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Mr. James Joyce,Secretary-Treasurer
Postal Workers, American, AFL-CIO
Local 271
P.O. Box 601
Flint, MI 48501

LM File Number: 086-336

Case Number: [REDACTED]

Dear Mr. Joyce:

This office has recently completed an audit of APWU Local 271 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, President Debbie Lutz, and Vice President Scott Mitchell on July 10,2008, 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 271's 2007 records revealed the following recordkeeping violations:

1. Lost Wages

Local 271 did not retain adequate documentation for lost wage reimbursement payments to union officers, union officers and employees totaling at least \$22,090.85. The union must maintain records in support of lost wage claims that identify the dates and times (e.g. 8:00 a.m. to 4:00 p.m.) lost wages were incurred, the number of hours lost on each date, the applicable rate of pay, and a description of the union business conducted. The OLMS audit found that Local 271 officers consistently failed to identify on their lost wage vouchers the union business conducted, and in three instances, failed to note the dates and times lost wages were incurred.

During the exit interview, I provided a sample of an expense voucher Local 271 may use to satisfy this requirement. The sample identifies the type of information and documentation that the local must maintain for lost wages and other officer expenses.

2. Debit Card Purchases

Local 271 did not retain original receipts for debit card purchases made by union officers and employees in at least one instance. For example, on August 15, 2007, the local made a debit card purchase of \$33.34, but failed to retain a receipt for the purchase. As previously 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. Reimbursed Auto Expenses

Union officers and employees who received reimbursement for business use of their personal vehicles did not retain adequate documentation to support payments to them totaling at least \$551.35 during 2007. The union must maintain records which identify the dates of travel, locations traveled to and from, and number of miles driven. The record must also show the business purpose of each

use of a personal vehicle for business travel by an officer or employee who was reimbursed for mileage expenses.

4. Meal Expenses

Local 271 did not require officers and employees to submit itemized receipts for meal expenses totaling at least \$173.36. 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.

In addition, Local 271 records of meal expenses did not include written explanations of union business conducted or the names and titles of the persons incurring the restaurant charges for meal expenses totaling at least \$307.39. For example, on November 3, 2007, the local expensed an \$80 meal, but did not retain an itemized receipt or note the names of the meal attendees or the union business conducted. 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 and addresses of the restaurants where the officers or employees incurred meal expenses.

5. Door Prize Records

Local 271 awarded door prizes at its membership meetings in the form of checks to cash for \$20 or \$25, which totaled \$410. However, the local failed to record the names of the recipients of the door prizes. The local must record the recipients' names to ensure that the disbursements are accurately reported on the union's form LM-3.

6. Failure to Record Receipts and Receipt Dates and Sources

Local 271 did not record in its receipts records some receipts totaling at least \$561.60. For example, the local's checking account received eight direct deposits from the APWU National Union that were intended for the local's retirees chapter, which has its own bank account. Because the funds were not intended for the local, and the local later forwarded the funds to the retirees chapter, the local did not include the deposits as receipts in its records.

Additionally, some entries in Local 271's receipts journal reflect the date the union deposited money, but not the date on which money was received or the source from which it was received. For example, the local failed to record the date received and source of a \$500 deposit made on March 21, 2007.

Union receipts records must include an adequate identification of all money the union receives, including the date and amount received, and the source of the money. 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-3. The LM-3 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.

7. Fixed Assets

Local 271 failed to maintain records showing that assets totaling \$4,513.39 had been scrapped. The following assets were listed on the local's inventory of fixed assets, but were not present at the union hall: 1 USA Video TV; 1 EKOS Mid Tower Computer (Pentium 166), and a 17-inch monitor; 1 EKOS Computer and 1 Deskjet 895; 2 17-inch Samtron Monitors; and 1 Dell 4600. You stated that the Dell 4600 crashed in February or March 2008, and the remaining assets were scrapped at some point between 2005 and July 2008.

Local 271 must maintain records that show the manner in which the organization disposed of assets, such as donating office furniture or equipment to charitable organizations, trading in assets, writing off a receivable, or giving away other tangible or intangible property of the labor organization. The record must include the type of asset, its value, and the identity of the recipient or donor, if any, as well as the cost or other basis at which any assets disposed of were carried on your organization's books. Such records are required to verify the accuracy and completeness of the information required to be reported in Item 13 (Acquisition or Disposition of Assets) on the local's LM-3 report.

Based on your assurance that Local 271 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-3) filed by Local 271 for fiscal year ending December 31, 2007, was deficient in the following areas:

1. Disbursements to Officers

Local 271 did not include some reimbursements to officers totaling at least \$10,996.28 in the amounts reported Item 24 (All Officers and Disbursements to Officers). For example, you received disbursements for expenses totaling \$1,037.06, and President Debbie Lutz received disbursements for expenses totaling \$3,019.31, but they were not reported next to your names in Item 24. It appears the union erroneously reported these payments in Items 48 (Office and Administrative Expense) and 54 (Other Disbursements).

The union must report most direct disbursements to Local 271 officers and some indirect disbursements made on behalf of its officers in Item 24. A "direct disbursement" to an officer is a payment made to an officer in the form of cash, property, goods, services, or other things of value. See the instructions for Item 24 for a discussion of certain direct disbursements to officers that do not have to be reported in Item 24. An "indirect disbursement" to an officer is a payment to another party (including a credit card company) for cash, property, goods, services, or other things of value received by or on behalf of an officer. However, indirect disbursements for temporary lodging (such as a union check issued to a hotel) or for transportation by a public carrier (such as an airline) for an officer traveling on union business should be reported in Item 48 (Office and Administrative Expense).

2. Fixed Assets

Local 271 incorrectly reported the value of its office furniture and equipment in Item 30 (Other Assets.) The book value at the start and end of the reporting period of all fixed assets, including land, buildings, automobiles, and office furniture and equipment owned by the union must be reported in Item 29 (Fixed Assets). The book value of fixed assets is cost less depreciation (if any).

3. Door Prizes

As noted above, Local 271 awarded door prizes at its membership meetings in the form of checks to cash for \$20 or \$25, which totaled \$410. It appears that the local erroneously reported those disbursements in Item 54 (Other Disbursements). Checks issued to prize winners must be reported in Item 51 (Contributions, Gifts, and Grants), with the exception of those prizes won by officers, which must be reported next to each officer's name in Item 24 (All Officers and Disbursements to Officers).

4. Direct Deposits as Receipts and Disbursements

As noted above, Local 271 did not record in its receipts or disbursements records direct deposits to its account totaling at least \$561.60, or the corresponding disbursements of at least \$561.60. The local also failed to properly report these receipts and disbursements on its form LM-3 in Item 43 (Other Receipts) and Item 54 (Other Disbursements), respectively. The local must report in Item 43 all receipts other than those reported elsewhere, including proceeds from the sale of supplies, loans obtained, repayments of loans made, rents, and funds collected for transmittal to third parties. The local must report in Item 54 all disbursements made but not reported elsewhere, including fees, fines, assessments, supplies for resale, repayments of loans obtained, transmittals of funds collected for third parties, educational and publicity expenses, withholding taxes, and payments for the account of affiliates and other third parties.

Local 271 has filed an amended Form LM-3 for fiscal year ending December 31, 2007 to correct the deficient items discussed above, and agreed to properly report the deficient items on all future reports it files. Therefore, OLMS will take no further enforcement action at this time regarding this issue.

Other Violation

The audit disclosed the following other violation:

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.

The audit revealed that Local 271's officers and employees were not bonded for the minimum amount required at the time of the audit. However, the union obtained adequate bonding coverage and provided evidence of this to OLMS during the audit. As a result, OLMS will take no further enforcement action regarding this issue.

Other Issues

1. Expense Policy

As I discussed during the exit interview with you, Ms. Lutz, and Mr. Mitchell, the audit revealed that Local 271 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.

2. Duplicate Receipts

Some retired members of Local 271 pay dues directly to the union, and the local occasionally receives per diem reimbursements from members who travel on local union business. You record the payments in the union's receipts journal, but do not issue receipts to the payers. OLMS recommends that Local 271 use a duplicate receipt system where the union issues original pre-numbered receipts to all members who make payments directly to the union and retains copies of those receipts. A duplicate receipt system is an effective internal control because it ensures that a record is created of income which is not otherwise easily verifiable. If more than one duplicate receipt book is in use, the union should maintain a log to identify each book, the series of receipt numbers in each book, and to whom each book is assigned.

3. Two Signatures on Checks

The LMRDA outlines general fiduciary responsibilities for officers and employees of labor organizations. Union officials occupy positions of trust and, therefore, must ensure that the union's funds and other assets are used solely for the benefit of the union and its members. To prevent, or at least inhibit, the misuse of their funds, most organizations install internal controls over the handling of their finances. The audit disclosed that union checks were signed by only one officer. This is not a recommended financial practice, and Local 271 is encouraged to adopt a policy requiring that all checks drawn on the union's bank account have a second signature, and ensure that each signer fully understands that his fiduciary

responsibilities demand that checks be signed only after they are completely filled out and he knows the purpose and legitimacy of each transaction.

4. Checks to Cash

Local 271 issued 19 checks to "cash" during the audit period. Checks to "cash" may be easily negotiated by unauthorized individuals. An effective internal control that your union should consider implementing to prevent this from occurring is to prohibit the practice of drawing checks to "cash," and issue each check in the name of the intended payee. If cash is required to replenish a properly documented petty cash fund, it should, nevertheless, be obtained by drawing checks in the name of the custodian in order to provide the union with a paper trail of all check disbursements.

I want to extend my personal appreciation to Local 271 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: Debbie Lutz, President