



January 6, 2015

Mr. Merrill Wyatt, President
Machinists AFL-CIO Local Lodge 1260
2116 Wisconsin Ave
New Holstein, WI 53014

Case Number: 320-6002701 [REDACTED]
LM Number: 542827

Dear Mr. Wyatt:

This office has recently completed an audit of Machinists Local Lodge 1260 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 Financial Secretary-Treasurer Joseph Schad, Jr. and Grand Lodge Auditor [REDACTED] on December 5, 2014, 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 Lodge 1260's 2013 records revealed the following recordkeeping violations:

1. Reimbursed Auto Expenses

Vice President Bonnie Polster, Financial Secretary-Treasurer Joseph Schad, Jr., Trustee Anita Hill, and you received reimbursement for business use of personal vehicles but did not retain adequate documentation to support payments made to yourself and them totaling at least \$1,604 during 2013. Mileage reimbursements were claimed on expense vouchers that normally identified the total miles driven and the union business conducted; however, expense vouchers were not sufficient because in many instances they failed to identify the locations traveled and from and the dates of travel. 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.

2. Receipt Dates not Recorded

The receipt records retained for ticket sales totaling \$2,930 from Local Lodge 1260's 2013 cookout raffle did not include the date the 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-3. The LM-3 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.

Based on your assurance that Local Lodge 1260 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 Lodge 1260 for the fiscal year ended December 31, 2013, was deficient in the following areas:

1. Acquire/Dispose of Property

Item 13 (During the reporting period did your organization acquire or dispose of any assets in any manner other than by purchase or sale?) should have been answered, "Yes," because during the audit period Local Lodge 1260 gave away t-shirts, hats, and cookout raffle prizes totaling at least \$2,714. The union must identify the type and value of any property received or given away in the additional information section of the LM report along with the identity of the recipient(s) or donor(s) of such property. The union does not have to itemize every recipient of such giveaways by name. The union can describe the recipients by broad categories if appropriate such as "members" or "new retirees." In addition, the union must report the cost, book value, and trade-in allowance for assets that it traded in.

2. Disbursements to Officers

Local Lodge 1260 did not include some reimbursements to Ms. Polster totaling at least \$2,500 in the amount reported in Item 24 (All Officers and Disbursements to Officers), Column E (Allowances and Other Disbursements). It appears that some reimbursements totaling at least \$662 were erroneously reported in Item 48 (Office and Administrative Expenses) and Item 54 (Other Disbursements). Additionally, at least \$1,838 in reimbursements to Ms. Polster for the purchase of cookout raffle prizes does not appear to have been reported on the LM report. During the audit, Mr. Schad stated that he believed the cookout raffle was not officially conducted by Local Lodge 1260 and not reportable since all net proceeds from it were donated to the IAM Convention Fund.

The union must report most direct disbursements to Local Lodge 1260 officers and some indirect disbursements made on behalf of its officers in Item 24. A "direct disbursement" to an officer is a payment made to an officer in the form of cash, property, goods, services, or other things of value. See the instructions for Item 24 for a discussion of certain direct disbursements to officers that do not have to be reported in Item 24. An "indirect disbursement" to an officer is a payment to another party (including a credit card company) for cash, property, goods, services, or other things of value received by or on behalf of an officer. However, indirect disbursements for temporary lodging (such as a union check issued to a hotel) or for transportation by a public carrier (such as an airline) for an officer traveling on union business should be reported in Item 48 (Office and Administrative Expense).

3. Other Receipts and Other Disbursements relating to the Cookout Raffle

The audit revealed that Local Lodge 1260 disbursed \$169.16 to purchase a grill and made a donation of \$922.35 to the IAMAW Midwest Territory convention fund. These disbursements were not reported in Item 48 (Office and Administrative Expenses) and/or Item 54 (Other Disbursements). Additionally, Local Lodge 1260 did not report in Item 43 (Other Receipts) at least \$2,930 it received from the sale of cookout raffle tickets in 2013. As previously mentioned above, Mr. Schad stated that he believed the cookout raffle was not officially conducted by Local Lodge 1260 and not reportable since all net proceeds from it were donated to the IAM Convention Fund.

Statement B (Receipts and Disbursements) of the LM-3 requires that receipts be recorded when money is actually received by the labor organization and that disbursements must be recorded when money is actually paid out by the labor organization. The purpose of Statement B is to report the flow of cash in and out of the union during the reporting period. Receipts that are received and disbursements that are made by an agent on behalf your organization are considered receipts and disbursements of your organization and must be reported.

I am not requiring that Local Lodge 1260 file an amended LM report for 2013 to correct the deficient items, but Local Lodge 1260 has agreed to properly report the deficient items on all future reports it files with OLMS.

Other Issue

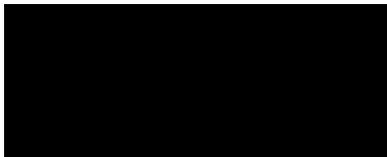
Failure to Record Receipts and Disbursements in Union Records and Failure to Follow Bylaws

The audit revealed that the receipts and disbursements from Local Lodge 1260's cookout raffle were not recorded in its accounting program, Virtual Financial Officer (VFO). Additionally, union receipts totaling at least \$2,930 were not deposited into Local Lodge 1260's general fund checking account, and the union made cash disbursements totaling at least \$2,720 instead of issuing checks from the general fund. Article VII, Section 5 of Local Lodge 1260's bylaws requires that all funds received by the lodge be deposited in the bank, that all payments be made by check, and that the secretary-treasurer keep a systematic account of all union disbursements in such a way as to show the balance of cash on hand at the close of each meeting of the Local Lodge.

Local Lodge 1260's bylaw requirement to disburse all union funds by checks that are signed by the president or vice-president and secretary-treasurer and the requirement to deposit all funds received by the union are effective internal controls of union funds. OLMS recommends that unions routinely review financial records to ensure compliance with internal policies and to ensure effective internal controls over union receipts and disbursements.

I want to extend my personal appreciation to Machinists AFL-CIO Local Lodge 1260 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: Mr. Joseph Schad, Jr., Financial Secretary-Treasurer
, Grand Lodge Auditor