



June 13, 2011

Mr. Scott Kirk, President
Machinists, AFL-CIO, Lodge 2575
4000 S. Kingan, Apt. 1
Milwaukee, WI 53235

Case Number: [REDACTED]
LM Number: 507505

Dear Mr. Kirk:

This office has recently completed an audit of Machinists Lodge 2575 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 Secretary Treasurer Dan Schaufhauser and IAM Grand Lodge Auditor Rick Fischer on June 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 Lodge 2575's 2010 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 \$300 during 2010. Union officers prepare a lost wage and expense voucher to document and claim reimbursement for lost wages and expenses incurred while working on union matters, including mileage. The information included on the vouchers identifies the dates and number of miles claimed on each date; however, the vouchers fail to adequately identify the union business purpose of the mileage expenses as well as the starting and ending destinations of each trip.

In the case of mileage expenses, Lodge 2575 must maintain records which identify the dates of travel, locations traveled to and from, and the 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. Reimbursed Internet and Cellular Phone Expenses

During 2010, Lodge 2575 disbursed over \$1,000 to officers for the business use of personal cell phones and home internet access. However, the documentation retained in support of these expenses included only the summary page of each officer's personal cell phone or home internet bill.

If Lodge 2575 pays for any portion of an individual officer's personal cell phone or home internet bill, or pays the entire bill, either as a direct payment to the cellular phone company or internet service provider, or as a reimbursement to an officer, Lodge 2575 must retain the original bill in its entirety.

3. Per Diem Payments

Officers of Lodge 2575 received more than \$3,500 in per diem payments during the audit year. Article VII, Section 8(a) of the Lodge 2575 by-laws provide that "Delegates to conventions, conferences, Winpisinger School and negotiators shall receive the applicable federal rate, plus transportation and lodging and \$20 per day for extra expenditures." As noted above, union officers routinely prepare vouchers to document expenses such as per diem. A majority of the vouchers prepared by officers claiming a per diem expense failed to document the date on which per diem was claimed. For example, a voucher prepared for check # [REDACTED] to Recording Secretary Gary Vargo issued on January 4, 2010 indicates that the check included payment for one day of per diem; however, Mr. Vargo also claimed four days of lost wages on the expense voucher and it is not clear for which date Mr. Vargo claimed the per diem.

In the case of per diem payments to officers and employees for travel on union business, Lodge 2575 must maintain records which identify the business purpose of each trip, the dates of travel, the destinations traveled to, and the per diem rate claimed for each date.

4. Taxable Per Diem Payments

Article III, Section 4(a) of the Local 2575 bylaws identifies the amounts of the officers' monthly salaries, including \$150 per month for the president and recording secretary, the "dues equivalent" per month for the vice president, and .75¢ per member per month for the secretary treasurer. In addition to these salaries, the lost wage and expense vouchers prepared by union officers indicate that Lodge 2575 disbursed at least \$3,500 in additional compensation to officers through per diem payments on dates that officers were absent from work to conduct union business and received lost wage reimbursement payments from Local 2575. These included claims for per diem on dates that officers were not in travel status. You indicated during the exit interview that the per diem payments issued in these instances are considered additional compensation to officers. Additionally, Lodge 2575 payroll and tax records indicate the payments are recorded as wages in union records and included in the total wages reported on IRS Forms W-2. However, the authorization of this additional compensation is not recorded in union records. Authorization of all forms of salary and other compensation must be recorded in union meeting minutes or some other record to verify that the salaries reported in Item 24 (All Officer and Disbursements to Officers) of the Labor-Organization Annual Report (Form LM-3) were the authorized amounts and were therefore correctly reported.

5. Pension Calculations

Officers and members participate in the IAM Lodge 2575 Pension Fund held at M&I Bank. During the audit, M&I Relationship Manager Kurt Mueller advised that the pension fund's sponsor is Air Wisconsin and that Lodge 2575 is the plan administrator. He also advised that the pension plan is funded by 1) Air Wisconsin, which contributes a defined contribution of 5% of the gross wages paid to Lodge 2575 members, 2) Air Wisconsin employees who make elective contributions to their individual accounts, and 3) Lodge 2575, which contributes 5% of the total gross lost wages paid to union officers and employees.

During the audit, Secretary Treasurer Dan Schaufhauser advised that Lodge 2575 has always paid lost wages to union officers who must take time off of work to perform union business. In addition, he advised that Lodge 2575 also makes contributions to the IAM Lodge 2575 pension fund for the lost pension contributions that occur as a result of incurring lost wages. During the exit interview, Mr. Schaufhauser advised the he calculated the pension benefit for each officer and employee of the lodge based on total gross wages, including lost wages, salary, and taxable per diem payments.

Mr. Schaufhauser stated that the annual payment made by Lodge 2575 to the IAM Lodge 2575 pension fund was reported as a disbursement for benefits in Item 50 of the LM-3 report. The only record retained in support of this disbursement to the pension fund was a worksheet that identified the names of the officers and employees who received the pension benefit, the total wages paid to each officer or employee, and the amount of the pension benefit paid on their behalf. It is not apparent from the document that the gross wages used to calculate the

pension benefit included more than just the gross lost wages. Records, such as a workpaper, that shows how the contributions were calculated must be retained.

Based on your assurance that Lodge 2575 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 LM-3 filed by Lodge 2575 for the fiscal year ended December 31, 2011 was deficient in the following areas:

1. Initiation Fees (Item 40)

During the audit, Grand Lodge Auditor Rick Fischer provided a report from the IAM Virtual Lodge Membership that identified 322 members who were initiated into Lodge 2575 during 2010. According to Mr. Schaufhauser, each member is responsible for paying an initiation fee (\$75 for clerks and \$100 for mechanics). Union receipts records show that initiation fees totaling at least \$18,000 were collected. However, Lodge 2575 failed to report anything in Item 40 (Fees, Fines, Assessments and Work Permits). Lodge 2575 erroneously reported the amounts received for initiation fees as dues in Item 38 (Dues).

2. Employment Taxes

During the audit, Mr. Schaufhauser advised that he reported all disbursements for employment taxes, including your organization's FICA taxes as an employer, in Item 54 (Other Disbursements). However, the LM-3 instructions for Item 48 (Office and Administrative Expense) state that taxes assessed against and paid by Lodge 2575 are required to be reported as disbursements in Item 48.

I am not requiring that Lodge 2575 file an amended LM report for 2010 to correct the deficient items, but Lodge 2575 has agreed to properly report the deficient items on all future reports it files with OLMS.

Other Violation

The audit disclosed the following other violation:

Inadequate Bonding

The audit revealed that Lodge 2575'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 has been provided to OLMS. As a result, OLMS will take no further enforcement action regarding this issue.

Other Issue

Expense Policy

As I discussed with Mr. Schaufhauser during the exit interview, the audit revealed that Lodge 2575 does not have a clear policy regarding the types of expenses personnel may claim for reimbursement, including cell phone, internet, and taxable per diem expenses. OLMS recommends that unions adopt written guidelines concerning such matters to help ensure effective internal controls and safeguard union assets. .

I want to extend my personal appreciation to Machinists Lodge 2575 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. Dan Schaufhauser, Secretary Treasurer
Mr. Gary Vargo, Recording Secretary