



December 27, 2011

Mr. Robert Kelly, President
Graphic Communications, IBT Local 197-M
3922 Volunteer Drive, Suite 12
Chattanooga, TN 37416

Case Number: [REDACTED]
LM Number: 540-796

Dear Mr. Kelly:

This office has recently completed an audit of Graphic Communications, IBT Local 197-M 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 and Business Agent Larry Best on December 8, 2011, 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 197-M's 2010 records revealed the following recordkeeping violations:

1. General Reimbursed and Debit Card Expenses

Local 197-M did not retain adequate documentation for reimbursed expenses and debit card expenses incurred by union officers and employees totaling at least \$5,273.53. For example, there was \$1,513.45 in reimbursed expenses paid to officers in which the local

did not identify the union purpose. Additionally, there was at least \$3,760.08 in debit card expenses in which the local did not maintain receipts and did not identify the union purpose.

As noted above, labor organizations must retain original receipts, bills, and vouchers for all disbursements. The president and treasurer (or corresponding principal officers) of your union, who are required to sign your union's LM report, are responsible for properly maintaining union records.

2. Meal Expenses

Local 197-M did not require officers and employees to submit itemized receipts for meal expenses totaling at least \$886.40. The union must maintain itemized receipts provided by restaurants to officers and employees. These itemized receipts are necessary to determine if such disbursements are for union business purposes and to sufficiently fulfill the recordkeeping requirement of LMRDA Section 206.

Local 197-M's records of meal expenses did not always include written explanations of union business conducted or the names and titles of the persons incurring the restaurant charges. For example, union officials did not identify the union business conducted on meal receipts which totaled at least \$287.71. Union records of meal expenses must include written explanations of the union business conducted and the full names and titles of all persons who incurred the restaurant charges. Also, the records retained must identify the names of the restaurants where the officers or employees incurred meal expenses.

3. Reimbursed Auto Expenses

Union officers and employees who received reimbursement for business use of their personal vehicles did not retain adequate documentation to support payments to them totaling at least \$8,854.04 during 2010. The union must maintain records which identify the dates of travel, locations traveled to and from, and number of miles driven. The record must also show the business purpose of each use of a personal vehicle for business travel by an officer or employee who was reimbursed for mileage expenses.

4. General Expenses

Local 197-M did not retain adequate documentation for general expenses and purchases totaling at least \$2,515. For example, the union gave away a \$1000 visa gift card to an officer as payment for conducting union business. Local 197-M did not maintain the visa card purchase receipt and the invoice that the officer provided to the union. In addition, union records did not identify the purpose of the gift card. Local 197-M also paid at least \$1,515 in health insurance premiums, but did not maintain records of the disbursement.

As noted above, labor organizations must retain original receipts, bills, and vouchers for all disbursements. The president and treasurer (or corresponding principal officers) of your

union, who are required to sign your union's LM report, are responsible for properly maintaining union records.

5. Receipt Dates not Recorded

Entries in Local 197-M receipts journal 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-2. The LM-2 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.

The proper maintenance of union records is the personal responsibility of the individuals who are required to file Local 197-M's LM report. You should be aware that under the provisions of Section 209(a) of the LMRDA and Section 3571 of Title 18 of the U.S. Code, willful failure to maintain records can result in a fine of up to \$100,000 or imprisonment for not more than one year, or both. Under the provisions of Section 209(c) of the LMRDA and Section 3571 of Title 18 of the U.S. Code, willful destruction or falsification of records can result in a fine of up to \$100,000 or imprisonment for not more than one year, or both. The penalties provided in Section 209(c) and Section 3571 of Title 18 apply to any person who caused the violations, not just the individuals who are responsible for filing the union's LM report.

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-2) for the fiscal year ended December 31, 2010 was deficient in the following areas:

1. Failure to File LM-2 Report for FYE 12/31/2010

The law requires the president and treasurer or corresponding principal officers of each labor organization to file an annual financial report with OLMS within 90 days after the end of its fiscal year. Any labor organization which has terminated and ceased to exist or lost its identity through merger or consolidation must file a terminal financial report within 30 days of such action. Therefore, your organization's report is long overdue. The report should be submitted to OLMS no later than December 30, 2011.

2. 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 197-M amended its constitution and bylaws in

2009, but did not file a copy with its LM report for that year. As agreed, Local 197-M will file a copy of its current constitution and bylaws with OLMS as soon as possible but not later than December 30, 2011.

Other Violation

The audit disclosed the following other violation(s):

Inadequate Bonding

The audit revealed a violation of LMRDA Section 502 (Bonding), which requires that union officers and employees be bonded for no less than 10 percent of the total funds those individuals or their predecessors handled during the preceding fiscal year.

The audit revealed that Local 197-M's officers and employees were not bonded for the minimum amount required at the time of the audit. However, Local 197-M obtained adequate bonding coverage and provided evidence of this to OLMS during the audit. As a result, OLMS will take no further enforcement action regarding this issue.

Other Issues

1. Expense Policy

As I discussed during the exit interview with you and Mr. Best, the audit revealed that Local 197-M does not have a clear policy regarding the types of expenses personnel may claim for reimbursement and the types of expenses that may be charged to union debit cards. OLMS recommends that unions adopt written guidelines concerning such matters.

2. Duplicate Receipts

Members of Local 197-M pay dues directly to the union. Union officials record dues payments in the union's computerized receipts journal, but they do not issue receipts to dues payers. OLMS recommends that Local 197-M 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.

I want to extend my personal appreciation to Graphic Communications, IBT Local 197-M 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,

[REDACTED]

[REDACTED]

Investigator

cc: Mr. Larry Best, Business Agent
[REDACTED], Attorney