

**U.S. Department of Labor**

Employment Standards Administration  
Office of Labor-Management Standards  
Chicago District Office  
230 South Dearborn Street  
Room 774, Federal Office Building  
Chicago, IL 60604  
(312)596-7160 Fax: (312)596-7174



September 27, 2007

Mr. Jakob Miller, President  
Postal and Fed Empls Alliance, IND  
Local 701  
1225 E. 79<sup>th</sup> St.  
Chicago, IL 60619-3307

LM File Number: 090-648

Case Number: [REDACTED]

Dear Mr. Miller:

This office has recently completed an audit of 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, Recording Secretary Charles Cooper, and Financial Secretary Phyllis McField on August 15, 2007, 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 701's 2006 records revealed the following recordkeeping violations:

1. Failure to Maintain Adequate Receipts Records

Local 701 did not maintain receipt records for any funds received by the local during the audit year. The audit revealed that the local received approximately \$7,268 in receipts that were not recorded in any union document. As stated previously, the union must keep a record that includes adequate identification of all money the union receives. The record should show the date and amount received, and the source of the money.

2. Failure to Maintain All Bank Statements and Cancelled Checks

Local 701 did not maintain all bank statements and cancelled checks received during the audit year. The audit revealed that Local 701 did not maintain all bank statements received from Illinois Service Federal Savings and Loan and the National Alliance of Postal and Federal Employees Federal Credit Union. Local 701 also failed to maintain all copies of cancelled checks received from Illinois Service Federal Savings and Loan. The union must maintain all bank records for all accounts. This includes all bank statements, debit or credit memos, cancelled checks, and any other documentation provided by the bank.

3. Failure to Maintain Adequate Disbursement Records

The audit revealed that Local 701 failed to maintain adequate documentation for disbursements totaling at least \$2,800. For example, Local 701 did not retain any receipts or other documentation for all petty cash disbursements. You explained that the local maintains a petty cash fund of \$200.00 for various office related purchases. However, besides a few postage receipts, you were unable to provide any disbursement records or receipts that noted the purpose of the disbursements made from the petty cash fund totaling \$600.00.

As previously noted, the union must retain original receipts, bills, and vouchers for all disbursements. In addition, the date, amount, and business purpose of every disbursement must be recorded on at least on union record. The president

and treasurer, who sign the union's LM report, are responsible for properly maintaining union records.

The proper maintenance of union records is the personal responsibility of the individuals who are required to file Local 701's LM report. You should be aware that under the provision of Section 209(a) of the LMRDA and Section 3571 of Title 18 of the U.S. Code, willful failure to maintain records can result in a fine of up to \$100,000 or imprisonment for not more than one year, or both. Under the provisions of Section 209(c) of the LMRDA and Section 3571 of Title 18 of the U.S. Code, willful destruction or falsification of records can result in a fine of up to \$100,000 or imprisonment for not more than one year, or both. The penalties provided in Section 290(c) and Section 3571 of Title 18 apply to any person who cause the violations, not just the individuals who are responsible for filing the union's LM report.

Based on your assurance the Local 701 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. Local 701's Labor Organization Annual Report Form LM-4, for fiscal year ending December 31, 2006 had not yet been filed. The LMRDA requires that the president and treasurer of your union are required to file an annual financial report with the OLMS within 90 days after the end of the fiscal year. Therefore, your union's report should have been filed by March 31, 2007. As the LM-4 report was filed on September 21, 2007, OLMS will take no further enforcement action at this time.

#### Other Violations

##### Inadequate Bonding

The audit revealed a violation of LMRDA Section 502 (Bonding), which requires that union officers and employees be bonded for no less than 10 percent of the total funds those individuals or their predecessors handled during the preceding fiscal year.

Local 701's officers are not currently bonded, but they must be bonded for at least \$2,280. This amount includes the 10% coverage for the local's president, treasurer,

and financial-secretary as each of these individuals handled all union funds during the last fiscal year. Local 701 should obtain adequate bonding coverage for its officers immediately. Please provide proof of bonding coverage to this office as soon as possible, but not later than October 18, 2007.

Other Issues

During the audit, you advised that the local uses disbursement vouchers that require two union officers, either the president, financial secretary, or the treasurer, review the disbursement and sign the voucher. The audit revealed that the local did not consistently require two signatures on the disbursement vouchers. Section H of Local 701's Constitution and Bylaws states that the president and financial secretary are responsible for signing all warrants of expenditures. 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, failing to require the second signature does not attest to the authenticity of the completed disbursement voucher, and negates the purpose of the two signature requirement. OLMS recommend that Local 701 review these procedures to improve internal control of union funds.

I want to extend my personal appreciation to NAPFE Local 701 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: Sharron Chappel, Treasurer  
Charles Cooper, Recording Secretary  
Phyllis McField, Financial Secretary