



April 13, 2017

Mr. William Jessen, President,
Machinists Lodge 1227
[REDACTED]
Valparaiso, IN 46383

Case Number: 310-6006995 [REDACTED]
LM Number: 018283

Dear Mr. Jessen:

This office has recently completed an audit of Machinists LG 1227 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, Secretary Treasurer Robert Hattabaugh, and Grand Lodge Auditor Linda Seeley on January 24, 2017, 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 1227's 2013 records revealed the following recordkeeping violations:

1. General Expenses

Lodge 1227 and its subsidiary, Valparaiso Machinists, Inc. (VMI), did not retain adequate documentation for general expenses totaling at least \$7,421.46. For example,

VMI had no record on file indicating the purpose of check [REDACTED], \$350.00, to Mitzner Farms. The audit disclosed that this expense was for snow removal at the union office. In addition, Lodge 1227 did not retain an invoice or receipt for check [REDACTED], \$6,800.00, to R & P Heating & Cooling. The audit disclosed that this expense was for a new HVAC unit at the union office.

As noted above, labor organizations must retain original receipts, bills, and vouchers for all disbursements. The president and treasurer (or corresponding union officers) of your union, who are required to sign your union's LM report, are responsible for properly maintaining union records.

2. Reimbursed Auto Expenses and Per Diem

Then Secretary Treasurer [REDACTED] and then President [REDACTED] who received reimbursement for business use of their personal vehicles, did not retain adequate documentation to support payments to them totaling at least \$132.00 and \$264.00, respectively. 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. The two officers' "Applicant Vouchers" and other supporting documentation gave dates and purposes but not the locations traveled to and from and/or the number of miles driven.

Similarly, then Secretary Treasurer [REDACTED] and then President [REDACTED] received payments for per diem of at least \$321.00 each for which adequate supporting documentation was not retained. The "Applicant Vouchers" and other supporting documentation for these payments gave dates of travel and the business purpose for each trip, but did not always identify either the destination and/or the per diem rate paid. In the case of per diem payments to officers for travel on union business, Lodge 1227 must maintain records which identify the business purpose of each trip, the dates of travel, the destination, and the per diem rate paid.

3. Lost Wages

Lodge 1227 did not retain adequate documentation for lost wage reimbursement payments of at least \$652.27 to then Secretary Treasurer [REDACTED] and at least \$193.67 to then President [REDACTED]. The union must maintain records in support of lost wage claims that identify each date 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 Lodge 1227 maintained "Applicant Vouchers" giving dates, number of hours, and pay rates, but not union purposes. The affected payments appeared to have been primarily for lost wages that did not involve overnight travel; by contrast, for payments that did involve such travel, the "Applicant Vouchers" and other supporting documentation gave all of the required information.

During the exit interview, I provided a compliance tip sheet, *Union Lost Time Payments*, that contained a sample of an expense voucher Lodge 1227 may use to satisfy this requirement. The sample identifies the type of information and documentation that the lodge must maintain for lost wages and other officer expenses.

4. Failure to Record Receipt

Lodge 1227 did not record in its receipt records a \$64.13 dues checkoff check from IAM District Lodge 90 for its then Business Representative [REDACTED]. Union receipts records must include an adequate identification of all money the union receives. The records should show the date and amount received, and the source of the money.

5. Failure to Keep Bank Statements

The audit revealed that Lodge 1227 and VMI maintained only reproduction bank statements, not originals, for, respectively, the months of May, June, July, September, October, November and December, and the months of May, June, July and December. As stated in the LM-3 instructions, bank statements are necessary because checking account balances reported in Statement A (Assets and Liabilities) should be obtained from the labor organization's books as reconciled with the balances shown on bank statements. The original records that a union receives in the course of business must be retained.

6. IAM Lodge 2903's Records Not Retained

During fiscal year 2013, IAM Lodge 2903 was merged into Lodge 1227 and ceased to exist. Lodge 2903 reported on its terminal LM-3 that its assets were turned over to Lodge 1227. Although the audit revealed that Lodge 2903 records were provided to Lodge 1227, Lodge 1227 did not have any Lodge 2903 books and records on hand.

As stated before, a union must 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. The union must satisfy this requirement for all funds it controls, including those transferred to it from a terminated labor organization.

Based on your assurance that Lodge 1227 and VMI 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 Lodge 1227 for the fiscal year ended December 31, 2013, was deficient in the following areas:

1. Disbursements to Officers/Executive Board Members and Employees

Lodge 1227 did not include reimbursements for per diem, mileage, food and building maintenance to then President [REDACTED] and then Secretary Treasurer [REDACTED] totaling at least \$363.79 and \$204.00, respectively, in Item 24 (All Officers and Disbursements to Officers). It appears the union erroneously reported these payments elsewhere on the report.

In addition, Lodge 1227 reported the names and payments to four members in Item 24 who were not officers or executive board members but instead two shop committeemen, one steward, and a member who attended a training conference. The payments to these members should have been aggregated and reported in Item 46 (To Employees). Conversely, the Lodge did not report Shop Committee Chairman [REDACTED] in Item 24 and the approximately \$214.18 in salary and reimbursed expense paid to him during the audit period even though the audit revealed that such position is included in the union's executive board.

Also, while Lodge 1227 did report gross salaries in Column D "Gross Salary (before taxes and other deductions)," it erroneously reported in the "Less Deductions" field of Item 24 that nothing was withheld from its officers' salaries. W-2s on file showed that payroll taxes were indeed withheld. The LM-3 instructions require the total amount of withheld taxes, payroll deductions and other deductions to be reported in the Less Deductions field.

The union must report most direct disbursements to Lodge 1227 officers, which, for purposes of the LMRDA and LM-3 reporting, encompasses executive board members even if they are not otherwise considered officers of the union, 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. Fund Transfers

Fund transfers from Lodge 1227's general fund checking to its education and maintenance savings accounts, a total of approximately \$7,396.40, were reported as disbursements in Statement B (Receipts and Disbursements), while a single transfer of \$6,800.00 from the maintenance account back to general fund checking was included in the total reported for receipts in Statement B. As explained by the LM-3 instructions, the

purpose of Statement B is to report the flow of cash in and out of the labor organization. Transfers between separate bank accounts of the organization do not represent the flow of cash in and out of the organization. Therefore, these transfers should not be reported as receipts and disbursements of the organization.

3. Disbursements Incorrectly Reported as “Other Disbursements”

The \$5,000.00 donation on behalf of Lodge 2903 to Machinists District Lodge 90 should have been reported in Item 51 (Contributions, Gifts, and Grants) in accordance with the LM-3 instructions, but Lodge 1227 reported \$0 in disbursements in Item 51. Instead, it appears the Lodge reported the donation in Item 54 (Other Disbursements). Lodge 1227 also appears to have reported \$6,000 in rent disbursements in Item 54 (Other Disbursements) rather than Item 48 (Office and Administrative Expense) as required by the LM-3 instructions.

4. Failure to File LM-3

An LM-3 report for Lodge 1227 for fiscal year 2014 has not been filed, although an LM-4 for VMI was filed for that year. Lodge 1227 indicated that it will utilize the consolidation method as listed in the LM-3 instructions for reporting its subsidiary organization. A combined report for both the Lodge and its wholly-owned subsidiary should have been filed for 2014.

5. Failure to File Bylaws

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 it makes changes to its constitution or bylaws. Lodge 1227 amended its bylaws in 2010 but did not file a copy with its LM report for that year.

Lodge 1227 has now filed a copy of its constitution and bylaws.

Lodge 1227 must file amended Forms LM-3 for the fiscal years ended December 31, 2013, and December 31, 2014, to correct the deficient items discussed above. I encourage Lodge 1227 to complete, sign, and file its reports electronically using the Electronic Forms System (EFS) available at the OLMS website at www.olms.dol.gov. Reporting forms and instructions can be downloaded from the website, if you prefer not to file electronically. The amended Forms LM-3 should be filed electronically no later than May 15, 2017, or submitted to this office at the above address by the same date. Before filing, review the reports thoroughly to be sure each is complete and accurate. Paper reports must be signed with original signatures.

Other Issues

1. Duplicate Receipts

Members of Lodge 1227 paid initiation and reinstatement fees, as well as occasional monthly and unemployment dues, directly to shop committeemen, who delivered the funds to the Lodge 1227 Secretary Treasurer. Shop committeemen did not issue receipts to members, but the secretary treasurer did complete receipts when the committeemen gave him the funds. However, it is unclear whether his receipts were distributed to the members. The secretary treasurer also recorded the collection of these funds in the general fund checking ledger. OLMS recommends that Lodge 1227 use a duplicate receipt system where the union issues pre-numbered receipts to all members who make payments directly to the union and retain 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. Grand Lodge Auditor Seeley stated during the audit opening interview that she will work with Lodge 1227 to establish and put into practice an appropriate duplicate receipt system.

2. Single Signature Requirement

The audit revealed that VMI checks are signed by only one officer. Although stipulated by the VMI bylaws, a single signature requirement on the checks of a union's wholly-owned subsidiary is not an effective internal control of union funds. The purpose of the second signature on checks is to attest to the authenticity of a completed document already signed. OLMS recommends that VMI review these procedures to improve internal control of union funds.

I want to extend my personal appreciation to Machinists Lodge 1227 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. Robert Hattabaugh, LG 1227 Secretary Treasurer
Ms. Linda Seeley, IAM Grand Lodge Auditor