



September 29, 2010

Mr. Jason Quiggen, President
Plumbers and Pipefitters Local 589
107 South 15th Avenue West
Virginia, MN 55792-3496

Case Number: [REDACTED]
LM Number: 028559

Dear Mr. Quiggen:

This office has recently completed an audit of Plumbers and Pipefitters Local 589 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, Business Manager John Grahek, and Office Manager Marie Brierley on May 21, 2010, and in subsequent phone calls with Mr. Grahek since the exit interview, 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 589's 2009 records revealed the following recordkeeping violations:

1. Reimbursed Auto Expenses

Union officers who received reimbursement for business use of their personal vehicles did not retain adequate documentation to support payments to them totaling at least \$2,500 during 2009. Local 589 requires that all mileage claims be identified on a voucher. Vouchers were submitted for all mileage claims; however, the vouchers failed to identify the date of travel and the union business purpose of the travel.

Local 589 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. Meal Expenses

Local 589 generally retained credit card receipts for meal expenses that identified the date of purchase, the total amount, the name of the restaurant. While the names of those present were recorded on the receipt, the union business purpose for the meal was not. Records of meal expenses must include written explanations of the union business conducted. In addition, Local 589 did not require officers and employees to submit itemized receipts for meal expenses totaling at least \$900. 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.

3. Per Diem Payments

During the audit year, Local 589 officers received at least \$500 in per diem payments. Article V, Section 6 of the Local 589 by-laws provides that all union delegates to conventions, conferences, and seminars “shall be allowed \$65 per day for expenses, plus reimbursement for their hotel.” All per diem claims were documented on an expense voucher; however, the vouchers failed to identify the date(s) of travel.

In the case of per diem payments to officers for travel on union business, Local 589 must maintain records which identify the business purpose of each trip, the dates of travel, the destination, and the per diem rate paid.

4. Lost Wages

Local 589 did not retain adequate documentation for lost wage reimbursement payments to union officers and employees totaling at least \$1,500. Records must be maintained in support of lost wage claims that identify each date lost wages were incurred, the number of hours lost on each date, the applicable rate of pay, and a description of the union business

conducted. The audit found that the vouchers maintained by Local 589 for lost wage claims failed to identify the date on which the lost wages were incurred.

5. Lodging Expenses

Local 589 did not retain adequate documentation for lodging expenses charged to Local 589 by union officers and employees totaling at least \$3,000. Although each expense was supported by a corresponding hotel invoice, the records maintained by Local 589 failed to identify the union business purpose of the expenses. The word “meeting” was often written next to the lodging charges on the credit card statement; however, “meeting” is not a sufficient explanation of the union business purpose that required the expenses be incurred.

6. Lack of Salary Authorization

Local 589 did not maintain records to verify that the salary reported in Schedule 12 (Disbursements to Employees) of the LM-2 for Ms. Brierley was an authorized amount and therefore correctly reported. Local 589 must keep a record, such as meeting minutes, to show the current salary authorized by the entity or individual with the authority to establish salaries. During the audit, Mr. Grahek advised that authorization for Ms. Brierley’s salary was established when she was initially hired approximately 30 years ago. He also advised that about six years ago, the membership approved an annual 3% salary increase for Ms. Brierley; however, the initial authorization for Ms. Brierley’s salary could not be found in meeting minutes or any other union record.

Based on your assurance that Local 589 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-2 filed by Local 589 for fiscal year ending December 31, 2009 was deficient in the following areas:

1. Disbursements to Officers (Schedule 11)

As detailed below, Local 589 erroneously included some payments to officers totaling at least \$10,000 in the amounts reported in Schedule 11 (All Officers and Disbursements to Officers).

- a. During the audit year, Mr. Grahek received \$145 per week (\$7,540 annually) for a vehicle allowance. This amount was incorrectly included in the amount reported as wages in Column D (Gross Salary Disbursements) of Schedule 11. During the audit, Ms. Brierley advised that Local 589 has always reported Mr. Grahek’s allowance as wages in Schedule 11. The LM instructions require that the total allowances made by

direct or indirect disbursements to an officer on a daily, weekly, monthly, or other periodic basis be reported in Schedule 12, column E (Allowances Disbursed).

- b. Mr. Grahek charged more than \$3,000 to the union's credit card for the purchase of appliances and other fixed assets for the kitchen at the union hall during 2009. CPA Kaija Saukko advised that all credit card charges incurred by Mr. Grahek were included in the amount reported in Column F (Disbursements for Official Business) of Schedule 11. These disbursements were incorrectly reported. There are several exceptions to reporting disbursements to officers and employees in Schedules 11 and 12 identified in the LM-2 instructions, and the purchase of fixed assets are included as an exception. The purchase of a fixed assets must be reported in Schedule 4 (Purchase of Investments and Fixed Assets) and explained in Item 69 (Additional Information)

2. Mortgage Payments

Mortgage obligations to Queen City Federal Bank were erroneously reported in Item 31 (Loans Payable). The LM-2 instructions state that the total amount of the labor organization's obligations that were secured by mortgages or similar liens on real property (land or buildings) at the start and end of the reporting period must be entered in Item 32 (Mortgages Payable).

3. Dues and Agency Fees (Item 36)

During the audit year, Local 589 collected over \$480,000 in monthly dues and working dues; however, only \$95,891 was reported in Item 36. Accountant Kaija Saukko advised that the working dues received by Local 589 were mistakenly reported in Item 38 (Fees, Fines, Assessments, and Work Permits). All dues, including working dues, must be included in the amount reported in Item 36.

4. Failure to File By-Laws

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 589 amended its constitution and bylaws in 2009, but did not file a copy with its LM report for that year.

Local 589 has now filed a copy of its constitution and bylaws.

5. Benefit Plan Funds Handled by Local 589

The audit revealed that the signatory contractors of Local 589 remit monthly payments to the local that include not only working dues deducted from members' wages and remitted to the local, but also includes the employer's contributions for the pension and annuity benefits for each of its employees. The remittance for the monthly working dues and the monthly benefit contributions are consolidated on one check per employer per month that is payable to Local

589. Office Manager Brierley advised that Local 589 has bank accounts separate from the local's general fund that were opened specifically to handle the portion of each payment that was designated pension and annuity contributions. Ms. Brierley advised that she prepares a "split" deposit each month by which the working dues are deposited into the general fund and the pension and annuity contributions are deposited into the designated pension and annuity accounts. The pension and annuity contributions are never co-mingled with funds from the general fund checking. However, the designated pension and annuity accounts are held in the name of Plumbers and Pipe Fitters Local 589, and Mr. Grahek, as an authorized signer of each account, has access to transfer, deposit, and withdraw funds from these accounts. The accounts associated with the pension and annuity funds are union accounts, and as such, all the receipts and disbursements involving those accounts are subject to the recordkeeping, reporting, and bonding requirements of the LMRDA.

More than two million dollars was deposited and withdrawn from the benefit fund accounts during 2009. Records were retained to support those receipts and disbursements; however, Local 589 failed to include the receipts and disbursements on its LM-2 report filed for that year. The pension and annuity receipts should have been reported in Schedule 14 (Other Receipts), and the disbursements should have been reported in Schedules 15 through 19. Disbursements to Prudential and other locals for benefits must be reported in Schedule 20 (Benefits).

I am not requiring that Local 589 file an amended LM report for 2009 to correct the deficient items, but Local 589 has agreed to properly report the deficient items on all future reports it files with OLMS.

Other Violation

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.

Local 589's officers and employees were not bonded for the minimum amount required at the time of the audit. However, evidence that adequate bonding coverage has since been obtained and has been provided to OLMS. As a result, OLMS will take no further enforcement action regarding this issue.

Other Issues

1. Taft Hartley Funds

As discussed during the exit interview, the handling of the pension and annuity funds by Local 589 may violate Sections of the Taft-Hartley Act (Title 29 of the U.S. Code, Section 186). I suggested that you take steps to ensure that those funds are properly handled in accordance with Federal law. On September 3, 2010, Mr. Grahek advised that Local 589

plans to transfer the annuity and pension funds to trust funds managed by a third party administrator sometime next year.

2. Pre-Signing Checks

During the audit, Mr. Grahek advised that he occasionally sign blank checks. As the sole signer of all union checks, the purpose of his signature is to attest to the authenticity of a completed check that is prepared by Ms. Brierley. Signing a blank check in advance does not attest to the authenticity of a completed check, and negates the purpose of a signature requirement. OLMS recommends that Local 589 review these procedures to improve internal control of union funds.

I want to extend my personal appreciation to Plumbers and Pipefitters Local 589 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. William Grigg, Vice President
Mr. John Grahek, Business Manager