



July 27, 2020

Mr. Herbert Frohock, Business Manager
Plumbers Local 553
2 South Wesley
East Alton, IL 62024

Case Number: 510-6015110 [REDACTED]
LM Number: 013039

Dear Mr. Frohock:

This office has recently completed an audit of Plumbers Local 553 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, Executive Board Member Brett Schwalb, Office Secretary Nancy Jones, Accountant [REDACTED], and Attorney [REDACTED] on July 21, 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 553's 2018 records revealed the following recordkeeping violations:

1. Lack of Adequate Documentation for Disbursements

Local 553 did not retain adequate documentation for disbursements made by check and credit card totaling at least \$1,644.29 in credit card disbursements and \$746.50 in check

disbursements. For instance, Recording Secretary Brad Best used his union credit card to purchase airfare to Baltimore in the amount of \$362. No backup documentation was retained for this disbursement.

2. General Reimbursed and Credit Card Expenses

Local 553 did not retain adequate documentation for reimbursed expenses and credit card expenses incurred by union officers and employees totaling at least \$3,400. For example, adequate documentation was not retained for at least \$1,600 in miscellaneous union credit card disbursements. Also, Office Secretary Nancy Jones was reimbursed \$580.74 for a trip to an office personnel workshop in Michigan. Jones' personal credit card statement was retained; however, the airfare and hotel receipts were not retained.

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.

3. Meal Expenses

Local 553 did not require officers and employees to submit itemized receipts for meal expenses totaling at least \$335. The union 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 sufficiently fulfill the recordkeeping requirement of LMRDA Section 206.

Local 553 records of meal expenses did not always include written explanations of union business conducted or the names and titles of the persons incurring the restaurant charges. Union records of meal expenses must include written explanations of the union business conducted and the full names and titles of all persons who incurred the restaurant charges. Also, the records retained must identify the names of the restaurants where the officers or employees incurred meal expenses.

4. Lack of Salary Authorization

Local 553 did not maintain records to verify that the salaries reported in Schedules 11 (All Officers and Disbursements to Officers) and 12 (Disbursements to Employees) of the LM-2 was the authorized amount and therefore was correctly reported. The union must keep a record, such as meeting minutes, to show the current salary authorized by the entity or individual in the union with the authority to establish salaries.

Based on your assurance that Local 553 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 553 for the fiscal year ended December 31, 2018, was deficient in the following areas:

1. Disbursements to Officers and Employees

Local 553 did not include some reimbursements to officers and employees / payments to officers and employees totaling at least \$3,794.19 in Schedule 11 (All Officers and Disbursements to Officers) and Schedule 12 (Disbursements to Employees). It appears that the local 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. Automobile Expenses

Local 553 inaccurately reported automobile expenses in Schedule 11 (All Officers and Disbursements to Officers) Column E. Automobile expenses are required to be reported in Schedule 11, Columns F and G.

The LM-2 instructions provide two methods for reporting automobile-related expenses. The union must report in Schedules 11 and 12 direct and indirect disbursements for the operation and maintenance of union owned and leased vehicles and the operation and maintenance of vehicles owned by union personnel (including gasoline, repairs, and insurance). The union may divide the expenses and report them in Columns F and G based on miles driven for union business (supported by mileage logs) compared with miles driven for personal use.

Alternatively, rather than allocating the expenses between Columns F and G, if 50 percent or more of an officer's or an employee's use of a vehicle was for official business, the union may report all of the expenses relative to the vehicle assigned to the officer or employee in Column F of Schedule 11 or 12 with an explanation in Item 69 (Additional Information) that the officer or employee used the vehicle part of the time for personal business. Similarly, if a vehicle assigned to an officer or employee was used less than 50 percent of

the time for business, all of the expenses relative to that vehicle may be reported in Column G with an explanation in Item 69 that the officer or employee used the vehicle partly for official business.

Local 553 must file an amended Form LM-2 for the fiscal year ended December 31, 2019, to correct the deficient items discussed above. The report must be filed electronically using the Electronic Forms System (EFS) available at the OLMS website at www.olms.dol.gov. The amended Form LM-2 must be filed no later than August 21, 2020. Before filing, review the report thoroughly to be sure it is complete and accurate.

Other Issues

1. Lack of Checks and Balances

The local's bylaws authorize the business manager to make most union disbursements without obtaining additional authorization or approval from the local's membership or executive board. OLMS recommends using a system of checks and balances to insure that one person is not solely responsible for most or all financial transactions.

2. Expense Policy and Credit Card Usage Policy

As I discussed during the exit interview with you and the other meeting attendees, the audit revealed that Local 553 does not have a clear policy regarding the types of expenses personnel may claim for reimbursement and the types of expenses that may be charged to union credit cards. OLMS recommends that unions adopt written guidelines concerning such matters.

3. Spouses and Other Individuals Incurred Expenses in the Union's Name

During the opening interview, you stated that spouses and other individuals are not permitted to incur expenses in the union's name; however, during the audit, it was determined that spouses and other individuals did incur expenses in the union's name. Union officers and employees traveled to the Illinois Pipe Trades Convention in May 2018. The officers and employees were accompanied by their spouses and significant others. On May 17, 2018, a credit card charge of \$145.52 was made at Firehouse Pizza in Bloomington, Illinois and on May 18, 2018, two credit card charges totaling \$644.48 were made at Medici in Normal, Illinois. The union's records indicate the charges were for meals and drinks for the union officers, employees, and their spouses and significant others. You stated that it has been the past practice of the local to allow the officers and employees attending the Illinois Pipe Trades Convention to charge one meal to the union credit card for themselves and their spouses and significant others. Again, OLMS recommends preparing a detailed expense policy and credit card usage policy that clearly states what is and is not an authorized union expense.

4. One Signature Per Check/Signature Printed on Checks

Your union's bylaws only require that checks be signed by the business manager. Also, during the opening interview, you stated when the office secretary prints checks using QuickBooks, the business manager's signature is printed on the checks. Having a 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. OLMS recommends that Local 553 review these procedures to improve internal control of union funds.

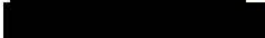
I want to extend my personal appreciation to Plumbers Local 553 for the cooperation and courtesy extended during this compliance audit. I strongly recommend that you make sure this letter and the compliance assistance materials provided to you are passed on to future officers. If we can provide any additional assistance, please do not hesitate to call.

Sincerely,



Investigator

cc: Mr. Brett Schwalb, Executive Board Member

 Accountant Attorney