



September 28, 2010

Mr. Jon Parman, President
Carpenters Local Union 735
163 Poplar Street
Mansfield, OH 44903

Case Number: [REDACTED]
LM Number: 020449

Dear Mr. Parman:

This office has recently completed an audit of Carpenters Local Union 735 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 23, 2010, 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 735's 2010 records revealed the following recordkeeping violations:

1. Disposition of Property

Local 735 did not maintain an adequate inventory of hats, t-shirts, and other property 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 union hats, t-shirts, and other items.

2. Failure to Record Receipts

Local 735 did not record in its receipts records money received from the sale of union hats, t-shirts, and other items totaling at least \$509. 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.

Based on your assurance that Local 735 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 735 for the fiscal year ended June 30, 2009, was deficient in the following areas:

1. Certificates of Deposit Reported As Investments

Local 735 improperly included the value of certificates of deposit 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.

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. During the opening interview, your accountant explained that he made an error reporting the cash balances on the 2009 report and that he will correct the problem on future reports.

3. Sale of Inventory

Local 735 did not correctly report receipts from the sale of hats, t-shirts, and other property it purchased and sold in Item 43 (Other Receipts), or disbursements to replenish inventory for resale in Item 48 (Office and Administrative Expense). The audit revealed that during

fiscal year 2010, Local 735 collected receipts totaling at least \$509, but did not indicate how much it disbursed for items that it re-sold to members. In addition, it must report the value of any supplies for resale on hand at the beginning and end of the year in Item 30 (Other Assets).

4. Bonding

The audit revealed that Local 735 is currently bonded for \$50,000; however, the amount is under-reported in Item 20 as \$15,000.

5. 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 735 amended its constitution and bylaws in 2008, but did not file a copy with its LM report for that year.

Local 735 has now filed a copy of its constitution and bylaws.

I am not requiring that Local 735 file an amended LM report for 2009 to correct the deficient items, but Local 735 has agreed to properly report the deficient items on all future reports it files with OLMS.

Other Issues

1. Duplicate Receipts

The audit revealed that Local 735 did not issue duplicate receipts to members who paid dues directly or purchased union attire such as t-shirts, hats, and blankets. OLMS recommends that Local 735 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. Each union officer or representative who collects dues or sales proceeds should utilize a duplicate receipt book. 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, Financial Secretary Walt Savage advised that he signs blank checks. Your union's policy is that all checks be signed by the financial secretary 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 735 review these procedures to improve internal control of union funds.

3. Petty Cash

The audit also revealed that union apparel sales proceeds were not deposited in the local's bank account and were instead maintained for the purposes of petty cash or to replenish the sales inventory. OLMS recommends that Local 735 should deposit all receipts to further improve the accountability of the receipts process. Additionally, OLMS recommends that the sales proceeds be kept separate from petty cash if Local 735 continues to maintain a petty cash fund for miscellaneous expenditures.

4. Debit Cards

The audit revealed that Local 735 permits officers to use union debit cards to pay for union-related expenses. OLMS recommends that the local discontinue using debit cards for union disbursements to further improve internal controls over the disbursements process.

I want to extend my personal appreciation to Carpenters Local Union 735 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: Financial Secretary Walt Savage