

U.S. Department of Labor

Employment Standards Administration
Office of Labor-Management Standards
Nashville District Office
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September 25, 2009

Mr. Bob West
National President
National Association of Aeronautical Examiners
103 Spring Ridge Court
New Bern, NC 28562-9250

RE: International Compliance Audit Program (I-CAP)
National Association of Aeronautical Examiners
LM: 000-338

Dear President West

The Office of Labor-Management Standards (OLMS) within the Department of Labor recently completed a compliance audit of the National Association of Aeronautical Examiners (AAE) to assess its compliance with the provisions of the Labor-Management Reporting and Disclosure Act of 1959 (LMRDA) and Civil Service Reform Act of 1978 (CSRA). The audit was conducted under the OLMS International Compliance Audit Program (I-CAP).

On September 2, 2009, the I-CAP Team conducted an exit interview with you and Secretary Treasurer John Stein. During the exit interview, the I-CAP Team reviewed audit findings, identified actions that the AAE must take to correct the deficiencies identified, and recommended actions to enhance the union's internal controls. This letter captures the audit findings as generally discussed during the exit interview. It does not purport to be an exhaustive list of all possible problem areas, since the audit was limited both in scope and duration.

Reporting Deficiencies - LMRDA Section 201(a)

Pursuant to 29 C.F.R. Section 458.3, the requirement under 29 C.F.R. Section 402.4 implementing LMRDA Section 201(a) is made applicable to labor organizations subject to the requirements of the CSRA. This provision requires labor organizations to file copies of any revised constitution and bylaws when it files its annual financial report.

1. The AAE amended its constitution and bylaws in June 1997, but did not file the required copies with its LM-4 report for that year. The Form LM-4 instructions require labor organizations to file copies of any revised constitution and bylaws when it files its annual financial report. As agreed, the AAE will file a copy of its current constitution and bylaws with OLMS as soon as possible but not later than September 11, 2009.

Reporting Deficiencies - Section 201 (b)

Pursuant to 29 C.F.R., Section 458.3, the reporting requirement under 29 C.F.R. Section 403.2 (see Section 201(b) of the LMRDA) is made applicable to labor organizations subject to the requirements of the CSRA. This provision requires labor organizations to file annual financial reports that accurately disclose their financial condition and operations. The following deficiencies were noted on the AAE Form LM-4 report for the fiscal year ending December 31, 2008. The deficiencies identified in this section must be corrected in an amended Form LM-4 report for the union's fiscal year ending December 31, 2008 and please keep in mind that subsequent Form LM-4 filings must be prepared so as not to contain these deficiencies.

2. The AAE did not accurately report the total receipts in Item 16 (Receipts). The union reported \$4,150 in receipts; however the correct amount should have been \$5,152. The AAE failed to include receipts from interest earned on all accounts when calculating the total annual receipts. The LM-4 instructions require labor organizations to report all receipts during the reporting period including, for example, dues, fees, fines, assessments, interest, dividends, rent, money from the sale of assets, and loans received by your organization. The AAE must report the correct amount in Item 16.
3. The AAE incorrectly reported total disbursements in Item 17 (Disbursements). The union reported \$2,906 in disbursements; however, total disbursements were \$2,245. The LM-4 instructions require labor organizations to report the total amount of all disbursements made during the reporting period including net payments to officers and employees, payments for administrative expenses, and taxes paid. The AAE must report the correct amount for disbursements in Item 17.
4. The AAE failed to report payments made to officers in Item 18 (Payments to Officers and Employees) and actually reported such disbursements in Item 17 (Disbursements). The LM-4 instructions require labor organizations to report the total amount of all payments to officers during the reporting period in Item 18. The amount reported should include, for example, lost time pay, disbursements for conducting official business, as well as disbursements which were essentially

for the personal benefit of the officer. The AAE must report the correct amount for payments to officers and employees in Item 18.

Inadequate Recordkeeping – LMRDA Section 206

Title II of the LMRDA establishes certain reporting and recordkeeping requirements. Section 206 of the LMRDA and Title 29 of the Code of Federal Regulations (C.F.R) Section 403.7 require, among other things, that labor organizations maintain adequate records for at least five years after reports are filed by which the information on the reports can be verified, explained and clarified. Pursuant to 29 C.F.R. Section 458.3, this recordkeeping provision of the LMRDA applies to labor organizations subject to the requirements of the CSRA as well. Thus, every person required to file any report under LMRDA Title II or the CSRA shall maintain records on the matters reported that will provide in sufficient detail the necessary information from which the reports filed 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 must be maintained if they are necessary to verify reports filed within the last five years.

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.

5. The AAE did not record in its receipt records interest earned on checking, savings, and certificates of deposit accounts totaling at least \$894.20. Union receipt 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.
6. Entries in the AAE check register reflect the date the union deposited money, but not the date money was received. Union receipt records must show the date of receipt. Failure to record the date money was received could result in the union reporting some receipts for a different year than when it actually received them.
7. The AAE did not retain adequate documentation for all expenses incurred by the union and its officers. Labor organizations must retain original receipts, bills,

and vouchers for all disbursements. In certain instances, receipts, bills, and vouchers were not retained for officer and employee lodging, airfare, internet services, and meal expenses. 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.

8. The AAE did not maintain an inventory of hats, jackets, and other property it purchased, sold, or gave away. The union must retain an inventory or similar record of property. The union must record in at least one record the date and amount received from each sale of union hats, jackets and other items.

Other Issues

9. A review of the AAE records revealed that the union is maintaining a petty cash balance higher than the \$100 allowed by Section 3, paragraph O of its constitution. During the audit period the union paid \$300 in cash to an officer for reimbursement for travel and \$250 in cash to purchase a used refrigerator and microwave for the union office. Such expenses should be disbursed by check using the double signature requirement. OLMS recommends that the AAE follow its constitution and adopt clear guidelines regarding expenses.
10. A review of reporting history for AAE affiliate locals revealed that AAE Local 5 last filed its Form LM-4 for fiscal year ending December 31, 2005; therefore, they are three years delinquent. Additionally, AAE Local 3 has filed late every year since fiscal year ending December 31, 2001. The AAE agreed to contact the officers of each affiliate local to assist them with reporting compliance. The national officers have also scheduled an OLMS compliance assistance session during its October 2009 convention.

Please accept my appreciation for the cooperation and courtesy extended by you and Secretary Treasurer John Stein during this compliance audit. If you have any questions, please do not hesitate to contact me.

Sincerely,



H. Craig Neel, District Director
Nashville District Office