



April 3, 2013

Mr. John O'Mara, Business Manager
Plumbers Local 562
12385 Larimore Road
St. Louis, MO 63138

Case Number: 550-11672-
LM Number: 035932

Dear Mr. O'Mara:

This office has recently completed an audit of Plumbers Local 562 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, Local 562 Executive Assistant Megan Branham, Attorney Jeffrey Hartnett, and the local's accountants from Anders CPAs and Advisors on March 29, 2013, 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 562's 2012 records revealed the following recordkeeping violations:

1. Credit Card Expenses

Local 562 did not retain adequate documentation for credit card expenses incurred by the local's officers and business agents. For example, credit card charges to Marcellino

Ristorante for \$409.84, Beacon Hotel for \$885.33, and Disney Ticket AK for \$353.56 were not supported with back-up documentation.

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. During the exit interview, you indicated the local is in the process of developing new procedures to ensure proper back-up documentation is maintained for all future credit card expenses.

2. Meal Expenses

Local 562 did not require officers and employees to submit itemized receipts for meal expenses. 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 562 records of meal expenses were not always retained and did not always include written explanations of union business conducted or the names and titles of the persons incurring the restaurant charges. For example, a credit card charge to Jeff Ruby's for \$294.06 was not supported by an invoice containing the written explanation of union business conducted or names of persons in attendance. Another credit card charge at Terrazza Grill for \$79.75 was supported only by a non-itemized receipt with "562" written on the back side. 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. You indicated this policy will be communicated to the officers and employees with union credit cards.

3. Disposition of Property

Local 562 did not maintain an inventory of tickets, shirts, and other property, such as gift cards, it purchased, sold, or gave away. The union must report the value of any union property on hand at the beginning and end of each year in Item 28 of the LM-2. The union must retain an inventory or similar record of property on hand to verify, clarify, and explain the information that must be reported in Item 28. According to you, this issue has been resolved and will be properly reported.

4. Lack of Salary Authorization

Local 562 did not maintain records to verify that all of the salaries reported in Schedules 11 (All Officers and Disbursements to Officers) and 12 (Disbursements to Employees) of the LM-2 were the authorized amount and therefore were 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. During the exit interview, you stated you would remedy this issue by creating a document that clearly indicates the salary and benefits for each officer and employee of Local 562 and ensuring these salaries are properly authorized.

The proper maintenance of union records is the personal responsibility of the individuals who are required to file Local 562's LM report. You should be aware that under the provisions 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 209(c) and Section 3571 of Title 18 apply to any person who caused the violations, not just the individuals who are responsible for filing the union's LM report.

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 562 for the fiscal year ended December 31, 2011, was deficient in the following area:

Disbursements to Officers and Employees

Local 562 did not include some indirect payments to officers and employees in Schedule 11 (All Officers and Disbursements to Officers) and Schedule 12 (Disbursements to Employees). For example, the local's accountants indicated payments for airfare and other expenses for officer and employee spouses accompanying union officials on union business were not reported in Column G (Other Disbursements) of Schedules 11 and 12. It appears that the local erroneously reported these payments in Schedules 15 through 19. The local's accountants stated these expenses will be properly reported in the future.

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.

I am not requiring that Local 562 file an amended LM report for 2011 to correct the deficient items, but Local 562 has agreed to properly report the deficient items on all future reports it files with OLMS.

Other Violation

The audit disclosed the following other violation:

Illegal Loan to Union Employee

Section 503 of the LMRDA prohibits labor organizations from making direct and indirect loans to any officer or employee of such organization which results in a total indebtedness on the part of such officer or employee to the labor organization in excess of \$2000. During the compliance audit you indicated the local made a loan to a retiring business agent in the amount \$10,200. This loan was made to allow the retiring employee eight months to pay Local 562 the balance owed by him for his portion (50-percent of the assessed value) of the union owned vehicle he was given by the local as a retirement gift. In reference to Section 503, the LMRDA states, "Any person who willfully violates this section shall be fined not more than \$5000 or imprisoned for not more than one year, or both."

The loan was repaid by the business agent on February 15, 2013. During the exit interview, you indicated you understand this policy and that Local 562 will no longer make loans in excess of \$2000 to any officers or employees.

Other Issues

1. Expense Policy

As I discussed during the exit interview, the audit revealed that Local 562 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. You indicated this issue has already been addressed and that all officers and employees will be aware of the expense policy.

2. Use of Signature Stamp

During the audit, you advised it is Local 562's practice for the local's business manager to be the sole signatory on all union checks. You also stated that Executive Assistant Branham has a signature stamp to use in your absence and that no one except yourself and Branham review the checks before they are issued. 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. Additionally, the use of a signature stamp does not attest to the authenticity of the completed check, and negates the purpose of the two

signature requirement or any oversight. OLMS recommends that Local 562 review these procedures to improve internal control of union funds. You stated the local will take these recommendations under consideration.

I want to extend my personal appreciation to Plumbers Local 562 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,

A black rectangular redaction box covering the signature of the sender.

Senior Investigator

cc: Mr. Jeffrey E. Hartnett, Attorney