



December 17, 2014

Mr. Joe Skonieczny, President
Machinists AFL-CIO Lodge 78
1650 S. 38th Street
Milwaukee, WI 53215

Case Number: 320-6002883 [REDACTED]
LM Number: 029542

Dear Mr. Skonieczny:

This office has recently completed an audit of Machinists Lodge 78 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 Secretary Treasurer Thomas Brown and Grand Lodge Auditor [REDACTED] on December 5, 2014, 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 Lodge 78's 2013 records revealed the following recordkeeping violations:

1. Failure to Record Receipts

Lodge 78 did not record in its receipts records some interest and dividend payments earned by certificate of deposits and investment accounts held by Lodge 78 totaling at least \$8,000.

For example, Lodge 78 failed to record over \$7,500 in dividend payments received from Wells Fargo Advisors.

Receipts records must include an adequate identification of all money received. The records should show the date and amount received, and the source of the money.

2. Receipt Dates not Recorded

Entries on Lodge 78's duplicate receipt records as well as the receipt records maintained in the IAM accounting software program Book Works, reflect the date money was deposited but not the date money was received. During the audit, Treasurer Brown advised that he records all receipts in the receipt book and ledger at the end of each month regardless of when they were received. He records the receipts in the union's records on the same day he deposits the money at the bank.

Receipts records must show the date of receipt. 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 receipts must be recorded when money is actually received, and disbursements must be recorded when money is actually paid out. Failure to record the date money was received could result in reporting some receipts for a different year than the one in which they were received.

3. Reimbursed Auto Expenses

Union officers who received reimbursement for business use of their personal vehicles did not retain adequate documentation to support payments to them totaling more than \$400 during 2013. Lodge 78 requires officers and employees to document travel expenses, including mileage, on an expense voucher. However, the expense vouchers maintained by Lodge 78 for mileage were not sufficient because they failed to identify the dates of travel and the mileage rate claimed. Additionally, the information on the vouchers maintained by Lodge 78 contained only the total amount reimbursed for mileage and per diem and did not distinguish the amounts that were being reimbursed for mileage from those being reimbursed for per diem.

Lodge 78 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. Per Diem Payments

Expense vouchers for per diem payments prepared by or on behalf of officers who traveled on union business are not adequate because the forms failed to identify the specific dates of travel as well as the per diem rate paid per day. During the audit, Mr. Brown advised that

Lodge 78 pays a daily per diem rate equivalent to the rates established by the federal government that are locality based. Lodge 78's policy is to pay the per diem rate for the locality in which the officer or employees spends the night; therefore, multiple per diem rates are paid to officers for each trip requiring an overnight stay. Although the claims for per diem were generally documented on an expense voucher, the information on the voucher failed to identify the dates and per diem rates that were applicable for each date of travel.

In the case of per diem payments to officers and employees for travel on union business, Lodge 78 must maintain records which identify the business purpose of each trip, the dates of travel, the destinations travelled to and from, and the per diem rate claimed for each date of travel.

Based on your assurance that Lodge 78 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 LM-3 filed by Lodge 78 for the fiscal year ended December 31, 2013 was deficient in the following areas:

1. Benefit Payments

During the audit year, Lodge 78 disbursed funds totaling more than \$15,000 to the AFL-CIO Health and Welfare fund supplemental health benefits for two retired employees of the lodge. These benefit payments are required to be reported in Item 50 (Benefits); however, Lodge 78 reported \$0 in Item 50. The payments were either misreported in Item 48 (Office and Administrative) or Item 54 (Other Disbursements).

All direct and indirect disbursements for the purposes of benefits, such as those made to the AFL-CIO Health and Welfare Plan which in turn provides certain benefits to the covered individuals, are required to be reported in Item 50.

2. Interest and Dividends

Lodge 78 failed to report more than \$5,000 in interest and dividend payments in Item 41 (Interest and Dividends) earned by Lodge 78 during the audit year. The audit revealed that the interest and dividends earned on the stock portfolio with Wells Fargo Financial Advisors totaled more than \$8,000 during the year, and more than \$3,000 in interest was earned by certificates of deposit held by Lodge 78 at various other bank institutions. However, Lodge 78 reported only \$5,415 in Item 41. It does not appear the remaining amounts were included anywhere on the report.

All interest and dividends received by your organization from savings accounts, bonds, mortgages, loans, investments and all other sources are required to be reported in Item 41.

3. Purchase of Investments

As mentioned above, Lodge 78 earned more than \$8,000 in dividends and interest on their investment accounts with Wells Fargo Financial Advisors during the audit year. This income was deposited into the investment money market and was subsequently used to make additional stock purchases during the year. However, Lodge 78 failed to report these additional stock purchases in Item 52 (Purchase of Investments and Fixed Assets).

All funds disbursed for the purpose of purchasing investments or fixed assets must be reported in Item 52; however, do not include amounts that were received from the sale or redemption of investments which were promptly reinvested (i.e. "rolled over") during the reporting period.

4. Investment Distributions

Lodge 78 erroneously reported monthly distributions totaling more than \$11,000 from an investment account held at Wells Fargo Financial Advisors in Item 42 (Sale of Investments and Fixed Assets). During the audit year, Lodge 78 received a monthly distribution check of \$1,060 from Wells Fargo Financial Advisors. During the audit, Mr. Brown stated that Lodge 78 elected to receive this monthly distribution and the funds are unrelated to the sale of any particular investment. The monthly distributions were disbursed from the cash account held within the investment portfolio. [NOTE: The value of the investment portfolio, including the cash account, was reported in Item 28 (Investments)]. The receipts from the monthly distributions from the investment account must be reported in Item 43 (Other Receipts).

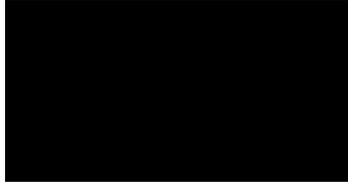
5. Reporting of Investments

Lodge 78 erroneously reported the market value of their investment account, \$203,347, in Item 28(b) (Investments End of Reporting Period). Page 12 of the LM-3 instructions state that the total book value of all investments at the beginning and end of the year, other than US Treasuries, must be reported in Item 28(a) and 28(b). The book value of these investments is the *lower* of the cost or market value. The December 2013 statement provided to Lodge 78 by Wells Fargo Financial Advisors show that the total cost of the investments held by Lodge 78 at end of the reporting period was \$155,244. The statement also revealed that Lodge 78 had a balance of \$11,814 in the cash money market account within the investment portfolio at the end of the year. Therefore, Lodge 78 should have reported their end of year investment balance as \$167,058 (cost of investments held at the end of the year plus the balance of the cash account) in Item 28(b).

I am not requiring that Lodge 78 file an amended LM report for 2013 to correct the deficient items, but Lodge 78 has agreed to properly report the deficient items on all future reports it files with OLMS.

I want to extend my personal appreciation to Machinists Lodge 78 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. Thomas Brown, Secretary Treasurer
Mr. Ronald Kruetzer, Vice President