



January 4, 2017

Mr. Timothy O'Brien, President
Machinists Local Lodge 851
23157 S. Thomas Dillon Drive
Channahon, IL 60410

Case Number: 310-6009328
LM Number: 037623

Dear Mr. O'Brien:

This office has recently completed an audit of Machinists Local Lodge 851 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 Daniel Clark, and member Tina Hendrick on December 22, 2016, 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 Lodge 851's 2015 records revealed the following recordkeeping violations:

1. General Reimbursed Expenses

Local Lodge 851 did not retain adequate documentation for reimbursed expenses incurred by union officers, totaling at least \$1,000. For example, union officers received per diem

related to attending conferences and conventions, but adequate documentation was not retained. The only records retained were vouchers that did not identify the dates or location of travel. In the case of per diem payments to officers for travel on union business, Local Lodge 851 must maintain records which identify the business purpose of each trip, the dates of travel, the destination, and the per diem rate paid. During the exit interview, I provided a compliance tip sheet, *Reimbursed Travel Expense Payments*, which contains a sample of an expense voucher Local Lodge 851 may use to satisfy this requirement. The sample identifies the type of information and documentation that the local must maintain for officer expenses.

As noted above, labor organizations must retain original receipts, bills, and vouchers for all disbursements. In addition, in the case of these types of travel expenses, the records retained must also identify the dates and union business purpose of the travel that required the expenses be incurred. The president and treasurer (or corresponding principal officers), who are required to sign your union's LM report, are responsible for properly maintaining union records.

2. 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 at least \$1,300. Officers submitted vouchers that were not adequate because the specific dates of travel and the location traveled to and from were not properly identified. Local Lodge 851 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.

3. Failure to Keep Records for Certificates of Deposit

The audit revealed that Local Lodge 851 has six certificates of deposit totaling at least \$559,000 at five different financial institutions. However, no bank records such as statements or renewal notices could be found in the union's records. Secretary Treasurer Daniel Clark advised that there were no union book records, such as a general ledger or similar record, which accounted for the balances, receipts, and disbursements of the certificates of deposit.

The receipts and disbursements for these accounts are reportable on the union's LM report, and as such, Local Lodge 851 must maintain adequate records for the accounts. These records include, but are not limited to, documents that identify the date, amount, source, and purpose of all receipts, as well as documents that identify the date, amount, payee, and purpose of all disbursements. In addition, the labor organization must also retain bank records for all accounts.

Based on your assurance that Local Lodge 851 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 Lodge 851 for the fiscal year ended December 31, 2015, was deficient in the following areas:

1. 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 the union gave away calendars and bibles, totaling more than \$400 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. 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.

2. Employees

Item 17 (Pay any employee salary, allowances, and other expenses which, together with any payments from affiliates, totaled more than \$10,000?) should have been answered, "Yes," because the union paid Office Secretary Bobbie Crismon gross salaries, allowances, and other direct and indirect disbursements during the reporting period, totaling at least \$58,279.76. The union must identify the name, position, and total disbursements made to each employee or on behalf of each employee in the additional information section of the LM report. The union must also identify the names of any other affiliated labor organization, which made disbursements to or on behalf of the employee, if applicable.

3. Number of Members

Local Lode 851 failed to correctly report the number of members in Item 19 (How many members did the labor organization have at the end of the reporting period)? Local Lodge 851 reported 2,200 members; however, the union included retired, life, and exempt members who do not pay dues. The LM instructions state to include all categories of members who pay dues.

4. Disbursements to Officers

Local Lodge 851 failed to include disbursements to you and other offices in the amounts reported in Item 24 (All Officers and Disbursements to Officers) totaling at least \$3,100.

For example, the union's vouchers and general ledger show that you were disbursed at least \$1,727.04 for per diem, mileage, lodging, and delegate expense allowances. However, nothing was reported in Column E (Allowances and Other Disbursements). It appears these payments were erroneously reported in elsewhere on the report.

Most direct disbursements to Local Lodge 851's officers and some indirect disbursements made on behalf of its officers must be reported 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).

5. Investments Reported as Cash

Local Lodge 851 improperly included the value of its bond investments in Item 25 (Cash) in Statement A (Assets and Liabilities). For LM reporting purposes, the book value of all investments other than U.S. Treasury securities must be reported in Item 28 (Investments).

6. Sale of Investments

During the audit year, Local Lodge 851 sold \$150,000 of investments and transferred those funds to the general checking account. Local Lodge 851 reported the sale in Item 43 (Other Receipts) instead of Item 42 (Sale of Investments and Fixed Assets). Local Lodge 851 also reported this transaction in Item 54 (Other Disbursements), when it should not have been included as a disbursement.

7. Interest and Dividends

Local Lodge 851 received at least \$7,261 in interest and dividends from its investment account and six certificates of deposits during the audit year; however, nothing was reported in Item 41 (Interest and Dividends). It appears Local Lodge 851 erroneously reported interest and dividends in Item 42 (Sale of Investments and Fixed Assets).

8. 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. Local Lodge 851 amended its constitution and bylaws in 2015, but did not file a copy with its LM report for that year. Local Lodge 851 has now filed a copy of its constitution and bylaws.

Local Lodge 851 must file an amended Form LM-3 for the fiscal year ended December 31, 2015, to correct the deficient items discussed above. I encourage Local Lodge 851 to complete, sign, and file its report 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 Form LM-3 should be filed electronically no later than January 30, 2017 or submitted to this office at the above address by the same date. Before filing, review the report thoroughly to be sure it is complete and accurate. Paper reports must be signed with original signatures.

Other Issues

1. Failure to Update Authorized Signatories at Banks

The audit revealed that Secretary Treasurer Clark is not listed as an authorized signer for Local Lodge 851's six certificates of deposits, and that former officers are still listed as the authorized signers for the accounts. OLMS recommends that in order to maintain proper internal control of union funds, the authorized signatory information be updated promptly at all banks and for all accounts held in the name of the union whenever there is a change in officers. Mr. Clark advised that you were in the process of contacting the banks to determine the steps necessary to update the list of authorized signers, and you plan to take the steps necessary to accomplish this task as soon as possible.

2. Lost Time Discrepancies

The audit revealed some possible discrepancies concerning lost time payments to you and former Recording Secretary [REDACTED]. The audit revealed three instances where you submitted lost time claims to the union, but employer records show that you also worked at and was paid by the employer for the same day. In total, you received payment for 13 hours of lost wages, totaling \$350.74, in which no wages were actually lost. The audit also revealed two instances where [REDACTED] submitted lost time claims to the union, but employer records showed that he worked at and was paid by the employer for the same day. In total, [REDACTED] received payment for 11 hours, totaling at least \$291.28, in which no wages were lost.

You and Mr. Clark advised that the wrong date was recorded on the union voucher or an error was made. You and Mr. Clark advised that the executive board would review the vouchers and employer records to determine the reason for the error. OLMS recommends Local Lodge 851 follow its written guidelines for the reimbursement of lost wages as such policies can help ensure effective control over union finances. In addition, OLMS recommends that Local Lodge 851 review its lost time and payroll procedures to improve internal control of union funds. Verification of lost time claims submitted by union personnel by either allowing trustees to compare lost time claims to employer records or by requiring union personnel to submit proof of lost wages claimed (for example time cards)

Mr. Timothy O'Brien

January 4, 2017

Page 6 of 6

can be an effective internal control for such payments. If any repayment is made to Local Lodge 851, I would appreciate it if you would provide evidence of that payment to me.

I want to extend my personal appreciation to Machinists Local Lodge 851 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,

[REDACTED]

[REDACTED]

Investigator

cc: Mr. Daniel Clark, Secretary Treasurer (via email)
[REDACTED], Grand Lodge Auditor (via email)