



November 2, 2011

Mr. Adam Holmes, President
Painters AFL-CIO District Council 7
P.O. Box 189
Big Bend, WI 53103-0189

Case Number: [REDACTED]
LM Number: 542706

Dear Mr. Holmes:

This office has recently completed an audit of Painters AFL-CIO District Council 7 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 Business Manager/Secretary-Treasurer John Jorgensen and Bookkeeper Terry Badura on October 7, 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 Violation

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 District Council 7's 2010 records revealed the following recordkeeping violation:

Reimbursements to Officers and Employees and Disbursements to Credit Cards

District Council 7 did not retaining adequate supporting documentation for payments to Mr. Jorgensen, Vice President Joel Allen, and former Business Representative [REDACTED] totaling at least \$940.58 for reimbursed expenses. In addition, adequate documentation was

not retained for disbursements totaling more than \$2,390 to credit card companies for meal expenses charged by Mr. Jorgensen, Mr. Allen, [REDACTED], and Director of Servicing Dean Wanty that were charged to personal credit cards or the District Council 7 MasterCard. For example, adequate documentation was not retained for a \$559.00 meal expense incurred by Mr. Jorgensen on August 23, 2009 at Trevi in Las Vegas, NV while attending the international convention. District Council 7 retained an itemized meal receipt with only the initials of the people present at the meal, which is not sufficient. As another example, adequate documentation was not retained for a \$258.11 meal expense incurred by Mr. Wanty at Balistreri's Bluemound Inn in Milwaukee, WI on April 24, 2010. District Council 7 retained an itemized meal receipt with the names of the people present at the meal on the receipt, but the receipt was not sufficient in that it did not contain a description of the union business conducted.

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

Based on your assurance that District Council 7 will retain adequate documentation in the future, OLMS will take no further enforcement action at this time regarding the above violation.

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) filed by District Council 7 for the fiscal year ended June 30, 2010, was deficient in the following areas:

1. Disbursements to Officers and Employees

District Council 7 did not include some disbursements to credit card companies for business expenses charged by officers to personal credit cards for meals and other travel expenses incurred by Mr. Jorgensen, [REDACTED] Mr. Allen, and Mr. Wanty and disbursements to the council's MasterCard incurred by Mr. Jorgensen totaling at least \$5,470.48 in Schedule 11 (All Officers and Disbursements to Officers). A review of the workpapers created by District Council 7's accountant, CPA Mike Lewandowski, that were used to prepare the LM-2 report revealed that only checks to the officers and employees for auto and other expenses reimbursed to them were included in the amounts reported in Column F (Disbursements for Official Business) and Column G (Other Disbursements) of Schedule 11 and Schedule 12 (Disbursements to Employees). It appears that the disbursements to the credit card companies were improperly included in the amounts reported on Line 5 (All

Other Disbursements) of Schedule 17 (Contributions, Gifts, & Grants) and Schedule 19 (Union Administration).

The workpapers used by Mr. Lewandowski to prepare the LM-2 also show that payments to officers and employees for some reimbursed expenses for per diem, travel expenses, and meals totaling \$41,963.93 were erroneously reported in Column G (Other Disbursements) of Schedules 11 (All Officers and Disbursements to Officers) and 12 (Disbursements to Employees). The LM-2 instructions require that payments to officers and employees for expenses that are necessary for conducting union business must be reported in Column F of Schedules 11 and 12.

A review of checks issued to Mr. Jorgensen and the business representatives totaling \$23,770 for their weekly expense allowances (provided for in Article VII, Section 7.9 of District Council 7's bylaws) were erroneously included in the amounts reported in Column D (Gross Salary Disbursements) of Schedules 11 and 12. The LM-2 instructions require that allowances paid to officers and employees on a daily, weekly, monthly, or other periodic basis must be reported in Column E (Allowances Disbursed) of Schedules 11 and 12.

Direct disbursements to officers and employees for reimbursement of expenses they incurred while conducting union business must be reported in Column F of Schedules 11 and 12. In addition, indirect disbursements made to another party (such as a credit card company) for business expenses union personnel incur must be reported in Column F of Schedules 11 and 12. However, indirect disbursements for business expenses union personnel incur for transportation by public carrier (such as an airline) and for temporary lodging expenses while traveling on union business must be reported in Schedules 15 through 19. Any direct or indirect disbursements to union personnel for expenses not necessary for conducting union business must be reported in Column G of Schedules 11 and 12.

2. Failure to Record Receipts in Correct Fiscal Year

A review of District Council 7's general ledger, which is maintained in Peachtree, showed that the council recorded receipts for dues totaling \$45,077.04 as being received on June 30, 2010 in the general ledger, but Mr. Jorgensen and Ms. Badura confirmed that these receipts were actually received between July 2, 2010 and July 8, 2010. As a result, it appears that District Council 7 incorrectly reported its total receipts for dues in Item 36 (Dues and Agency Fees) and the total receipts in Item 49 (Total Receipts) on Form LM-2 filed for fiscal year ended June 30, 2010. The LM-2 instructions require that the LM-2 be prepared using the cash method of accounting. Under the cash method of accounting, receipts are recorded when money is actually received by your organization and disbursements are recorded when money is actually paid out by your organization. Failure to record the exact date that moneys were received could result in some receipts being reported in a different year than they were actually received. District Council 7 should take steps to ensure that all transactions are recorded in a timely manner.

3. 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. District Council 7 amended its constitution and bylaws in 2010, but did not file a copy with its LM report for that year.

District Council 7 has now filed a copy of its constitution and bylaws.

I am not requiring that District Council 7 file an amended LM report for 2010 to correct the deficient items, but District Council 7 has agreed to properly report the deficient items on all future reports it files with OLMS.

Other Issue

Use of Signature Stamp

During the audit, Mr. Jorgensen and Ms. Badura advised that it is District Council 7's practice for Ms. Badura to stamp the signature of Mr. Jorgensen on union checks when he is out of the office. Mr. Jorgensen and Ms. Badura advised that you also have a signature stamp of your signature and that Ms. Badura sometimes use this stamp to affix your signature to union checks when you are unavailable. At the beginning of the audit, Mr. Jorgensen and Ms. Badura stated that District Council 7's practice is that all checks are required to bear the signature of two officers, and one signature must be a "live" signature. Ms. Badura also advised that before she uses Mr. Jorgensen's signature stamp, she will call Mr. Jorgensen to tell him that a check needs to be issued and what the check is for. 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, the use of a signature stamp for the second signer does not attest to the authenticity of the completed check, and negates the purpose of the two signature requirement. OLMS recommends that District Council 7 review these procedures to improve internal control of union funds.

I want to extend my personal appreciation to Painters District Council 7 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,



Senior Investigator

cc: Mr. John Jorgensen, Business Manager/Secretary-Treasurer
Mr. John Brennan, Esquire