



September 20, 2010

Mr. Dan Rickel, President  
Electrical Workers Local 577  
1024 Lawe Street  
Appleton, WI 54915

Case Number: [REDACTED]  
LM Number: 034047

Dear Mr. Rickel:

This office has recently completed an audit of Electrical Workers Local 577 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 Greg Young, and CPA Greg Mleziva on September 13, 2010, 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 Local 577's 2009 records revealed the following recordkeeping violation:

## Meal Expenses

Local 577 generally retained credit card receipts for meal expenses that identified the date of purchase, the total amount, the name of the restaurant. In addition, the business purpose of each meal and the names of those present were typically recorded on the backs of the receipts or on expense vouchers. However, Local 577 did not require officers and employees to submit itemized receipts for at least seven meal expenses totaling at least \$350. Itemized receipts provided by restaurants to officers and employees also must be retained in addition to all of the other records mentioned. 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.

Based on your assurance that Local 577 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 Local 577 for the fiscal year ended December 31, 2009 was deficient in the following areas:

### 1. Dues Receipts

The audit revealed that dues receipts totaling more than \$22,000 that were received in 2008 were reported in Item 36 (Dues and Agency Fees) of the LM-2 report for 2009. During the audit, Ms. Grant advised that she records all the dues receipts in Local 577's dues tracking system (ICS program) when they are received; however, she does not record the deposit for those dues receipts in Peachtree Accounting Software until she actually deposits the money, which can be several weeks after the original receipt date. A review of the ICS records and the union's general ledger revealed that dues receipts totaling more than \$22,000 were recorded in ICS as received in December of 2008; however, the general ledger identified these receipts in a deposit record that was dated January of 2009. During the audit, CPA Andrew Schulner advised that he prepared the LM-2 report based on receipt and disbursement information that was recorded in Peachtree and was not aware that some of the dues receipts that were received in 2008 were included in a deposit recorded in Peachtree in 2009.

The purpose of Statement B is to report the flow of cash in and out of a labor organization during the reporting period. Receipts, regardless of when they are deposited, must be reported in the year they are received. Local 577 must take steps to ensure that receipts are properly recorded and are reported on the correct LM-2 report filed with OLMS.

## 2. Disbursements to Officers and Employees

### a. Fixed Assets

Local 577 included all reimbursements to Business Manager Young totaling over \$10,000 in Schedule 11 (All Officers and Disbursements to Officers), Column F (Disbursements for Official Business); however, a review of Mr. Young's expense documentation revealed that at least \$2,500 of those reimbursements were for the purchase of fixed assets (computer and printer).

As a general rule, 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 (Disbursements for Official Business). However, the LM-2 instructions provide for specific exceptions to this rule, including reimbursements to an officer or employee for the purchase of a fixed asset which must be reported in Schedule 4 (Purchase of Investments and Fixed Assets).

### b. Automobile Expenses

#### Maintenance and use expenses

During the audit year, you and Mr. Young were each assigned a union owned automobile which was used for union business as well as commuting to and from your home residence to the union hall. Both you and Mr. Young maintained a mileage log of your daily mileage and a general description of your travel activities using the union vehicle. A review of your mileage log revealed that more than 50% of the mileage on your vehicle was for purposes of commuting to and from the office. However, it appears that all of the gas and maintenance expenses that were reimbursed to you for the use of the union vehicle were included in the amounts reported in Column F of Schedule 11 (Disbursements for Official Business) because the total reimbursements to you (including reimbursements for auto expenses) reflected in the union's general ledger are \$5,633, which is the same amount reported in Column F of Schedule 11. No amount was reported in Column G (Other Disbursements not reported in D through F). Further, there is no mention in Item 69 (Additional Information) that the vehicle was also used for personal travel. The LM-2 instructions include specific rules for the reporting of automobile expenses and provide for two ways from which you can choose to report those expenses:

1. The portion of operating and maintenance costs of any automobile owned or leased by Local 577 to the extent that the use was for the personal benefit of the officer to whom it was assigned, can be reported in Column G (Other Disbursements not Reported in D or F) of Schedule 11. This portion may be computed on the basis of the mileage driven on official union business compared with the mileage for personal use.

2. Alternatively, rather than allocating these operating and maintenance costs between Columns (F) and (G), if 50% or more of the officer's use of the vehicle was for official business, the labor organization may enter in Column (F) all disbursements relative to that vehicle with an explanation in Item 69 (Additional Information) indicating that the vehicle was also used part of the time for personal business. Likewise, if less than 50% of the officer's use of the vehicle was for official business, the labor organization may report all disbursements relative to the vehicle in Column (G) with an explanation in Item 69 indicating that the vehicle was also used part of the time on official business. The amount of decrease in the market value of an automobile used over 50% for the personal benefit of an officer must also be reported in Item 69.

#### Insurance Expenses

Local 577 also failed to include indirect disbursement to Travelers Insurance for automobile insurance premiums in Schedule 11. The general ledger indicates that the total amounts reimbursed to you and Business Manager Young were \$5,633 and \$10,384 respectively, and the same amounts were reported in Column F of Schedule 11. It appears disbursements to Travelers Insurance totaling \$3,716, of which \$2,738 was for the purpose of insurance premiums for union automobiles permanently assigned to you and Mr. Young, were reported as non itemized disbursements in Schedule 18 (General Overhead). These indirect disbursements related to the operation and maintenance of union owned vehicles that are assigned to specific officers and must be reported in Column F and/or Column G of Schedule 11.

Indirect disbursements made to another party (such as a credit card company or in this case, an insurance 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 (Other Disbursements) of Schedules 11 and 12 .

3. Supplies for Resale (Item 59)

Local 577 disbursed over \$7,000 for union logo items, such as shirts, pockets savers, and levels during the audit year. According to Business Manager Young, these items were purchased to be sold at cost to members or given away. The disbursements for these items were itemized in Schedule 18 (General Overhead); however, the LM-2 instructions specifically state that disbursements for the purchase of supplies such as union logo clothing, pins, bumper stickers, etc, must be reported in Item 59 (Supplies for Resale). Local 577 reported no disbursements in Item 59. Local 577 re-sold many of these items during the audit year; however, nothing was reported in Item 39 (Sale of Supplies). The LM-2 instructions state that all money received by a labor organization from the sale of supplies

such as union logo items, must be reported in Item 39. It appears the receipts from the sale of these items were erroneously reported as a non itemized transaction in Schedule 14 (Other Receipts).

#### 4. Other Assets

Local 577 inventory records of apparel and other resale items show that there was an inventory of union logo apparel totaling more than \$4,000 on hand at the end of the audit year; however, only \$1,050 (identified as a security deposit) was reported in Item 28(b) (Other Assets at the End of the Reporting Period).

Local 577 must report in Item 28 the value of their inventory of resale items as other assets at both the beginning and end of the reporting period (Items 28(a) and 28(b)).

#### 5. Schedule 18 (General Overhead)

During the audit year, Local 577 disbursed a total of \$6,193 to Web Connectivity for the purpose of developing the local's website. Accounting workpapers provided by CPA Mleziva revealed that of that total, \$5,770 was reported in Schedule 4/Item 60 (Purchase of Investments and Fixed Assets). The entire amount (\$6,193) was also reported a second time as an itemized disbursement in Schedule 18 (General Overhead).

During a phone conversation with CPA Schulner following the exit interview, he explained that due to the method which was used to prepare the itemized disbursement schedules (he referred to the preparation method as "bucketing"), an itemized disbursement page was erroneously completed for the disbursements to made to Web Connectivity. Mr. Schulner also advised that although the disbursements to Web Connectivity appear on an itemization schedule, those disbursements are not included in the \$102,756 of total disbursements reported in Schedule 18 (Item 53) and therefore the overall reconciliation of the report (cash at the beginning of the year, plus total receipts, minus total disbursements, equals cash at the end of the year) was not affected. Local 577 should carefully review all LM reports in the future to ensure that this preparation method of the report does not lead to additional reporting errors.

#### 6. Items Given Away

Item 15 (During the reporting period did your organization acquire or dispose of any assets in any manner other than by purchase or sale?) was answered "Yes," because Local 577 gave away shirts and other union logo items totaling at least \$2,200; however, the value of those items was not identified in the additional information section of the LM report. The type and value of any property received or given away must be identified in the additional information section of the LM report along with the identity of the recipient(s) or donor(s) of such property. For reporting purposes, each recipient need not be itemized. Recipients can be described by broad categories, if appropriate, such as "members" or "new retirees."

7. 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 577 amended its constitution and bylaws in 2007, but did not file a copy with its LM report for that year.

Local 577 has now filed a copy of its constitution and bylaws.

I am not requiring that Local 577 file an amended LM report for 2009 to correct the deficient items, but Local 2009 has agreed to properly report the deficient items on all future reports it files with OLMS.

Other Issue

Union Owned Automobiles

During the audit, you advised that Local 577 has never established a written policy governing the use and maintenance of a union owned vehicle(s). General guidance regarding the use of the union owned vehicles has only been verbally passed along from previous officers and business managers. 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 Electrical Workers Local 577 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. Greg Young, Business Manager  
Mr. John Moore, Vice President  
Mr. Thomas Schlender, Financial Secretary  
Mr. Brian Mason, Executive Board Member