

**U.S. Department of Labor**

Employment Standards Administration  
Office of Labor-Management Standards  
Houston Resident Investigator Office  
2320 LaBranch Street, Room 1107  
Houston, Texas 77004  
(713) 718-3755 / FAX: (713) 718-3757



January 31, 2005

Mr. David Taylor  
PACE Local 4-227  
704 East Pasadena Freeway  
Pasadena, Texas 77506

Re: 2

Dear Mr. Taylor:

This office has recently completed an audit of PACE Local 4-227 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, as Amended (LMRDA). As discussed during the exit interview with you on January 27, 2005, 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.

Title II of the LMRDA establishes certain reporting and record keeping requirements. Section 206 requires, among other things, that adequate records be maintained 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, all records used or received in the course of union business must be retained. This includes, in the case of disbursements, not only the retention of original bills, invoices, receipts, and vouchers, but also adequate additional documentation, if necessary, showing the nature of the union business requiring the disbursement, the goods or services received, and the identity of the recipients of the goods or services. The proper maintenance of union records is the personal responsibility of the individuals who are required to file the annual LM report. You should be aware that Section 206 of the LMRDA provides for a fine of not more than \$10,000 or imprisonment for not more than one year, or both, for willful failure to maintain records.

PACE Local 4-227 has failed to retain adequate documentation for reimbursed expenses, expenses charged to union credit cards, and lodging expenses which were direct-paid by the union. The date, amount, and business purpose of every expense must be recorded on at least one union record. In addition, the names of individuals present for meal expenses paid for by the union and the locations (names of restaurants) where meal expenses were incurred must also be recorded.

PACE Local 4-227 has failed to maintain sufficient records in regards to the ARCO (Lyondell/Citgo/Ritchie) Welfare fund, a LMRDA fund. The local has failed to retain all voided checks and maintain documentation verifying the eligibility of the member to receive the payments. Records need to be maintained as to allow verification of the funds activities by the proper union officials and outside agencies.

As agreed, provided that PACE Local 4-227 maintains adequate and correct information regarding the ARCO Welfare fund and retains adequate documentation regarding expenses, no additional enforcement action will be taken regarding this violation.

The GAP disclosed a violation of LMRDA section 201(b), because the Labor Organization Annual Report (Form LM-3) filed by PACE Local 4-227 for fiscal year ending December 31, 2003 failed to meet the standards of acceptability.

PACE Local 4-227 failed to correctly report monthly allowances to officers in Schedule 9, Column E (Allowances). Such payments appear to have been erroneously reported in Schedule 9, Column D (Gross Salary). Direct or indirect disbursements made to officers on a daily, weekly, monthly or other periodic basis must be entered in Schedule 9, Column E.

PACE Local 4-227 failed to include some reimbursements to officers and employees in the amounts reported in Schedule 9 (All Officers and Disbursements to Officers) and Schedule 10 (Disbursements to Employees). Such payments appear to have been erroneously reported in Schedules 12 (Benefits), Schedule 13 (Office and Administrative Expenses) and Schedule 15 (Other Expenses).

Direct disbursements to officers and employees for reimbursement of expenses incurred while conducting union business must be reported in Column F of Schedules 9 and 10 (Disbursements for Official Business). In addition, indirect disbursements made to another party (such as a credit card company) for business expenses incurred by union personnel must also be reported in Column F of Schedules 9 and 10. However, indirect disbursements for business expenses incurred for transportation by a public carrier (such as an airline) and for temporary lodging expenses incurred while traveling on union business must be reported in Schedule 13 (Office and Administrative Expenses). Any direct or indirect disbursements to union personnel for expenses not necessary for conducting union business must be reported in Column G of Schedules 9 and 10 (Other Disbursements).

PACE Local 4-227 has been incorrectly reporting all of their ~~4~~ and ~~4~~ holdings in Item 25 (Cash) on its LM-2 report instead of reporting applicable funds in Schedule 2 (Investments Other Than U.S. Treasury Securities). Some of the assets held with the investment companies will still need to be entered into Item 25, such as money market accounts or certificates of deposit. Any stocks, mutual funds, state and municipal bonds or foreign government securities must be reported in Schedule 2.

PACE Local 4-227 has failed to report the ARCO Welfare fund, a LMRDA fund, and the funds activities on its LM-2 reports. The fund is specifically funded by PACE Local 4-227 members employed at the LCR plant for their benefit. Local 4-227 will begin reporting the ARCO Welfare fund in Item 25. Local 4-227 must also report the fund's income and disbursements in Items 53 and 72, respectively.

PACE Local 4-227 has been incorrectly depreciating its assets' cost basis in Schedule 5 (Fixed Assets) Column "B" on the LM-2 reports. Schedule 5 Column "B" is the actual cost of an assets

and must remain constant for as long as the Local holds that assets. The local can report the accumulated depreciation for assets in Column "C". The local should then enter the value of the assets as reported on its books in Column "D", which should be the difference between Column "B" and Column "C". The Local will report its assets correctly on future LM-2 reports.

PACE Local 4-227 incorrectly reported much of its interest income in Schedule 14 (Other Receipts) instead of in Item 46 (Interest). A review of prior year LM-2 reports suggests that Local 4-227 had reported its interest income correctly. It is likely that the incorrect reporting of this income was an unintentional mistake in the 2003 report. Any interest income from the local's savings, checking, money market and certificates of deposit must be reported in Item 46. However, if PACE Local 4-227 receives any dividend income from its stock investments, it must be reported in Item 47 (Dividends).

PACE Local 4-227 has failed to correctly report the amount the organization is bonded on its LM-2 reports. The LM-2 for the fiscal year ending 12/31/03 reported that PACE Local 4-227 held a bond valued at \$100,000.00. PACE Local 4-227 actually holds a bond valued at \$135,000.00. The local will begin reporting the correct amount on future LM-2 reports.

PACE Local 4-227 should abandon the practice of allowing checks to be pre-signed. The countersignature requirement is an effective internal control of union funds. Its purpose is to attest to the authenticity of a completed document already signed. However, countersigning a blank check in advance does not attest to the authenticity of a completed check, and completely circumvents and undermines the whole purpose of the countersignature requirement. You may want to revise your check disbursement method.

It will be necessary for PACE Local 4-227 to file an amended LM-2 report for 2003 to correct the deficient items discussed above. The amended report should be submitted to this office at the above address as soon as possible, but no later than 2/15/05. Before mailing, review the reports thoroughly to be sure they are complete, accurate, and signed properly with original signatures.

I strongly recommend that you make sure that this letter and the compliance assistance materials that were provided are shared with all of the officers of your Local.

I want to thank you for your cooperation and courtesy during this compliance audit. If we can be of any assistance in the future, please do not hesitate to contact me or any other representative of our office.

Sincerely,  
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7(C)  
Investigator

cc: President Mackwell Hickerson