

Honolulu Resident Investigator Office
Prince Kuhio Federal Building, Suite 5-121
300 Ala Moana Boulevard, Box 50204
Honolulu, Hawaii 96850
(808) 541-2778 / FAX: (808) 541-2719



September 26, 2005

Aldon Kaopuiki
Financial Secretary/Treasurer
Hawaii Federal Employee
Metal Trades Council
P.O. Box 716
Aiea, Hawaii 96701-0716

Re: ~

Dear Mr. Kaopuiki:

This Office has recently completed an audit of the Metal Trades Department (MTC) under the Compliance Audit Program (CAP) to determine compliance with provisions of the Civil Service Reform Act of 1978 (CSRA) and related regulations, comparable to Labor-Management Reporting and Disclosure Act of 1959 (LMRDA), for federal sector unions. As discussed during the exit interview with President William M. Hamilton and you on September 9, 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.

Record Keeping Violations

Sections 403 and 458.3 of the CSRA incorporate the reporting and recording keeping requirements of Title II of the LMRDA by reference. Section 206 of the LMRDA 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 following record keeping deficiencies were revealed during the audit of your organization's 2004 records:

Officer and Employee Expenses

Union officers failed to retain adequate documentation for lodging expenses which were paid by the union. In particular, there was a \$680.16 officer expense reimbursement for a security deposit on hotel rooms. An initial review of the 2004 MTC LM-2 Report and pertinent union records failed to indicate the purpose for this expense. Upon further investigation by our Office, it appeared that this expense was for legitimate union business. However, the date, amount, and business purpose of every expense must be recorded on at least one union record.

With respect to documentation retained in support of specific disbursements, the record retention requirement includes not only the retention of original bills, invoices, receipts, and vouchers, but also additional documentation, if necessary, showing the nature of the union business requiring the disbursement, the goods or services received, and all the recipients of the goods or services. In most instances, this documentation requirement can be most easily satisfied with a sufficiently descriptive receipt. If a receipt is not sufficiently descriptive, a note can be written on it providing the additional information. An exception may be made only in those cases where (1) other equally descriptive documentation has been maintained and (2) there is evidence of actual oversight and control over disbursements.

Conclusion of Record Keeping Violations

As agreed, provided that MTC maintains adequate documentation for its disbursements in the future, no additional enforcement action will be taken regarding this violation.

I strongly urge MTC to adopt clear guidelines regarding what kinds of out-of-pocket expenses personnel may be reimbursed for. Our office is certainly available to provide guidance to you regarding the requirements of the law as they would pertain to any policies your union might adopt. If written guidelines are adopted in the near future, I would appreciate it if you would provide a copy to this office.

The proper maintenance of union records is the personal responsibility of the individuals who are required to file MTCs 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. Section 209(c) 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 destruction or falsification of records, and applies to any person (not just the individuals who are responsible for filing the union's LM report).

Reporting Violations

The CAP disclosed a violation of CSRA Section 458.3 because the Labor Organization Annual Report (Form LM-2) filed by MTC for fiscal year ending December 31, 2004, failed to meet the standards of acceptability. Please see the attached LM-2 Error Summary for the thirteen deficient items that were identified on said report.

LM-2 Schedules 9 and 10 (Disbursements to Officers / Disbursements to Employees)

MTC failed to include some reimbursements to officers in the amounts reported in Schedules 9 (All Officers and Disbursements to Officers) and 13 (Office and Administrative Expense). Such payments appear to have been erroneously reported in Schedule 15 (Other Expenses). For example, in Schedule 15, you listed \$7,307 in disbursements for "Conventions/Conf." You also listed two disbursements in the amount of \$1437 and \$202 for "MTC Training."

Direct disbursements to officers for reimbursement of expenses incurred while conducting union business must be reported in Column F of Schedule 9 (Disbursements for Official Business). In addition, indirect disbursements made to another party (such as a credit card company) for business expenses incurred by union officers must also be reported in Column F of Schedule 9. 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 should be reported in Schedule 13 (Office and Administrative Expenses). Any direct or indirect disbursements to union officers for expenses not necessary for conducting union business must be reported in Column G of Schedules 9 (Other Disbursements).

LM-2 Schedule 13 (Office and Administrative Expense)

Disbursements of \$7,189 were improperly reported in Schedule 13 as "Office Supplies/Admin." The LM-2 instructions for Schedule 13 stated that disbursements reported in Schedule 13 "must be described in Column (A) and may be classified by general groupings or bookkeeping categories if the description is sufficient to identify their purpose." A general "Office Supplies/Admin" category is not an acceptable classification because it is not sufficiently descriptive.

LM-2 Schedule 14 (Other Receipts)

Receipts of \$2,814 were improperly reported in Schedule 14 as "Refunds." The LM-2 instructions for Schedule 14 stated that receipts reported in Schedule 14 "must be described in Column (A) and may be classified by general groupings or bookkeeping categories if the descriptions are sufficient to identify their source." A general "Refund" category is not an acceptable classification because it is not sufficiently descriptive.

Conclusion of Reporting Problems

It was necessary for MTC to file an amended LM-2 report for FYE 12/31/04 to correct the deficient items discussed above. As requested, you have recently submitted one copy of the amended report to this Office on September 26, 2005, at the above address.

Other Issues

Inadequate Bonding

The audit revealed a violation of CSRS Section 458.35 (Bonding), which requires that the union's officers and employees be bonded for no less than 10% of the total funds handled by those individuals or their predecessors during the preceding fiscal year. At the on-set of the audit, MTC officers and employees were bonded for \$60,000, but they needed to be bonded for at least \$61,000. As requested, the union has recently obtained adequate bonding coverage for its officers and employees. On September 9, 2005, you provided this Office with proof of \$65,000 bonding coverage for its officers.

Countersignature (Signing Blank Checks)

The audit revealed a violation of CSRS Section 458.32 (Accounting Controls), which requires that "Every labor organization shall provide accounting and financial controls necessary to assure the maintenance of fiscal integrity." During the audit, you advised that President Hamilton sometimes signs blank checks in advance without any additional internal safeguards. Article IX, Section 1 of your union's constitution and bylaws require that all checks be signed by the president and treasurer. 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.

In addition, you advised that MTC trustees have not audited MTC books and records because they have not been able to coordinate their schedule with yours. MTC Constitution and Bylaws, Article 9, Section 6, states that trustees are required to review the financial standing of the council. You may want to revise your financial safeguarding practices to include your trustees to conduct periodic audits of MTC's financial books and records.

Concluding Statements / Remarks

I strongly recommend that you make sure that this letter and the compliance assistance materials that were provided to you are passed on to yours and Mr. Hamilton's successors at whatever time you may leave office.

I want to thank you, Mr. Hamilton, and all other MTC officers for their cooperation and courtesy during this compliance audit. If OLMS can be of any assistance in the future, please do not hesitate to contact me or any other representative of our office.

Sincerely,

M. (C)

for Michael DuVall, District Director

Enclosures (2)

cc. MTC President William M. Hamilton