



April 27, 2020

Mr. Robert E. Cole, Business Manager/Financial
Secretary-Treasurer
Plumbers Local 577
1236 Galia Street
Portsmouth, OH 45662

Case Number: 350-6017584
LM Number: 003615

Dear Mr. Cole:

This office has recently completed an audit of Plumbers Local 577 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 you, Frank N. Hestand, CPA, and Attorney Gary Moore Eby of Manley Burke, LPA on March 13, 2020, 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 Local 577's 2019 records revealed the following recordkeeping violations:

1. General Reimbursed and Credit Card Expenses

Local 577 did not retain adequate documentation for reimbursed expenses and credit card expenses incurred by Business Manager/Financial Secretary-Treasurer Robert Cole totaling at least \$911.05. For example, invoices were not maintained for recurring credit card

charges for OnStar, SiriusXM, and High Performance CS totaling \$224.21. Further, Local 477 failed to retain the invoice for a Marathon Petro transaction on February 12, 2019, in the amount of \$45.52.

As noted above, labor organizations must retain original 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. Union Owned/Leased Vehicles

The union did not maintain records necessary to verify the accuracy of the information reported in Schedules 11 (All Officers and Disbursements to Officers) and 12 (Disbursements to Employees) of the LM-2.

Local 577 incurred expenses totaling at least \$627.36 for an automobile during 2019. However, Local 577 did not maintain records documenting business versus personal use of the union vehicle. I note Local 577's expense and reimbursement policy requires the tracking of business or personal use of the local's vehicle.

The LM-2 instructions include specific rules for the reporting of automobile expenses. The union must report operating and maintenance costs for each of its owned or leased vehicles in Schedules 11 and 12 of the LM-2, allocated to the officer or employee to whom each vehicle is assigned.

For each trip they take using a union owned or leased vehicle, officers and employees must maintain mileage logs that show the date, number of miles driven, whether the trip was business or personal, and, if business, the purpose of the trip.

3. Failure to Record Receipts

Local 577 did not record in its receipts records some member dues payments and interest received during December 2019 totaling at least \$9,990.23. The local also recorded quarterly rent checks received from the Plumbers & Steamfitters Local Union 577 Health & Welfare Fund and the Plumbers & Steamfitters Local 577 Pension Fund of \$1,200.00 each as a single entry of \$2,400.00. Further, the receipts record do not identify the employee benefit plans as the source of the receipts. 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.

4. Receipt Dates not Recorded

Entries in Local 507's QuickBooks entries reflect the date the union deposited money, 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.

5. Information not Recorded in Meeting Minutes

During the audit, Mr. Cole advised OLMS that the membership authorized the purchase of \$3,000.00 in gift cards for distribution to other local unions at the November or December 2018 membership meeting. Further, the August 2019 membership meeting minutes failed to include the membership's authorization to spend up to \$37,080.00 to remodel and furnish the local's office and conference room. Local 577's By-laws contain motions of continuous nature. Motion 8 provides that any amount of finances over \$2,000.00 must be submitted for a membership vote. However, the minutes of the meeting do not contain any reference to those issues. I note that during the audit, Cole provided Recording Secretary Brad Porter's notes documenting the authorization for the remodeling expense. Minutes of all membership or executive board meetings must report any disbursement authorizations made at those meetings.

6. Failure to Retain Original Receipt Records and Deposit Tickets

Local 577 failed to retain deposit tickets for deposit transactions on February 6, 2019, March 13, 2019, October 10, 2019, and November 20, 2019. Further, Local 577 failed to retain the notebook which recorded receipts from t-shirt and sweatshirt sales. Although I note Local 577 obtained copies of the deposit tickets from the bank and provided a spreadsheet of the apparel sales in 2019, labor organizations must retain original records for all receipts.

Based on your assurance that Local 577 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 Local 577 for the fiscal year ended December 31, 2018, was deficient in the following areas:

1. Failure to Properly Report Cash Items

During fiscal year ended 2018, Local 577 reported investments in certificates of deposit, money market funds, and bank deposits of at least \$1,155,722.00 in Schedule 5. Cash invested in certificates of deposit and money market accounts should be reported in Statement A, Item 22 – Cash.

2. Failure to Report Direct and Indirect Disbursements in Schedule 11

During fiscal year end 2019, Local 577 Cole charged at least \$1,066.00 in disbursements for gas, meals, car washes, SiriusXM, and OnStar. Further, Cole received \$600.00 in authorized additional convention expenses. Although similar credit card charges were incurred in fiscal year 2018, Schedule 11 only reported Cole's gross salary. All direct and indirect disbursements to officers, including operating and maintenance costs of any union-provided vehicle should be reported in Schedule 11.

3. Failure to Report Working Assessments as Dues and Agency Fees

During the 2018 fiscal year, the local reported working assessments in Statement B, Item 28 – Fees, Fines, Assessments, Work Permits. Working assessments are considered dues and reported in Statement B, Item 36 – Dues and Agency Fees.

4. Failure to Report All Dues Rates

The fiscal year end 2018 LM-2, Item 21, reported the working assessments of four percent, but did not report the monthly dues rate paid by members.

5. Failure to Properly Report Member Donations

During fiscal year 2018, Local 577 received member donations for the benefit of members experiencing medical issues, for later payment by Local 577 to the affected members. However, the LM-2 did not report the member donations in Statement B, Item 47 – From Members for Disbursement on Their Behalf. The total receipts from members that are specifically designation from members for transmittal by the labor organization should be reported in Item 47.

6. Failure to Properly Report Donated Assets

During fiscal year ended 2018, the local purchased \$3,000.00 in gift cards which were distributed to other local unions, but did not affirmatively answer Item 15 that it had donated the gift cards to local unions. Upon affirmatively answering the question, the local should have reported the following additional information in Item 69: The type of asset, its value, and the recipient of the donated asset.

I am not requiring that Local 614 file an amended LM report for 2018 to correct the deficient items, but Local 614 has agreed to properly report the deficient items on all future reports it files with OLMS.

Other Issues

1. Signatures on Checks

Mr. Cole is the only authorized signature on Local 577's accounts and per the by-laws, is the only officer with control and supervision over the daily affairs and business operations of the local. I discussed with you the safeguards associated with requiring two signatures on checks.

2. Segregation of Duties Related to Receipts

The audit revealed Office Manager Lori Riley receives and records member dues and death assessment payments, member donations, and apparel sales receipts. Further, Riley prepares the deposit slips and makes the deposits. Similarly, Mr. Cole receives the reciprocity checks and rent payments. Mr. Cole prepares the deposit slips and makes the deposits. I discussed with you the safeguards associated with segregating the duties with regard to processing receipts and the subsequent deposit of receipts.

3. Processing of Cash Receipts

During the audit, OLMS was unable to reconcile the cash received for dues and death assessments to the receipts recorded in the United Association Processing System (UAPS). During the period November 21, 2019 through January 28, 2020, receipts for dues payments and death assessments totaling \$1,570.00 recorded in UAPS did not identify whether the local received payment by credit, cash, or check. For the same period, OLMS was unable to reconcile cash receipts during the period to cash deposited and cash on hand. During the exit interview, you advised me the local was in the process of obtaining software to replace UAPS.

I want to extend my personal appreciation to Plumbers Local 577 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,

[REDACTED]

Investigator

cc: Mr. Frank N. Hestand, CPA

[REDACTED]