

U.S. Department of Labor

Employment Standards Administration
Office of Labor-Management Standards
Nashville District Office
233 Cumberland Bend Drive
Room 110
Nashville, TN 37228
(615)736-5906 Fax: (615)736-7148



October 9, 2009

Ms. Rebecca Ridge, Financial Secretary
Plumbers AFL-CIO
Local 702
1209 Coreland Drive

Madison, TN 37115

LM File Number 517-554
Case Number: [REDACTED]

Dear Ms. Ridge:

This office has recently completed an audit of Plumbers Local 702 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 September 18, 2009, 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.

The CAP disclosed:

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 702's 2008 records revealed the following recordkeeping violations:

1. Receipt Dates not Recorded

Entries in Local 702's check stubs reflect the date the union deposited money, but not the date money was received. 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. Failure to Record Receipts

Local 702 did not record in its receipt records interest received from banks for interest earned on certificates of deposit and on the money market account totaling at least \$4,579.71. For example, during the audit year, the local earned \$2,267.66 in interest from its certificates of deposits and \$2,312.05 from the money market account, but the local did not record these receipts in its records. Union receipts 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.

3. Officer Expenses

Ms. Ridge, Local 702 did not retain adequate documentation for monthly expenses paid to you, totaling at least \$1,200.00. For example, you receive a monthly expense of \$100.00 to store the local's records at your residence. You stated that this expense was approved by the membership sometime in either the 1960's or 1970's, but the local did not retain the meeting minutes. The union must keep a record, such as meeting minutes, to show the current expense authorized by the entity or individual in the union with the authority to establish expenses. The union must keep a record, such as meeting minutes, to show the authorization and approval of such expense.

Based on your assurance that Local 702 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 702 for fiscal year ending December 31, 2008, was deficient in the following areas:

1. Disbursements to Officers

Local 702 did not include some reimbursements to officers totaling at least \$2,069.36 in the amounts reported Item 24 (All Officers and Disbursements to Officers). It appears the union erroneously reported these payments in Item 48 and elsewhere on the report.

The union must report most direct disbursements to Local 702 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. Certificates of Deposit Reported As Investments

Local 702 improperly included the value of certificates of deposit and its money market account as investments in Statement A (Assets and Liabilities). For LM reporting purposes, OLMS considers a certificate of deposit to be cash. The purchase or redemption of a certificate of deposit is a transfer of cash from one account to another and, therefore, the local should not report these transactions as receipts or disbursements.

3. Receipts not Reported on the LM-3 Report

The local failed to report on the LM-3 report \$2,267.66 in interest that it earned on its certificates of deposit. The LM-3 instructions require that interest and dividends from savings accounts, bonds, mortgages, loans, investments, and all other sources to be reported in Item 41 (Interest & Dividends).

4. 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 702 amended its constitution and bylaws in 2008, but did not file a copy with its LM report for that year. Local 702 has now filed a copy of its constitution and bylaws.

I am not requiring that Local 702 file an amended LM report for 2008 to correct the deficient items, but Local 702 has agreed to properly report the deficient items on all future reports it files with OLMS.

Other Issues

1. Duplicate Receipts

Some Members of Local 702 pay dues directly to the union. Ms. Ridge, you record dues payments in the union's check stubs, but they do not issue receipts to dues

payers. OLMS recommends that Local 702 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.

2. Signing Blank Checks

During the audit, you advised that President Henry Ellis signs blank checks. Your union's bylaws require that all checks be signed by the president and treasurer. The two signature requirement is an effective internal control of union funds. Its purpose is to attest to the authenticity of a completed document already signed. However, signing a blank check in advance does not attest to the authenticity of a completed check, and negates the purpose of the two signature requirement. OLMS recommends that Local 702 review these procedures to improve internal control of union funds.

3. Lost Wages

The audit revealed that some Local 702 union officials may have not been entitled to lost wages, totaling at least \$943.41. For example, former President [REDACTED] was paid lost wages totaling at least \$387.04 for the same dates that he received paid vacation from his employer. Business Agent Louie Etheridge also received employer-paid vacation for the same dates that he received lost wages from the local. In one instance, Mr. Etheridge claimed and received reimbursement for four hours of lost wages from the local, even though the employer compensated him while he was conducting union business. These reimbursements to Mr. Etheridge totaled at least \$556.37.

Ms. Ridge, you advised OLMS that it is the local's unwritten policy not to reimburse lost wages while an individual is on paid vacation. OLMS recommends that the local establish a written policy regarding reimbursement of lost wages. A written policy will assist union officials and members in understanding the circumstances for requesting payment of lost wages. OLMS also suggests that the local either review employer time sheets or require members to provide their pay

stubs prior to issuing lost time payments to members. This measure will help to ensure that lost wage disbursements are proper and accurate.

4. Reimbursed Expenses

Local 702 did not obtain Executive Committee approval for reimbursed expenses by union officers totaling at least \$653.22. For example, in addition to their monthly expense allowances, union officials were reimbursed for meal expenses. Item 11 of the local's bylaws state, "The local union will pay the President, Business Agent, and the Financial Secretary expenses not to exceed \$100.00 per month, unless additional funds are required, in which case these funds will be voted on by the Executive Committee. The Vice-President, Recording Secretary, and Assistant Business Agent will receive expenses not to exceed \$75.00 per month with all the above requirements." Disbursements should be made in accordance with applicable resolutions and should include documentation showing the nature of the union business requiring the disbursement.

I want to extend my personal appreciation to Plumbers Local 702 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: Henry Ellis, President