



December 28, 2017

Mr. John Smith, Financial Secretary  
Machinists Local Lodge 1400  
5953 Lincoln Hwy  
Thomasville, PA 173641

Case Number: 140-6012082 [REDACTED]  
LM Number: 023-031

Dear Mr. Smith:

This office has recently completed an audit of Machinists Local Lodge 1400 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 on December 20, 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 Local 1400's 2016 records revealed the following recordkeeping violations:

1. Lack of Adequate Backup Documentation for Disbursements and Reimbursed Expenses

Local 1400 did not retain adequate documentation for disbursements totaling at least \$1,450. For example, the local purchased 16 tickets to the retirement party for Machinists District 98 Directing Business Representative Tom Santone. The local did not retain backup documentation for this disbursement.

Also, Local 1400 did not retain adequate documentation for reimbursed expenses incurred by union officers and employees totaling at least \$2,500. For example, Mr. Smith used his personal credit card to purchase airline tickets for himself and President Lance Peters to attend the Machinists National Convention. The local retained a copy of Mr. Smith's credit card bill; however, a copy of the airline receipt was not retained.

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.

## 2. Lost Wages

Local 1400 did not retain adequate documentation for lost wage reimbursement payments to union officers and employees on at least 16 occasions. 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 Local 1400, officers and employees did not identify on the lost wage vouchers the dates of lost time, the number of hours of lost time on each date, and the union business conducted.

Please review compliance tip sheet, *Union Lost Time Payments*, which can be found on the OLMS website ([www.dol.gov/olms](http://www.dol.gov/olms)). This compliance tip sheet contains a sample of an expense voucher Local 1400 may use to satisfy this requirement. The sample identifies the type of information and documentation that the local must maintain for lost wages and other officer expenses.

Based on your assurance that Local 1400 will retain adequate documentation in the future, OLMS will take no further enforcement action at this time regarding the above violations.

### Reporting Violation

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 1400 for the fiscal year ended December 31, 2016, was deficient in that:

#### Disbursements to Officers

Local 1400 did not include some expense reimbursements to officers totaling at least \$1,600 and the local did not include lost time payments in the amounts reported Item 24 (All Officers and Disbursements to Officers). It appears the union erroneously reported these payments in Item 54 (Other Disbursements).

The union must report most direct disbursements to Local 1400 officers 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).

I am not requiring that Local 1400 file an amended LM report for 2016 to correct the deficient items, but Local 1400 has agreed to properly report the deficient items on all future reports it files with OLMS.

### Other Issues

#### 1. Expense Policy

As I discussed during the exit interview with you, the audit revealed that Local 1400 does not have a clear policy regarding the types of expenses personnel may claim for reimbursement. OLMS recommends that unions adopt written guidelines concerning such matters.

#### 2. Duplicate Receipts

Members of Local 1400 purchase tickets to the annual feed from the union. Mr. Smith recorded ticket sales in the union's receipts journal, but the local did not issue receipts to the members who purchased tickets. OLMS recommends that Local 1400 use a duplicate receipt system where the union issues original pre-numbered receipts to all members who make payments directly to the union 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.

I want to extend my personal appreciation to you 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. Patrick Smutney, Machinists Grand Lodge Auditor