification in Column (B) of Schedule 15 (Representational Activities) for Charles Schleider as "Individual." The union also inadequately described the type of business or job classification in Column (B) of Schedule 15 for three other payees (Daniel Hughes, George Murtagh, and Theresa Richardson) as "Independent Contractor." The Form LM-2 instructions require reporting descriptions sufficient to adequately identify the type of business or job classification of the entity or individual receiving payments, such as printing company, office supplies vendor, lobbyist, think tank, marketing firm, legal counsel, etc. The union must adequately describe the type of business or job classification of Charles Schleider, Daniel Hughes, George Murtagh, and Theresa Richardson in Column (B) of Schedule 15.
12. The USWU reported \$62,054 in real estate taxes paid to NYC Department of Finance in Schedule 18 (General Overhead). The Form LM-2 instructions require all real estate taxes assessed against and paid by the organization to be reported in Item 65 (Direct Taxes).
13. The USWU reported "Consultant" as the purpose for a \$9,360 disbursement to the Segal Company and four \$10,000 disbursements to First Actuarial Consulting in Column (C) of Schedule 18 (Overhead). The union also reported "Legal" as the purpose for a disbursement to Richard M. Greenspan, P.C. in Column (C) of Schedule 19 (Union Administration). These descriptions are not sufficient to identify the purpose of these disbursements. The Form LM-2 instructions for Column (C) of Schedules 15 through 19 require reporting the purpose of each disbursement of \$5,000 or more, which means a brief statement or description of the reason the disbursement was made. Examples of adequate descriptions include the following: preparing

organizing campaign pamphlets, staffing a help desk, opposition research, litigation regarding representational issues, grievance arbitration, job retraining, etc. The union must provide more descriptive purposes for these disbursements.

14. The USWU reported disbursements for payroll services, investment fees, insurance, rentals and leasing, computer expenses, office supplies, telephone, mail, and postage in Schedule 15 (Representational Activities). These types of disbursements are reportable in Schedule 18 (General Overhead) unless they were paid for a specific representational expense, such as for a phone bank set up to coordinate an organizing campaign, in which case the disbursements must be reported in Schedule 15.
15. The USWU reported time percentages of 98% to 100% in the functional category of "Representational Activities" for the vast majority of officers and employees in Schedules 11 (All Officers and Disbursements to Officers) and 12 (Disbursements to Employees). These percentages were reported not only for organizers, but also for administrative officials, the controller, bookkeepers, and computer consultants. The union advised that the time percentages were reported based on information provided by individual officers and employees. The Form LM-2 instructions allow for these time percentages to be based on the good-faith estimates of the individual officers and employees. However, it would appear that the time percentages estimated by individual officers and employees were based on erroneous or incomplete understandings of the functional categories. Functional time percentages reported in Schedules 11 and 12 that are based on estimates provided by individual officers and employees must be based on the descriptions of the functional categories contained in the Form LM-2 instructions.

Inadequate Recordkeeping – LMRDA Section 206

Pursuant to Section 206 of the LMRDA, every person required to file any report under this title 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 necessary to verify reports filed within the last five years. Records, such as meeting minutes that note approval for spousal travel or officer salary increases, must be maintained for as long as they remain necessary to

verify current financial activities of the union. There were instances noted during this audit where the USWU did not comply with the recordkeeping requirements of Section 206. During the exit interview, USWU officials were informed that adequate records necessary to document all financial transactions, regardless of the amount, must be maintained for a minimum of five years.

16. The USWU reported 23,128 members in Item 20 (Number of Members). However, the union did not maintain documentation in sufficient detail to verify the accuracy and completeness of this membership figure. The union must maintain adequate membership data records as required by LMRDA Section 206.
17. The USWU advised that the time percentages reported in Schedules 11 (All Officers and Disbursements to Officers) and 12 (Disbursements to Employees) were reported based on information provided by individual officers and employees. The union further advised that the USWU Secretary-Treasurer sent a memorandum to officers and employees requesting that they provide a breakdown of their time devoted to each of the functional categories and that the Secretary-Treasurer reported their time percentages based on their responses to the memorandum. The union, however, did not retain the Secretary-Treasurer's memorandum or any record of the responses provided by the officers and employees. The union is required to maintain any records utilized to estimate the time percentages reported on the Form LM-2.
18. The USWU did not retain adequate documentation for all expenses incurred by its officers and employees. Labor organizations must retain original receipts, bills, and vouchers for all disbursements.

In some instances, USWU records pertaining to meal expenses included no written explanation of union business conducted or the full names and titles of all persons incurring those meal charges. In order to comply with LMRDA Title II, union records pertaining to meal expenses must include written explanations of union business conducted and the full names and titles of all persons incurring the restaurant charges.

In addition, officers and employees did not always submit itemized and detailed receipts for expense reimbursements and expenses charged to union credit cards. The union typically reimbursed expenses supported only by credit card statements or charge slips. Itemized receipts supplied by restaurants and other detailed receipts provided to officers and employees

must be maintained by the union. 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.

19. The USWU did not maintain adequate documentation to support the reported inventory. The union did not maintain adequate documentation to identify the location, cost and value of all fixed assets. To accurately verify, clarify, and explain the information that must be reported on the Form LM-2, the union must maintain an inventory and supporting documentation sufficient to identify the location, cost, and value of all fixed assets.
20. USWU officers and employees who were assigned union-owned or leased vehicles failed to maintain mileage logs documenting the business use of the vehicles. In the case of union-owned and leased vehicles, logs are required to be maintained for each vehicle documenting the date, number of miles driven, and business purpose for each use.

Internal Controls

Adequate internal financial controls are essential to prevent misuse of funds and to support the 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 matter, weaknesses in financial controls can lead to violations of Sections 501 of the LMRDA.

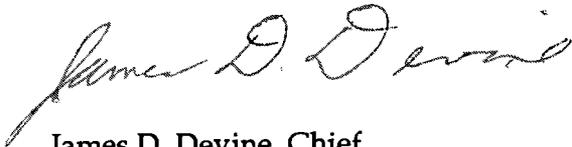
21. Duties involving the disbursement process, specifically regarding the preparation, recording, and issuance of checks, were not adequately segregated. Currently, signed checks are issued by the person who prepares and records the checks. The I-CAP Team recommends that an employee who has no access to the financial records receives all signed checks directly from the signer and issues them to the appropriate payees.
22. The audit revealed that petty cash replenishment checks are made payable to "Cash". As a financial safeguard, petty cash replenishment checks should be made payable to an individual responsible for the maintenance of the petty cash fund such as the Petty Cash Custodian.
23. The USWU usually did not have approval by a USWU officer for credit card charges and recurring expenses for travel. The I-CAP Team recommends that

all officer and employee expenses be reviewed and approved by a USWU officer.

As discussed in the exit interview, the USWU must submit, within thirty days from the date of this letter, a response letter to this closing letter, an amended Form LM-2 for the fiscal year ending September 30, 2006, and, if necessary, an amended Form LM-2 for the fiscal year ending September 30, 2007. The response letter must identify the corrective actions implemented by the USWU 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 USWU, 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 cursive script that reads "James D. Devine". The signature is written in black ink and is positioned above the typed name.

James D. Devine, Chief
Division of International Union Audits

cc: Edward L. Byrne, Secretary-Treasurer