

U.S. Department of Labor

Employment Standards Administration
Office of Labor-Management Standards
Division of International Union Audits
1341 G Street, N.W., Room 201
Washington, D.C. 20005



CORRECTED COPY

October 29, 2007

Mr. John J. Sweeney
President
American Federation of Labor and
Congress of Industrial Organizations
815 16th Street, NW
Washington, DC 20006

Dear President Sweeney:

The Office of Labor-Management Standards (OLMS) within the Department of Labor (Department) has recently completed a follow-up compliance audit of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO or Federation). The follow-up audit was conducted under the International Compliance Audit Program (I-CAP), pursuant to the Labor-Management Reporting and Disclosure Act of 1959 (LMRDA). The purpose of this follow-up audit was to assess the progress of the AFL-CIO in rectifying deficiencies identified during the original I-CAP audit.

This letter documents the areas reviewed and discussed with the AFL-CIO officials during the exit meeting on August 15, 2007. The meeting was conducted with Ms. Deborah Greenfield, Associate General Counsel; Ms. Shari Cannon, Controller; and Ms. Anshu Sheth, Assistant Controller. The purpose of the meeting was to review the amended Form LM-2 reports submitted by the AFL-CIO for fiscal years 2000, 2001, the six-month period ending June 2002, and 2005; and your letter of November 8, 2006, which describes actions the AFL-CIO has taken in response to the findings of the audit. The findings identified during the initial audit, including reporting and recordkeeping deficiencies, internal control issues, trade department filings, and prior year Form LM-2 reports, were conveyed to the Federation in an audit closing letter dated September 28, 2006. The findings are summarized below along with an assessment of the Federation's progress in correcting them.

Neither the initial audit, nor the subsequent follow-up review purport to be an exhaustive list of all possible problem areas since the compliance audit is limited in scope.

Reporting Deficiencies - LMRDA Section 201

Section 201(b) of the LMRDA requires that labor organizations file with OLMS an annual financial report that accurately discloses the union's financial condition and operations.

The closing letter dated September 28, 2006 noted 16 reporting deficiencies regarding the misreporting of certain disbursements and fixed asset disposals, inventory, one membership category, the allowance for doubtful accounts, and the cash balances for certain bank accounts on the Form LM-2. In response to these audit findings, the AFL-CIO filed an amended Form LM-2 for the fiscal year ending June 30, 2005. During the follow-up audit, the I-CAP team compared the original FY 2005 Form LM-2 to the amended FY 2005 Form LM-2 to determine whether the Federation corrected each of the 16 reporting deficiencies. The review disclosed that the Federation had corrected each of the 16 reporting deficiencies on its amended FY 2005 Form LM-2.

Inadequate Recordkeeping - LMRDA Section 206

Pursuant to Section 206 of the LMRDA, every person required to file any report under Title II of the LMRDA shall maintain records on the matters reported which will provide in sufficient detail the information and data from which the documents may be verified, explained, or clarified and checked for accuracy and completeness. All required records must be maintained for at least five years following the date the financial report is filed. Records over five years in age must be maintained if necessary to verify reports filed within the last five years.

The closing letter, dated September 28, 2006, noted seven recordkeeping deficiencies for which the Federation did not maintain sufficient records. The Federation did not always maintain itemized meal receipts, or other records such as documentation to support contractual agreements, membership reports, written travel authorizations, or receipts for some reimbursed expenses. At the conclusion of the initial I-CAP, AFL-CIO officials were informed that sufficient documentation must be maintained, regardless of amount, for a minimum of five years.

In response to these findings, the AFL-CIO has taken steps to ensure that sufficient records will be maintained to comply with the LMRDA. The AFL-CIO revised its expense policy to specifically include a provision for itemized receipts, directed that agreements with contractors be in writing, implemented a new system for maintaining written travel authorizations, and arranged to receive periodic membership reports from Working America.

Officer Holding Prohibitions - LMRDA Section 504

Section 504(a) of the LMRDA prohibits persons convicted of certain offenses from holding labor organization office or employment for a period of thirteen years from the date of conviction or release from prison, whichever is later.

As stated in the closing letter dated September 28, 2006, the Federation did include a question on its employment application regarding criminal convictions, but did not conduct criminal background checks of officers and employees. During the exit interview, the I-CAP team emphasized the importance of verifying background information to ensure individuals do not hold office or employment in violation of LMRDA Section 504.

During the follow-up, the Federation indicated that new hires are now being asked to sign a release form and the Federation's payroll service, ADP, is conducting background checks on new hires by validating social security numbers and obtaining multi-jurisdictional criminal court history. Background checks are not run on current employees or officers.

Internal Controls

Adequate internal financial controls are essential to prevent the misuse of funds and to support the financial responsibility and other obligations under Title II and Title V of the LMRDA. Title V of the LMRDA stipulates, among other things, the fiduciary responsibility of officers of labor organizations. As a general matter, weaknesses in financial controls can lead to violations of Section 501 of the LMRDA.

The closing letter dated September 28, 2006 identified nine internal control weaknesses in the following areas: the travel policy as it relates to officers, executive assistants and spouses; documentation of loan agreements; segregation of duties over cash receipts processing; and outdated signature cards.

In response to these findings, the Federation has taken the following steps: The Expense policy has been updated to include some provisions for officers, to more clearly define the spousal travel provision, and to clearly define which employees are entitled to reimbursement for actual expenses. However, the new expense policy does not require officers to obtain preauthorization for travel, travel-related expenses, or business meal expenses. In addition, written loan agreements will be required for all loans made by the Federation. The Federation has also implemented new procedures to process cash receipts, segregating the duties associated with the processing of cash receipts, and, instead of multiple departments receiving checks, only the Accounting Department will receive checks. Lastly, the I-CAP team reviewed a sample of the signature cards provided by the Federation and they appear to be up-to-date and

complete, containing name, signature, expense description, amount, and signature of department director.

AFL-CIO Trades Departments

During the audit, the I-CAP team determined that the Department of Professional Employees (DPE) and the Transportation Trades Department (TTD) of the AFL-CIO had not filed annual reports with OLMS and neither Department's finances were included on the Form LM-2 of the AFL-CIO. All other Trades Departments of the AFL-CIO file individual annual reports with OLMS. The DPE and TTD and the AFL-CIO were notified in writing that the DPE and TTD are required to comply with the LMRDA as both Departments meet the definition of a labor organization. The Departments have each filed with OLMS a Form LM-1, Labor Organization Information Report, and the appropriate fiscal year annual financial report. Since the trade departments have submitted the appropriate reports, this deficiency has been corrected.

Prior Year Amended Form LM-2 Reports

In 2003, the Department reviewed the Federation's Form LM-2 reports for the fiscal years ending December 31, 2000, and December 31, 2001, and the six-month period ending June 30, 2002. As a result of the review, the Department sought amended Form LM-2 reports for those periods, due within 60 days of the issuance of the closing letter.

During the follow-up audit, the I-CAP team reviewed the amended reports mentioned above. All amended reports were submitted by December 11, 2006 meeting the 60-day deadline. Based on the review of the amended reports and applicable supporting documentation, the I-CAP team verified that the AFL-CIO had corrected all items cited as deficient in the original desk audit of the Form LM-2 reports for the aforementioned years.

Prior Year Form LM-2 Deficiencies

In the review of sampled transactions from the previous five years, deficiencies were identified in two categories on the Form LM-2. The I-CAP team examined 10 leases with rental deposits where the Federation was the tenant to determine whether the deposits were correctly reflected on the fiscal year 2004 Form LM-2. Since one rental deposit totaling \$3,250 was incorrectly reported on the Federation's books, Schedule 3, Other Assets, was understated. The I-CAP team also sampled items during the previous five years to determine whether fixed assets were correctly reflected on the Form LM-2. Four of the items identified were incorrectly listed as furniture instead of computer equipment. Funds held for leases should be correctly reflected as an asset in Schedule 7. Because the lease is still active, and the four items were incorrectly listed, subsequent filings must correctly reflect fixed assets and rental deposits.

The Federation, on its 2006 Form LM-2, reported rent deposits as an "Other Asset" on Schedule 7. The Federation has corrected the above referenced deficiency.

In addition to the follow-up work conducted on the FY 2005 amended Form LM-2, the review of the Federation's FY 2006 Form LM-2 for the year ended June 30, 2006 also reflected the findings addressed in this letter.

As a result of this follow-up audit, the Division of International Union Audits considers this audit to be concluded. If we can be of further assistance in the future, please do not hesitate to contact us. Thank you again for the cooperation and courtesy extended by you and your staff during this compliance audit.

Sincerely,



James D. Devine, Division Chief
Division of International Union Audits

cc: Secretary-Treasurer Richard Trumka
Department of Professional Employees
Transportation Trades Department