



July 26, 2021

Mr. David Hickey, International President
Security, Police, Fire Professionals (SPFPA)
25510 Kelly Road
Roseville, MI 48066

Case Number: 041-6020050
LM Number: 000001

Dear Mr. Hickey:

This office has recently completed an audit of Security, Police, Fire Professionals (SPFPA) under the International Compliance Audit Program (I-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, International Secretary Treasurer Don Eagle, Executive Secretary Jaime Eichbrecht, Bookkeeper Rebecca Shepard, Attorney Scott Brooks, and Certified Public Accountants Laura Haynes and Paul Cenko, on July 22, 2021, the following problems were disclosed during the I-CAP. The matters listed below are not an exhaustive list of all possible problem areas since the audit conducted was limited in scope. Based on your assurance that SPFPA will remedy the areas of non-compliance with the LMRDA, OLMS will take no further action regarding the audit findings at this time.

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 (unless electronically maintained) 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 SPFPA's 2019-2020 records revealed the following recordkeeping violations:

1. General Reimbursed and Credit Card Expenses

SPFPA did not retain adequate documentation for reimbursed expenses and credit card expenses incurred by officer/employee name or use union officers and employees. For example, SPFPA purchased camera and video equipment totaling at least \$3,600. While purchase receipts were retained in union records, no record identifying the nature of the union business requiring the disbursement were found.

As noted above, labor organizations must retain original (unless maintained electronically) 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.

2. Receipt Dates not Recorded

Entries in SPFPA's general ledger reflect the date the union deposited money, but not the date money was received. SPFPA advised that it date stamps all checks received, but the audit revealed that not all checks were date stamped and no other record was maintained identifying the date of receipt. For example, SPFPA received reimbursement checks from SPFPA Officers and Staff Pension Trust Funds and maintained copies of the checks. However, the copies of the checks were not date stamped nor was the receipt date recorded in any other record. As another example, SPFPA received five checks totaling \$2,695.68 from employer Allied Universal for dues deductions during August 2019 on behalf of Local 462. The five checks were dated August 5, August 12, August 19, August 26, and September 2, 2019. Although SPFPA maintained copies of the five checks, a single date, September 9, 2019, was stamped on the copy of the checks. The receipt dates of the individual checks were not recorded in any other union record.

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.

3. General Journal Adjusting Entries

SPFPA did not adequately document many general journal debit and credit adjusting entries during the audit period. The audit revealed the SPFPA made at least 66 credit adjusting entries to its general ledger totaling at least \$1,400,000 as well as at least nine debit entries totaling more than \$390,000. While accountant workpapers were retained for some adjusting entries related to withholdings, most of the adjusting entries were not adequately explained or documented in the union's records. In most instances, multiple adjustments were aggregated into one general journal entry with no additional explanation and/or documentation.

For example, in March 2020, six adjusting debit entries were made to the general ledger, totaling \$346,838.39. The only supporting information were entries in the accounting software stating “03/20 GEN JOURNAL ENTRIES” for all six entries. Certified Public Accountant Laura Haynes advised that these journal entries were for employer tax, tax withholdings, pension tax, and service fees that were erroneously double booked from September 2019 through March 2020. At the end of the fiscal year, when these duplicate entries were discovered, additional adjusting entries were made to effectively “cancel out” the duplications. One large adjustment was made to each of the corresponding bookkeeping categories (e.g. federal withholding, FICA, Medicare, pension tax, and service fees, etc.). The purpose of these adjusting entries were not documented in any union record and Ms. Haynes had to explain these entries during the on-site portion of the audit. The purpose of the adjusting entry is required to verify, explain, or clarify amounts required to be reported in Statement B (Receipts and Disbursements) of the LM-2.

4. Lack of Authorization for Allowances and Fringe Benefits

SPFPA did not maintain records to verify that the automobile allowances reported in Schedules 11 (All Officers and Disbursements to Officers) and 12 (Disbursements to Employees) and the retirement account (401k) contributions made on behalf of the officers and employees in Schedule 20 (Benefits) were the authorized amount and therefore correctly reported. While the SPFPA Constitution provides for travel allowances and benefit payments for the full time SPFPA officers and international representatives, the level of the auto allowance or retirement benefit is not documented. The union must keep a record, such as meeting minutes, to show the current authorized allowances and fringe benefits by the entity or individual in the union with the authority to establish these allowances and fringe benefit payments.

Based on your assurance that SPFPA will retain adequate documentation in the future to comply with the requirements outlined above, OLMS will take no further enforcement action at this time regarding these issues.

Reporting Violations

Section 201(b) of LMRDA 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 SPFPA for the fiscal year ended March 31, 2020, were deficient in the following areas:

1. Loans Receivable

SPFPA improperly included payments to or on behalf of affiliated unions, credit card payments for personal expenses incurred by officers and employees, as well as credits owed from vendors (e.g. credits from car rental and airline companies) in Schedule 2 (Loan Receivable). For example, SPFPA reported disbursing a loan to you in the amount of \$2,616 during the audit period. However, the audit revealed these amounts were actually

personal charges that you incurred on the union credit card and subsequently repaid to the SPFPA. During the audit, both Secretary Treasurer Don Eagle and Ms. Haynes agreed that SPFPA did not actually make any loans, direct or indirect, to any officer, employee, or business entity. These transactions should have been reported in Schedule 1 (Accounts Receivable) for the payments made on behalf of affiliates and credits owed from vendors and in Column G (Other Disbursements) of Schedules 11 (All Officers and Disbursements to Officers) and 12 (Disbursements to Employees) for payments made to the credit card company for personal expenses incurred by officers and employees on the union credit card.

2. Investments

SPFPA did not include an investment in Schedule 5 (Investments). The audit revealed that SPFPA held private equity funds in brokerage account valued at least \$6,802. However, nothing is reported in Schedule 5. This investment was erroneously omitted from the report.

3. Disbursements to Officers and Employees

SPFPA did not correctly report payments to officers and employees in Schedule 11 (All Officers and Disbursements to Officers) and Schedule 12 (Disbursements to Employees). SPFPA erroneously included indirect disbursements for business expenses union personnel incur for transportation by public carrier for temporary lodging expenses while traveling on union business totaling in Schedules 11 and 12. For example, SPFPA reported at least \$138,000 in disbursements to American Airlines in Schedules 11 and 12. However, the union must report 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.

4. Failure to Itemize

SPFPA did not properly report several “major” transactions in Schedule 14 through 19. A “major” transaction includes any individual transaction of \$5,000 or more or total transactions to or from any single entity or individual that aggregate to \$5,000 or more during the reporting period and which the union cannot properly report elsewhere in Statement B. For example, SPFPA received reimbursements from SPFPA Officers

Pension Trust, totaling at least \$37,000, for federal taxes paid upon the pension's behalf. However, the audit found these receipts were not itemized in Schedule 14 (Other Receipts).

5. Failure to File LM-2 Reports by the Due Date

The president and treasurer, or corresponding principal officers, of each labor organization are required to file an annual financial report accurately disclosing the union's financial condition and operations. SPFPA has failed to file its annual financial report with OLMS by the due date required by Section 201(b) of the LMRDA since at least 2003. From fiscal year 2016-2020, SPFPA filed its LM report an average of 105 days late. Section 201(b) requires that annual financial reports be filed within 90 days after the end of the labor organization's fiscal year. SPFPA's fiscal year ends on March 31; therefore, the union must file its annual financial report by June 29th of each year.

I am not requiring that SPFPA file an amended LM report for 2020 to correct the deficient items, but SPFPA has agreed to properly report the deficient items on future reports, and timely file all future reports it files with OLMS.

Affiliate Violations

LMRDA Section 201(b) requires labor organizations to file annual financial reports accurately disclosing their financial condition and operations. The Labor Organization Annual Reports (Form LM-2/3/4) filed by SPFPA affiliates for the fiscal year ended March 31, 2020, found significant areas of non-compliance with the LMRDA. While LMRDA compliance is the affiliates' responsibility, OLMS identified significant issues and recommends SPFPA provide guidance to these subordinate unions. The affiliates' reports were deficient in the following areas:

1. Affiliates Failure to File LM Reports by the Due Date

Section 201(b) requires the president and treasurer, or corresponding principal officers, of each labor organization to file an annual financial report accurately disclosing the union's financial condition and operations by affiliated labor organizations. While not required by the international union, Ms. Haynes prepares the annual financial reports for most affiliates and the affiliates bear the cost for this service. During fiscal year 2019, 121 of the 161 affiliated labor unions did not file their LM reports by the due date. During fiscal year 2020, 142 of the 161 affiliated labor unions did not file their LM report by the due date. As noted above, Section 201(b) requires that annual financial reports (LM) be filed within 90 days after the end of the labor organization's fiscal year.

2. Affiliate LM Report Addresses

The address provided in Item 8 (Mailing Address) of the LM reports filed by 128 of 161 SPFPA affiliates was the address of the international union, not the mailing address of the local union. If the necessary records required to be kept by the labor organization to verify

the LM report are kept at a different address than the mailing address, such as at SPFPA Headquarters, Item 9 (Place Where Records are Kept) should be answered “No”, and additional information provided in Item 69 (Additional Information) of the LM-2 or Item 56 (Additional Information) of the LM-3. If the filer is an LM-4 filer, additional information should be provided in Item 19 (Additional Information).

3. Affiliate LM Report Phone Numbers

The audit revealed that the phone numbers provided in Items 70-71 (Signatures) of the LM-2, Items 57-58 (Signatures) of the LM-3, and Items 20-21 (Signatures) of the LM-4 filed by 72 of 161 SPFPA affiliates was the phone number of SPFPA, not the phone numbers of the local union officers. The LM instructions require the labor organization to enter the number at which the signatories conduct official business when he or she signs the report.

4. Affiliate LM-1 Report and Annual Financial Report Signatures

The audit revealed that you and Mr. Eagle signed at least 24 affiliate LM reports in Items 57-58 (Signatures) of the LM-3 and Items 20-21 (Signatures) of the LM-4. None of the affiliates were under trusteeship by SPFPA at the time the report were filed. In addition, you and Mr. Eagle signed at least 13 affiliate LM-1 reports in Items 20-21 (Signatures). The LM instructions require the reports be signed by both the president and treasurer, or corresponding principal officers, of the labor organization. Although the international representatives may assist local officers in the preparation of reports, there is no exception permitting international representatives to sign reports for local unions.

SPFPA advised it assisted its affiliates in correcting the deficient items, and timely file the fiscal year ended March 30, 2021 reports with OLMS. SPFPA will continue to assist affiliates in properly reporting the deficient items on future reports, and timely filing all future reports it files with OLMS.

Other Issues

1. Failure to Hold an Audit

During the audit, Ms. Haynes advised that no external audits or financial compilations have been conducted “for the last several years.” Article XV (Duties of International Board of Trustees), Section 1, of the SPFPA Constitution states, “The Board of Trustees shall designate a Certified Public Accountant to make an annual audit, and shall incorporate same in their report to the International Officers, Board members, and all affiliated Local Unions as soon as completed.” Periodic audits are an effective internal control of union funds. OLMS recommends SPFPA review its audit plans to improve internal control of union funds.

2. Personal Use of Credit Cards and Accounts

The audit revealed that SPFPA permits officers and employees to use union credit cards and credit accounts with American Airlines and Hertz to pay for personal expenses. Although officers and employees promptly repaid SPFPA for the personal expenses charged, OLMS recommends that unions adopt policies that prohibit personnel from making personal purchases with union credit cards or credit accounts, because permitting such practices may lead to misuse of union funds.

3. Policies and Procedures

The audit revealed that SPFPA does not have clear written policies regarding auto allowances, reimbursed expenses, credit card use, bonuses, and fringe benefits (e.g., pension, retirement, and flexible spending accounts). For example, some officers and employees receive a monthly automobile allowance, but there is no policy in place which outlines the authorization for the allowance, the amount of the allowance (which varies among officers and employees), and which expenses are covered by the allowance. OLMS recommends that unions adopt written guidelines concerning such matters to help ensure effective internal controls and safeguard union assets.

4. Use of a Signature Stamp

During the audit, Mr. Eagle advised that it is SPFPA's practice for bookkeeping staff to prepare all union checks and to stamp the signature of you and Mr. Eagle on union checks. 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, the use of a signature stamp for one or both signers does not attest to the authenticity of the completed check, and negates the purpose of the two signature requirement. OLMS recommends that SPFPA review these procedures to improve internal control of union funds.

I want to extend my personal appreciation to SPFPA 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
International Compliance Audit Program

cc: Mr. Don Eagle, Secretary Treasurer (sent via email)
Mr. Scott Brooks, Esq. (sent via email)