

U.S. Department of Labor

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September 30, 2009

Mr. Vasilios Grias, President
Steelworkers, AFL-CIO
Local 2-2659
14024 Fort Street
Southgate, MI 48195

LM File Number: 028-920

Case Number: [REDACTED]

Dear Mr. Grias:

This office has recently completed an audit of Steelworkers Local 2-2659 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 and Financial Secretary Dina Mendis on July 13, 2009, 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 2-2659's 2008 records revealed the following recordkeeping violations:

1. Failure to Sufficiently Document Hall Rental Receipts

Local 2-2659 failed to maintain sufficiently detailed records concerning the collection of \$6,175 of hall rental receipts. Although the amounts of such funds were recorded in the union's books, the books did not disclose the identity of the source(s) and reflected the dates the union deposited the money, not the dates money was received. The date and source of receipts are required to verify, explain, or clarify amounts required to be reported in Statement B (Receipts and Disbursements) of the LM-3 report. 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.

2. Invoices, Bills, and Receipts

Local 2-2659 did not retain original invoices, bills, or receipts for \$900 in union disbursements. The union maintained check stubs to explain some of the disbursements; however, the check stubs were not sufficient to verify, clarify, or explain 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. Specifically, the union failed to maintain an original invoice from [REDACTED] for snow plowing services rendered and a flyer concerning a concerning a National Kidney Foundation charity golf outing to which the local purchased \$500 in tickets. 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. Vacation Pay

Local 2-2659 failed to maintain any record to document the date and amount of vacation pay that you received during the fiscal year. In the union opening interview, you disclosed that you maintain a calendar that reflects the dates you

receive vacation pay. The calendar also serves as a record of the remainder of vacation pay you are entitled to in a given year. The union failed to maintain this calendar making it impossible to verify that no abuses with vacation pay occurred. As the union operates under a use-or-lose vacation policy under which the local president receives three weeks of vacation time annually, the union must keep some type of record that documents the dates and amounts of compensation for vacation pay. Such records are required as income from vacation pay is reported in Item 24(d) (Gross Salary) on the LM-3 report.

4. Disposition of Property

During the audit period, Local 2-2659 spent \$500 to purchase tickets to a National Kidney Foundation charity golf outing. The tickets were subsequently given away to members at a membership meeting. The local failed to maintain adequate records to account for the property. The detail of records required to be maintained for items given away is dependent upon the manner in which the property is distributed. In a case like this involving a one-time distribution, the union can most easily satisfy the recordkeeping requirement by attaching a list of the names of individuals who receive the items. In the case of items frequently distributed, the union can meet the recordkeeping requirement by maintaining an inventory record and requiring union personnel who distribute the items to record on the inventory record the date and quantity taken from supplies on hand.

5. Reimbursed Officer Expenses

Local 2-2659 did not retain adequate documentation for expense reimbursement payments to you totaling \$207.72 for the purchase of office supplies and contract negotiations lunches. As previously noted above, labor organizations must retain original receipts, bills, and vouchers for all disbursements. The date, amount, and business purpose of every expense must be recorded on at least one union record. In addition, the names of individuals present for meal expenses and the locations (names of restaurants) where meal expenses were incurred must be recorded. 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.

Based on your assurance that Local 2-2659 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(a), which requires that a union submit a copy of its revised constitution and bylaws with its LM report when constitution or bylaw changes are made. Local 2-2659 amended its constitution and bylaws in 2000, but a copy was not filed with its LM report for that year. A copy of Local 2-2659's constitution and bylaws has now been filed with OLMS.

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 2-2659 for the fiscal year ending December 31, 2008, was deficient in the following areas:

1. Loans to Officers

Local 2-2659 made a loan to an officer in the form of a payroll advance totaling \$771.99, but did not properly report the loan on the Form LM-3. It appears that the local erroneously reported the payments in Schedule 24.

Local 2-2659 must answer Item 18 (loans) "Yes" if if any officer, employee, or member owed your organization, together with any subsidiary organization, more than \$250 at any time during the reporting period; or if your organization made a loan, regardless of amount, to any business enterprise during the reporting period. Include any direct or indirect loans whether or not evidenced by a promissory note or secured by a mortgage. Advances, including salary advances, are considered loans and must be reported in Item 18. If Item 18 is answered "Yes," report in Item 56 the name of each individual and business enterprise, the amount each individual owed at the end of the reporting period, and the amount loaned to each business enterprise during the reporting period. Also, report in Item 56 the purpose, terms for repayment, and any security for each such loan.

Further details of the loan should be reported in Items 53 (Loans Made), 26 (Loans Receivable), and 43 (Other Receipts). Local 2-2659 is required to report in Item 53 (Loans Made) the total disbursements for direct and indirect loans, including advances made by the labor organization at any time during the reporting period. Item 26 (Loans Receivable) should reflect the total of all loans owed to the organization at the start and end of the reporting period in Columns (A) and (B), respectively. Local 2-2659 must report any receipts resulting from the repayment loans in Item 43 (Other Receipts).

2. Benefit Payments to Officers

Local 2-2659 made \$9,772 in direct disbursements to you for healthcare benefits but did not properly report the payments on the Form LM-3. It appears that the local erroneously reported the payments in Schedule 24, Column E, instead of Item 50 (Benefits).

The union must report the total of all direct and indirect benefit disbursements made in Item 50 (Benefits). Direct benefit disbursements are those made to officers, employees, members, and their beneficiaries from your organization's funds. Indirect benefit disbursements are those made from your organization's funds to a separate and independent entity, such as a trust or insurance company, which in turn and under certain conditions will pay benefits to the covered individuals. An example of an indirect benefit disbursement is the premium on group life insurance.

3. Expense Reimbursement Payments

Local 2-2659 failed to report \$308 in payments to you and \$224 in payments to Ms. Mendis in Column (E) of Item 24 (All Officers and Disbursements to Officers). The union must report in Column (E) the total of all other direct and indirect disbursements to each officer other than salary, including allowances, disbursements which were necessary for conducting official business of your organization, and disbursements essentially for the personal benefit of the officer and not necessary for conducting official business of your organization.

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 for room rent charges only) or for transportation by a public carrier (such as an airline) for an officer traveling on union business may be reported in Item 48 (Office and Administrative Expense).

4. Acquire/Dispose of Property

Item 13 (During the reporting period did your organization acquire or dispose of any assets in any manner other than by purchase or sale?) should have been

answered "Yes," because Local 2-2659 gave away tickets to a National Kidney Foundation charity golf outing totaling \$500 during the year. The union must identify the type and value of any property received or given away in the additional information section of the LM report along with the identity of the recipient(s) or donor(s) of such property. In the case of items frequently distributed, the union does not have to itemize every recipient of such giveaways by name. The union can describe the recipients by broad categories, if appropriate, such as "members" or "new retirees." In addition, the union must report the cost, book value, and trade-in allowance for assets that it traded in.

5. Dues

Local 2-2659 failed to report \$392 in dues income in Item 38 (Dues). The union must report all dues received in Item 38. This includes dues received directly by your organization from members, dues received from employers through a check-off arrangement, and dues transmitted to your organization by a parent body. The union must report the full amount of dues received including any portion that will later be transmitted to an international or parent body as per capita tax. The union must also report payments in lieu of dues received from any nonmember employees as a condition of employment under a union security provision in a collective bargaining agreement.

6. Interest

Local 2-2659 overstated the interest earned on its bank accounts by \$6,175 in Item 41 (Interest and Dividends). The union must report all interest and dividends received from savings and checking accounts, bonds, mortgages, loans, investments, and all other sources.

7. Other Receipts

Local 2-2659 failed to report \$5,382 in rental income in Item 43 (Other Receipts). The union must report all receipts not reported in Items 38-42 in Item 43. This includes vending machine commissions, raffle income, sale of supplies, loans obtained, repayments of loans made, rents, and funds collected for transmittal to third parties.

8. Assets, Receipts, and Disbursements

The total assets, receipts, and disbursements reported in Items 31(b), 44, and 55 (Total Assets (End of Reporting Period), Total Receipts, and Total Disbursements,

respectively) do not match the total figures in the union's records. The local must accurately report total receipts and total disbursements on its LM-3 report.

The instructions for Statement A (Assets) of Form LM-3 state that you must report all your organization's cash on hand and on deposit at the start and end of the reporting period in Columns (A) and (B), respectively. Include all cash on hand, such as undeposited cash, checks, and money orders; petty cash; and cash in safe deposit boxes. Cash on deposit includes funds in banks, credit unions, and other financial institutions, such as checking accounts, savings accounts, certificates of deposit, and money market accounts. Also, include any interest credited to your organization's account during the reporting period.

The instructions for Statement B (Receipts and Disbursements) of Form LM-3 state that receipts must be recorded when money is actually received by the union and disbursements must be recorded when money is actually paid out by the union. Transfers between separate bank accounts or between special funds of your organization, such as vacation or strike funds, do not represent the flow of cash in and out of your organization. Therefore, these transfers should not be reported as receipts and disbursements of your organization.

I am not requiring that Local 2-2659 file an amended LM report for 2008 to correct the deficient items, but Local 2-2659 has agreed to properly report the deficient items on all future reports it files with OLMS.

Other Issues

The audit disclosed the following other issues:

1. Payroll Advances

The audit disclosed that you received a payroll advance on July 17, 2008, for \$771.99, which was not properly approved and was not promptly repaid. You received the advance after receiving approval from the financial secretary and treasurer of Local 2-2659; however, the payroll advance was never specifically disclosed to the membership for approval. The advance was given to you contingent on its repayment by December 31, 2008; however, the loan was not repaid until May 29, 2009. Discussions with Steelworkers District 2 officials disclosed that you were operating outside of Steelworkers policy and that specific approval of any payroll advance should be given by the membership.

Section 503(a) of the LMRDA prohibits labor organizations from making loans to any officer or employee that result in a total indebtedness in excess of \$2,000. For the purposes of this section, as well as reporting on the Form LM-3, salary or stipend advances are considered loans until the salary or stipend has been earned. Therefore, OLMS recommends that Local 2-2659 adopt a written policy that clarifies the circumstances under which stipend advances may be made and the terms of any repayments. The policy should acknowledge the prohibition against total indebtedness exceeding \$2,000.

You stated that you were not aware that stipend advances were considered loans subject to Section 503(a). Based on your assurance that Local 2-2659 will implement a written policy concerning all future payroll advances, OLMS will take no further enforcement action at this time regarding this matter.

2. Vouchers

In the opening interview of the audit, you disclosed that Local 2-2659 currently utilizes a financial safeguard that requires the president of Local 2-2659 to sign all vouchers to document the review and authorization of expenses. An OLMS review disclosed 12 vouchers totaling \$4,667.19 that failed to contain your signature. The officers of Local 2-2659 should be careful to follow all union required internal financial controls, as they are an effective way to prevent, or at least inhibit, the misuse or embezzlement of union funds.

3. Lost Wages

The OLMS audit found that the local maintained vouchers to support lost time claims; however, the claim dates on four vouchers were found to be inaccurate. The local did not retain adequate documentation for lost wage reimbursement payments to Financial Secretary Dina Mendis and Treasurer David Dempsey totaling at least \$950.20. 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. Special emphasis must be paid to the accuracy of records as the union's failure to accurately record information could ultimately result in the union reporting erroneous information on internal union reports as well as LM reports.

4. Signing Checks in the Name of an Absent Officer

The audit disclosed that on at least three occasions, you gave permission to then-Secretary Sharon Muncey to sign your name on union checks. You indicated that you were out-of-town when the aforementioned checks needed to be signed. By allowing an individual to sign your name on union checks, you are overriding important internal financial controls as well as Steelworkers' policy. 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 union funds, the officer's signature reflected on the check must be authentic in order to legitimize each transaction. Local 2-2659 is encouraged to adopt a policy that prohibits individuals from signing any name other than their own on union documents.

5. Duplicate Receipts

Local 2-2659 frequently rents its union hall to union members, labor organizations, and other individuals. OLMS recommends that Local 2-2659 use a duplicate receipt system where the union issues original pre-numbered receipts to any individual or entity that rents the union hall, 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. Furthermore, Local 2-2659 officers should consider performing a cash count when money is turned over to another officer and sign a receipt that documents the parties involved and the date and amount of funds handed over.

6. Officer Responsibilities and Compensation

As previously mentioned, the audit disclosed that Local 2-2659 amended its constitution and bylaws in 2000. The local union bylaws contain salary and expense compensation rates for various Local 2-2659 officers as well as officer responsibilities. Review of the local's meeting minutes disclosed that the membership has altered the rates of compensation for various officers and combined the job functions of certain positions since 2000. This has resulted in officers being both compensated at rates inconsistent with the bylaws and performing job functions inconsistent with their job descriptions in the bylaws. Although it appears that the union is complying with the membership's direction, an effort should be made to update the local union bylaws to reflect the current compensation rates and job functions of its officers. This office also recommends

that if the union continues to amend compensation rates and officer responsibilities at union meetings, that those rates and responsibilities be revisited on a regular basis to keep an up-to-date record in the local's meeting minutes.

I want to extend my personal appreciation to Local 2-2659 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 are passed on to future officers. If we can provide any additional assistance, please do not hesitate to call.

Sincerely,



Investigator

cc: Dina Mendis, Financial Secretary