

**U.S. Department of Labor**

Employment Standards Administration  
Office of Labor-Management Standards  
Division of International Union Audits  
1341 G Street, N.W., Room 201  
Washington, D.C. 20210



July 10, 2007

Mr. W. Dan Pickett  
President  
Brotherhood of Railroad Signalmen, AFL-CIO  
917 Shenandoah Shores Road  
Front Royal, VA 22630-6418

Dear President Pickett:

The Office of Labor-Management Standards (OLMS) within the Department of Labor has completed a follow-up compliance audit of the Brotherhood of Railroad Signalmen (BRS). The follow-up audit was conducted under the International Compliance Audit Program (I-CAP), pursuant to the Labor-Management Reporting and Disclosure Act of 1959 (LMRDA). The purpose of this follow-up audit was to assess the progress of the BRS in rectifying deficiencies identified during the original I-CAP audit. This letter documents the areas reviewed and discussed with BRS officials during the exit meeting conducted on May 24, 2007. The meeting was conducted with Mr. Walter Barrows, Secretary Treasurer, and Mr. William Phillips, General Counsel. The purpose of the meeting was to review the amended Form LM-2 reports submitted by the BRS for fiscal years 2005 and 2006, along with your letter of March 2, 2007, which describes actions the BRS has taken in response to the findings of the audit. The deficiencies identified during the initial audit that were conveyed to the union in an audit closing letter dated January 25, 2007, are summarized below, along with an assessment of the union's progress in correcting these deficiencies. Neither the initial audit, nor subsequent follow-up review purport to be an exhaustive list of all possible problem areas since the compliance audit is limited in scope. Note that the numbered items below correspond to the numbered items in the audit closing letter of January 25, 2007.

Reporting Deficiencies - LMRDA Section 201

Section 201(b) of the LMRDA requires that labor organizations file with OLMS an annual financial report that accurately discloses the union's financial condition and operations. The following deficiencies were noted on the BRS Form LM-2 for the fiscal year ending June 30, 2005. In response to these audit findings, the BRS filed amended LM-2 reports for fiscal years ending June 30, 2005 and June 30, 2006.

1. The BRS operated a store that maintained inventory and sold various union-related merchandise items. Although the union reported the purchase of

supplies for resale in Item 59 (Supplies for Resale) and receipts from the sale of supplies in Item 39 (Sale of Supplies), the union did not report its inventory of merchandise as an asset in Schedule 7 (Other Assets), or elsewhere in Statement A (Assets and Liabilities). The BRS must report such inventory in Schedule 7 and Statement A.

During the follow-up audit, the I-CAP team requested from the union current inventory records pertaining to the operation of the union store. Based on these records, it appears that the union is maintaining up-to-date records of store inventories. Further, Mr. Barrows stated that the union agrees that the inventory maintained in the store should be reported on the union's LM-2 reports. He further stipulated that the union would report such inventory in all future LM report filings.

2. The BRS purchased prepaid air miles for use by officers on official travel. Although the union correctly reported prepaid airfare in Item 28 and Schedule 7 (Other Assets) at the end of the reporting period, it incorrectly reported prepaid airfare in Item 23 (Accounts Receivable) at the beginning of the reporting period. Prepaid airfare must be reported in Item 28 and Schedule 7 (Other Assets) at both the beginning and the end of the reporting period.

During the follow-up audit, the I-CAP team reviewed the amended LM-2 reports filed by BRS for the union's 2005 fiscal year. On the amended report, BRS corrected the above referenced deficiency.

3. The BRS did not report "O" for officer or "E" for employee next to each officer or employee's name in Column A on Schedule 2 (Loans Receivable). For each officer or employee listed, the union must indicate either "O" (officer) or "E" (employee).

During the follow-up audit, the I-CAP team reviewed the amended LM-2 reports filed by BRS for the union's 2005 and 2006 fiscal years. On each amended report, BRS corrected the above referenced deficiency.

4. The BRS reported only the last name and the first and middle initials of its officers and employees in Column A on Schedule 11 (All Officers and Disbursements to Officers) and Schedule 12 (Disbursements to Employees). The union must report the last name, first name, and middle initial of each officer and employee in Column A on Schedules 11 and 12.

During the follow-up audit, the I-CAP team reviewed the amended LM-2 reports filed by BRS for the union's 2005 and 2006 fiscal years. On each amended report, BRS corrected the above referenced deficiency.

5. The BRS incorrectly reported lump sum \$25,000 payments for moving expenses to officers W. Dan Pickett, Walter Barrows, and Jerry Boles in Column D (Gross Salary) of Schedule 11 (All Officers and Disbursements to Officers). The BRS incorrectly reported lump sum \$25,000 payments for moving expenses to employees Tim DePaepe and Kelly Haley in Column D (Gross Salary) of Schedule 12 (Disbursements to Employees). Because the purpose of these payments was to pay moving expenses, not salary, the union must report these payments in Column G (Other Disbursements) of Schedules 11 or 12, as appropriate. Additional explanation regarding these transactions may be reported in Item 69 (Additional Information), but is not required.

During the follow-up audit, the I-CAP team reviewed the amended LM-2 reports filed by BRS for the union's 2005 fiscal year. On the amended report, BRS corrected the above referenced deficiency.

6. The BRS reported \$1,477 in Item 67c (Withholding Taxes and Payroll Deductions - Total Withheld But Not Disbursed). The union must also report this payroll withholding liability in Item 33 and Schedule 10 (Other Liabilities).

During the follow-up audit, the I-CAP team reviewed the amended LM-2 reports filed by BRS for the union's 2005 fiscal year. On the amended report, BRS corrected the above referenced deficiency.

7. The BRS inaccurately reported receiving \$109,978 in Item 40 (Interest) and \$8,299 in Item 41 (Dividends). The audit revealed different amounts for interest and dividends. The union indicated that the difference was because the amounts for interest and dividends were commingled in the general ledger and on the financial statements. The union must accurately report interest and dividend amounts received on Form LM-2.

During the follow-up audit, the I-CAP team attempted to independently verify the amounts reported for interest and dividends. During this process, Mr. Barrows explained some of the calculations, particularly relating to payments of premiums and discounts on interest-bearing securities. The I-CAP team was able to reconstruct, to a reasonable degree of certainty, the accounting procedures used by the union to report interest and dividends. The I-CAP team concluded that the BRS did not inaccurately report the amounts for interest and dividends, and that what had initially been identified as an error in the original audit was a result of the union's inability, at that time, to explain how it had arrived at the amounts reported for each category.

8. The BRS reported disbursing \$22,975 to Geissler & Associates for the purpose of "Fiscal Year 2004 Audit" on an itemization page in Schedule 19 (Union Administration). The audit revealed that the union disbursed another \$2,000 to Geissler & Associates during the fiscal year to review accounting records for affiliated locals and general committees. The audit also revealed that BRS was reimbursed by the affiliates in the amount of \$2,000 for these accounting services. It was determined that BRS "netted" these transactions and failed to report either the \$2,000 disbursement to Geissler & Associates or the \$2,000 in reimbursements from the affiliates on the LM-2 report. All cash flowing in and out of the labor organization must be reported on the LM-2 report. "Netting" is not permitted. The union must report this \$2,000 disbursement on the itemization page for Geissler & Associates in Schedule 19 (Union Administration) thereby reflecting a total of \$24,975 paid to Geissler & Associates. The union must also report the \$2,000 in reimbursements from the affiliates in Item 48 and Schedule 14 (Other Receipts).

During the follow-up audit, the I-CAP team noted that at the time of its amended report, BRS continued to maintain that it had not netted payments made to Geissler & Associates. Mr. Barrows stated that the fees were segregated between those incurred on behalf of the national union and those incurred on behalf of affiliated locals. He provided copies of invoices, payment vouchers, and checks to substantiate his position. Nevertheless, the national union paid all of these invoices with checks drawn on the accounts of the national union. As such, these disbursements should have been reported at \$24,975 on the Schedule 19 itemization page. In addition, the union should have reported the reimbursements received from locals for payments made on their behalf in Item 48 and on Schedule 14. Although the union did not amend its 2005 LM-2 report to reflect this method, after lengthy discussions, the union agreed to use this reporting method going forward. Based on this assurance from the union, OLMS will take no further enforcement action at this time regarding this deficiency.

#### Inadequate Recordkeeping - LMRDA Section 206

Pursuant to Section 206 of the LMRDA, every person required to file any report under LMRDA Title II shall maintain records on the matters reported that would 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. Records must be retained for over five years if, for example, they are necessary to verify current financial activities of the union, such as meeting minutes that note approval for officer salary increases. There were instances noted during this audit where the BRS did not comply with the recordkeeping requirements

of Section 206. During the exit interview, BRS officials were informed that adequate records necessary to document all financial transactions, regardless of the amount, must be maintained for a minimum of five years.

9. The BRS did not require officers and employees to submit receipts or other supporting documentation for any reimbursed expenses less than \$25. As a result of this policy, the officer and employee expense documentation maintained by the union was not adequate.

In its response letter to the I-CAP team's original audit findings, the BRS maintained that not requiring receipts for items under a de minimums amount was an acceptable business practice. However, the union stated that it would begin implementing a policy requiring all receipts be submitted with officer and employee expense reports when they are normally or reasonably available. This policy, however, was only implemented in April 2007. Therefore, during the follow-up audit, the I-CAP team attempted to evaluate the union's progress in rectifying this deficiency. The I-CAP team asked for all officer and employee expense reports for the month of April 2007 (this was the only month available for purposes of ascertaining union compliance with this particular LMRDA requirement) and reviewed each such report. Of those items scheduled, approximately one percent was unsupported by proper documentation. In all relevant cases, participants at business meals and business purpose were ascertainable. Based on this analysis, the I-CAP team is satisfied that the union is making significant progress toward compliance with this recordkeeping requirement.

10. The BRS did not require officers and employees to submit itemized receipts for meal expenses. Itemized receipts provided by restaurants to officers and employees must be maintained by the union. These itemized receipts are necessary to determine if such disbursements are for union business purposes and to sufficiently fulfill the recordkeeping requirement as defined under LMRDA Section 206.

Based on the I-CAP team's analysis of union records for April 2007 (see Item No. 9, above), the team is satisfied that the union has implemented a satisfactory procedure for collecting and maintaining itemized receipts for meal expenses, and is substantially in compliance with LMRDA Section 206 with respect to such records.

11. BRS records pertaining to meal expenses sometimes included no written explanation of union business conducted and only the initials of the persons incurring the restaurant charges. In order to comply with LMRDA Title II, union records pertaining to meal expenses must include written explanations of union

business conducted and the full names and titles of all persons incurring the restaurant charges.

Based on the I-CAP team's analysis of union records for April 2007 (see Item No. 9, above), the union has implemented a satisfactory procedure to require explanations relating to the business purpose of union business meals, including all participants in such meals, and is substantially in compliance with LMRDA Section 206 with respect to such records.

#### Officer Holding Prohibitions - LMRDA Section 504

Section 504(a) of the LMRDA prohibits persons convicted of certain offenses from holding labor organization office or employment for a period of thirteen years from the date of conviction or release from prison, whichever is later.

12. According to Mr. Walter Barrows and Mr. William Phillips, the BRS does not conduct criminal background checks of officers or employees to ensure that they do not hold office or employment in violation of LMRDA Section 504. The I-CAP team emphasized the importance of verifying background information to ensure compliance with Section 504, and recommends that the BRS established a system for determining whether new officers and employees have disqualifying criminal records.

The I-CAP team interviewed Messrs. Barrows and Phillips regarding the union's progress in implementing a system to ascertain a potential employee's criminal record prior to hiring by the BRS. At the time of the follow-up audit, no such system was in place. However, Mr. Barrows stated that no one had been hired by the BRS since the original audit finding. He further stated that he expected a system would be in place before any additional hiring has occurred.

#### Internal Controls

Adequate internal financial controls are essential to prevent the misuse of union funds and to support financial responsibility and other obligations under Title II and Title V of the LMRDA. Title V of the LMRDA stipulates, among other things, the fiduciary responsibility of officers of labor organizations. As a general rule, weaknesses in financial controls can lead to violations of Section 501 of the LMRDA.

13. The BRS did not adequately segregate duties for handling receipts. One staff member was responsible for stamping checks for deposit, entering receipts into the general ledger, preparing deposit slips, making deposits at the bank, and reconciling bank statements. The I-CAP team recommended that one staff member be assigned to receive and list the receipts and reconcile the list to the

canceled deposit slips. Another employee should record receipts in the general ledger, and a third staff member should prepare the deposit slip and deposit the checks at the bank.

During the follow-up audit, the I-CAP team interviewed Messrs. Barrows and Phillips regarding whether the union had considered further segregation of duties relating to handling of union receipts. Mr. Barrows indicated that there are only three employees in the office capable of handling receipts and that because of this limitation, he did not see where additional segregation was possible. Mr. Barrows went on to state that he had implemented a deposits reconciliation procedure that is conducted by the receptionist and reviewed by him. Mr. Barrows stated that in his view, this provides sufficient control over union receipts.

14. The BRS did not adequately segregate the duties for handling disbursements. The same individual noted above, who handled the receipt duties, also handled the disbursement duties. This individual was responsible for preparing, recording, delivering for signature, and disbursing the checks. This individual was also responsible for preparing, maintaining, and submitting payroll. To better safeguard union assets, the I-CAP team recommended that someone other than the check preparer/recorder should distribute checks for signature and disburse the signed checks to the appropriate payee. In addition, someone other than the payroll preparer should submit the payroll.

During the follow-up audit, the I-CAP team interviewed Messrs. Barrows and Phillips regarding whether the union had considered further segregation of duties relating to handling of union disbursements. Mr. Barrows indicated that there are only three employees in the office capable of handling receipts and that because of this limitation, he did not see where additional segregation was possible. Mr. Barrows went on to state that he had implemented a procedure that requires the payroll release to be signed off on by at least two individuals with signature authority. This effectively prevents any one person from releasing the payroll. Mr. Barrows stated that in his view, this provides sufficient control over union disbursements and payroll.

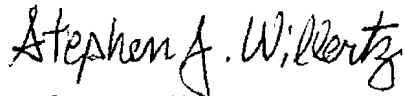
15. The union did not have written procedures for processing cash receipts or disbursements. Although the union was able to articulate procedures, the BRS should develop and implement formal written policies and procedures to ensure union funds are adequately safeguarded and used strictly for union purpose.

During the follow-up audit, the I-CAP team interviewed Messrs. Barrows and Phillips regarding whether the union had considered establishing written policies for processing the union's cash receipts and disbursements. Mr. Barrows

stated that he does not see the need for written policies at this time, and further articulated the view that adequate supervision of the accounting staff existed such that the risk to union assets resulting from improper cash receipts and disbursements is minimal.

As a result of this follow-up audit, the Division of International Union Audits considers this audit to be successfully concluded. If we can be of further assistance in the future, please do not hesitate to contact us. Thank you again for the cooperation and courtesy extended by you and your staff during this compliance audit.

Sincerely,

A handwritten signature in cursive script that reads "Stephen J. Willertz".

Stephen J. Willertz, Acting Chief  
Division of International Union Audits