

**U.S. Department of Labor**

Employment Standards Administration  
Office of Labor-Management Standards  
Cincinnati District Office  
36 East Seventh Street  
Room 2550  
Cincinnati, OH 45202  
(513) 684-6840 Fax:(513) 684-6845



July 18, 2007  
Mr. Phillip Newberry, Secretary-Treasurer  
Machinists Local Lodge 804  
21 Hearthstone Court  
Florence, KY 41042-9395

LM File Number: 030-059  
Case Number: [REDACTED]

Dear Mr. Newberry:

This office has recently completed an audit of Machinists Local Lodge 804 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 and Grand Lodge Auditor Tony Chesonis on June 4, 2007, 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 804's 2006 records revealed the following recordkeeping violations:

1. Receipt Dates not Recorded Properly

Entries in Local Lodge 804's records show that the union received interest from certificates of deposit, but did not accurately report the dates interest was received. Though the bank reported interest as paid on a monthly basis throughout 2006, the union reported the interest received as a combined figure in January 2007. Union receipts records must show the date of receipt. The date of receipt is required to verify, explain, or clarify amounts required to be reported in Statement B (Receipts and Disbursements) of the LM-3. The LM-3 instructions for Statement B state that the labor organization must record receipts when it actually receives money and disbursements when it actually pays out money. 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.

2. Information not Recorded in Meeting Minutes

During the audit, you advised OLMS that the membership authorized all disbursements at membership meetings. However, the meeting minutes do not contain any reference to authorization for disbursements. Minutes of all membership or executive board meetings must report any disbursement authorizations made at those meetings.

3. Lost Wages

Local Lodge 804 did not retain adequate documentation for lost wage reimbursement payments to President Gary Callahan on at least one occasion. 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. For example, OLMS audit found that Local Lodge 804 wrote check [REDACTED] for \$295.78 to President Callahan but did not document this disbursement with a voucher or other supporting documentation to properly explain it.

During the exit interview, Investigator Jung provided a sample of an expense voucher Local Lodge 804 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.

4. Lack of Salary Authorization

Local Lodge 804 did not maintain records to verify that the salaries reported in Item 24 (All Officers and Disbursements to Officers) of the LM-3 was the authorized amount and therefore was correctly reported. The union must keep a record, such as meeting minutes, to show the current salary authorized by the entity or individual in the union with the authority to establish salaries.

5. Disposition of Property

Local Lodge 804 did not maintain an inventory of T-shirts it purchased, sold, or gave away. The union must report the value of any union property on hand at the beginning and end of each year in Item 30 (Other Assets) of the LM-3. The union must retain an inventory or similar record of property on hand to verify, clarify, and explain the information that must be reported in Item 30.

The union must record in at least one record the date and amount received from each sale of T-shirts and other items.

6. Failure to Maintain Records

OLMS' audit identified numerous instances in which Local Lodge 804 failed to keep documentation such as receipts, worksheets, or vouchers, to support various disbursements. OLMS also found that the union failed to retain dues checkoff information and remittance slips related to monies received from IAM District Lodges 34 and 143.

Based on your assurance that Local 804 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 LM-3 filed by Local Lodge 804 for fiscal year ending December 31, 2006, was deficient in the following areas:

1. Disbursements to Officers

Local Lodge 804 did not include some reimbursements to officers totaling at least \$235 in the amounts reported in Item 24 (All Officers and Disbursements to Officers). It appears the union erroneously reported these payments in Item 54.

The union must report most direct disbursements to Local Lodge 804 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).

2. Cash Reconciliation

It appears that the cash figures reported in Item 25 are not the cash figures according to the union's books after reconciliation to the bank statements. The instructions for Item 25 state that the union should obtain account balances from its books as reconciled to the balances shown on bank statements.

Local Lodge 804 must file an amended Form LM-3 for fiscal year ending December 31, 2006 to correct the deficient items discussed above. I advised you that the reporting forms and instructions are available on the OLMS website ([www.olms.dol.gov](http://www.olms.dol.gov)). The amended Form LM-3 should be submitted to this office at the above address by August 31, 2007. Before filing, review the report thoroughly to be sure it is complete, accurate, and signed properly with original signatures.

Mr. Phillip Newberry  
July 18, 2007  
Page 5 of 5

Other Issue

Duplicate Receipts

At least two members of Local Lodge 804 pay dues directly to the union. You record dues payments in the union's receipts journal, but do not issue receipts to dues payers. OLMS recommends that Local Lodge 804 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 Machinists Local Lodge 804 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,

Lesta A. Chandler  
District Director