

U.S. Department of Labor

Employment Standards Administration
Office of Labor-Management Standards
Division of International Union Audits
1341 G Street, N.W., Room 201
Washington, D.C. 20210



September 25, 2007

Mr. John H. Hegarty
National President
National Postal Mail Handlers Union, LIUNA, AFL-CIO
1101 Connecticut Avenue, N.W.
Washington, D.C. 20036

RE: International Compliance Audit Program (I-CAP)
National Postal Mail Handlers Union (NPMHU)
LM File Number 000-505

Dear President Hegarty:

The Office of Labor-Management Standards (OLMS) within the Department of Labor recently completed a compliance audit of the National Postal Mail Handlers Union, LIUNA, AFL-CIO (NPMHU), to assess its compliance with the provisions of the Labor-Management Reporting and Disclosure Act of 1959 (LMRDA). The audit was conducted under the OLMS International Compliance Audit Program (I-CAP).

On July 13, 2007 the I-CAP team conducted an exit interview with you; Mr. Mark Gardner, National Secretary-Treasurer; Ms. Susanne Green, Comptroller; and Mr. Bruce R. Lerner, outside counsel. During the exit interview, the I-CAP team reviewed audit findings, identified actions that the NPMHU must take to correct the deficiencies identified, and recommended actions to enhance the union's internal controls. This letter captures the audit's civil findings as generally discussed during the exit interview. It does not purport to be an exhaustive list of all possible problem areas, since the audit was limited both in scope and duration.

You were advised at the exit interview that an amended Labor Organization Annual Report, Form LM-2, for the fiscal year ending December 31, 2005 is required to be submitted within thirty days from the date of this letter to correct reporting and other deficiencies. Specific information relating to these deficiencies is presented below.

Reporting Deficiencies - LMRDA Section 201(b)

Section 201(b) of the LMRDA requires that labor organizations file with OLMS an annual financial report that accurately discloses the union's financial condition and operations. The following deficiencies were noted on the NPMHU Form LM-2 for the fiscal year ending December 31, 2005. The deficiencies identified in this section must be corrected in an amended Form LM-2 for the fiscal year 2005 reporting period. Further, subsequent Form LM-2 filings must be prepared so as not to contain these deficiencies.

1. The NPMHU answered "Yes" to Item 11 (Political Action Committee) and reported the National Postal Mail Handlers Political Action Committee in Item 69 (Additional Information). The NPMHU, however, did not list the name of any government agency with which the PAC has filed a publicly available report or any file number. The NPMHU is required to report in Item 69 the name of any government agency, such as the Federal Election Commission or a state agency, with which the PAC has filed a publicly available report, and the relevant file number of the PAC.
2. The NPMHU answered "Yes" to Item 15 (Acquisition or Disposition of Assets in a Manner other than Purchase or Sale) and reported the following additional information in Item 69: "Depreciation and amortization in the amount of \$152,337." The audit determined that the union's depreciation and amortization of the value of certain assets did not constitute the acquisition or disposition of any assets. If no assets were acquired or disposed of in a manner other than purchase or sale, then the union must answer "No" to Item 15. The total amount of accumulated depreciation of fixed assets should be reported in Column C of Schedule 6 (Fixed Assets).
3. The NPMHU reported \$14,726,476 in sales of investments in Schedule 3 (Sale of Investments and Fixed Assets) and \$15,935,501 in purchases of investments in Schedule 4 (Purchase of Investments and Fixed Assets), but failed to report any amounts in Line 14 ("Less Reinvestments") of Schedules 3 and 4. The union reported the full amount of sales and purchases of investments as net sales and purchases in Item 43 (Sale of Investments and Fixed Assets) and Item 60 (Purchase of Investments and Fixed Assets). The audit determined that significant amounts of these sales and purchases were actually "reinvestments." The Form LM-2 instructions for Schedules 3 and 4 require unions to enter on Line 14 the total amount from the sale or redemption of U.S. Treasury securities, marketable securities, or other investments that was promptly reinvested (i.e., "rolled over") in the U.S. Treasury securities, marketable securities, or other investments during the reporting period. Generally, "prompt" means reinvesting (or "rolling over") the funds in a week or less without using the funds for any other purpose during the period between the sale of the

investment and the reinvestment. The union must therefore report the amount of "reinvestments" in Line 14 of Schedule 3 and 4 and report only the net sales and purchases of investments in Items 43 and 60.

4. The NPMHU failed to report the value of its investments at book value in Item 26 and Schedule 5 (Investments). The Form LM-2 instructions define book value as the lower of cost or market value. The NPMHU inaccurately reported an amount higher than cost. The union must report book value as required in the LM-2 instructions.
5. The NPMHU reported "Prepaid Expenses," "Inventory," and "Deposits" as descriptions of assets in Column A of Schedule 7 (Other Assets). These descriptions are not sufficient to identify the type of assets. The union's other assets may be classified by general groupings or bookkeeping categories, such as utility deposits or inventory of supplies for resale, as long as the descriptions are sufficient to identify the type of assets. More detailed descriptions in Column A of Schedule 7 are required.
6. The NPMHU did not properly report accounts payable to K&R Industries in Schedule 8 (Accounts Payable Aging Schedule). The individual lines (Lines 1 through 24) of Schedule 8 should be used to report individual accounts payable valued at \$5,000 or more and that are 90 days or more past due at the end of the reporting period or that were liquidated, reduced or written off during the reporting period. The NPMHU did not report any individual accounts payable on individual lines in Schedule 8. The audit determined that the union had accounts payable to K&R Industries of over \$5,000 and over 90 days past due at the end of the reporting period. These accounts payable must be reported on an individual line in Schedule 8 and must be properly aged, as required in the Form LM-2 instructions.
7. The NPMHU did not include all major disbursements in itemization pages for Schedules 15 through 19 as required. The LM-2 instructions define a "major" disbursement as: 1) any individual disbursement of \$5,000 or more; or 2) total disbursements to any single entity or individual that aggregate to \$5,000 or more during the reporting period. The audit revealed major disbursements to five separate entities (Park America, Inc., Postage by Phone, Joe Regan's Coffee, National Leasing, and Verizon) that were not included in itemization pages for Schedules 15, 16, 17, 18 or 19. These major disbursements must be included on itemization pages. Further, based on the I-CAP team's review of supporting documentation for the disbursements to Park America, Inc., Joe Regan's Coffee, National Leasing, and Verizon, it appears that they were not paid for any of the specific reporting functions (Representational Activities; Political Activities and

Lobbying; Contributions, Gifts, and Grants; or Union Administration) and thus, should be reported on itemization pages for Schedule 18 (General Overhead).

8. The NPMHU reported no disbursements in Schedule 18 (General Overhead). The NPMHU reported certain disbursements for property management, equipment leasing, supplies, postage, and telecommunications in Schedule 15 (Representational Activities) and reported other disbursements for rent, storage, parking, property management, equipment leasing, accounting services, commercial insurance, supplies, payroll services, postage, and computer services in Schedule 19 (Union Administration). Disbursements for accounting services, commercial insurance, and payroll services should be reported in Schedule 18. Generally, all of the above types of disbursements are reportable in Schedule 18. However, if any of these particular disbursements were paid for a specific representational expense, such as for a phone bank set up to coordinate an organizing campaign, then they can be reported in Schedule 15. If any of these particular disbursements were paid for the administration of a specific union function, such as an election, membership meeting, disciplinary proceeding, apprenticeship program, or member education program, then they can be reported in Schedule 19. If these disbursements were not paid for specific functions, then generally they are reportable in Schedule 18.

Regarding disbursements related to the operations of a union office, the union can allocate those disbursements to specific Form LM-2 functions if the union maintains adequate records that document office usage and activities occurring in the office and such usage and activities are for or support those specific Form LM-2 functions. To be sufficient, records should include a contemporaneously maintained, daily log of office usage and all activities occurring in the office. Any business day for which union records do not document any office usage or activities, should be considered general overhead. If throughout the course of the report period, union records document an office usage/activity allocation of 80% representational, 10% union administration, and 10% general overhead, then office related disbursements can be allocated to those functions according to those percentages. As an alternative, the union may choose to report such otherwise non-allocable disbursements as general overhead.

9. The NPMHU reported no officer or employee time percentages for the functional category of "General Overhead" in Schedules 11 (All Officers and Disbursements to Officers) or 12 (Disbursements to Employees). The audit determined that the NPMHU utilized an overly broad definition of the "Union Administration" functional category that included not only time spent on the administration of specific union functions (such as elections, membership meetings, disciplinary proceedings, etc.), but also included time spent on general functions such as accounting and network management. Officer and employee time spent on other

than the four specific functions (Representational Activities; Political Activities and Lobbying; Contributions, Gifts, and Grants; or Union Administration) should be allocated to "General Overhead."

10. The NPMIU owns homes lived in by you and the National Secretary-Treasurer. The union reported disbursements for the utilities and day-to-day maintenance of these homes in Schedule 19 (Union Administration). These are indirect disbursements for your benefit and the benefit of Mr. Gardner and thus are reportable next to your names in Column G (Other Disbursements) in Schedule 11 (All Officers and Disbursements to Officers).
11. The NPMHU disbursed funds to pay a hotel bill on behalf of an officer that, in addition to lodging, included one movie charge. The amount of that movie charge was reported next to the name of the officer who incurred the expense in Column F (Disbursements for Official Business) on Schedule 11. However, because a movie charge is a personal expense, that amount must be reported next to the name of the officer who incurred that charge in Column G (Other Disbursements) on Schedule 11.
12. The NPMHU made disbursements to hotels on behalf of officers and employees that, in addition to lodging, included food and beverage charges. Generally, the union correctly reported these amounts next to the names of the officers or employees who incurred those charges in Column F or G on Schedule 11 or 12, as appropriate. However, in at least one instance, the union failed to do so. All such food and beverage charges must be reported next to the names of the officers or employees who incurred those charges in Column F or G on Schedule 11 or 12, as appropriate.

Inadequate Recordkeeping - LMRDA Section 206

Pursuant to Section 206 of the LMRDA, every person required to file any report under LMRDA Title II shall maintain records on the matters reported that will provide in sufficient detail the necessary information from which the reports filed may be verified, explained, or clarified and checked for accuracy and completeness. All required records must be maintained for at least five years following the date the financial report is filed. Records over five years must be maintained if they are necessary to verify reports filed within the last five years, for example, to verify current financial activities of the union, such as meeting minutes that note approval for officer salary increases. There were instances noted during this audit where the NPMHU did not comply with the recordkeeping requirements of Section 206. During the exit interview, you were informed that adequate records necessary to document all financial transactions, regardless of the amount, must be maintained for a minimum of five years.

13. The NPMHU did not maintain a signed copy of the loan agreement documenting the NPMHU's loan to Local Union 298. The NPMHU obtained a signed copy of the loan agreement during the course of the audit. The NPMHU must maintain adequate backup documentation supporting any loan disbursements, including signed loan agreements.
14. NPMHU officers who were assigned union-owned vehicles did not maintain mileage logs documenting the business use of vehicles. The officers did maintain notebooks and calendars containing notations of certain vehicle business use. Those notations were used to summarize vehicle business use for the year and, together with start-of-the-year and end-of-the-year mileage readings, were also used to calculate percentages of business vs. personal use at the end of the year. However, it is noted that in the case of union-owned and leased vehicles, mileage logs are required to be maintained for each vehicle documenting the date, number of miles driven, and business purpose for each use. These mileage logs should be maintained contemporaneously with vehicle usage.
15. The NPMHU did not retain adequate documentation for all expenses incurred by its officers and employees. Labor organizations must retain original receipts, bills, and vouchers for all disbursements. In certain instances, receipts, bills, and vouchers were not retained for officer and employee lodging, airfare, internet services, and meal expenses.

NPMHU records pertaining to meal expenses sometimes included no written explanation of union business conducted or the full names and titles of all persons incurring those meal charges. In some cases, not all of the names of persons incurring the restaurant charges were recorded. In other cases, only the initials of the persons incurring the restaurant charges were recorded. In order to comply with LMRDA Title II, union records pertaining to meal expenses must include written explanations of union business conducted and the full names and titles of all persons incurring the restaurant charges.

In most instances, officers and employees did not submit itemized receipts for meal expenses. Itemized receipts provided by restaurants to officers and employees must be maintained by the union. These itemized receipts are necessary to determine if such disbursements are for union business purposes and to fulfill the recordkeeping requirement in LMRDA Section 206.

Office Holding Prohibitions - LMRDA Section 504

Section 504 of the LMRDA prohibits persons convicted of certain offenses from holding labor organization office or employment for a period of thirteen years from the date of conviction or release from prison, whichever is later. It is also a violation of Section 504 for another person to willfully and knowingly hire, retain, employ or otherwise place the barred person in a prohibited capacity.

16. The NPMHU does not conduct criminal background checks of officers or employees. It is noted that for employees hired by the NPMHU accounting department, criminal background checks are conducted indirectly by outside employment agencies. The I-CAP team recommends that the NPMHU establish a system for determining whether any officer or employee have disqualifying criminal records. During the exit interview, the I-CAP team emphasized the importance of verifying background information to ensure individuals do not hold office or employment in violation of LMRDA Section 504.

Internal Controls

Adequate internal financial controls are essential to prevent the misuse of union funds and to support financial responsibility and other obligations under Title II and Title V of the LMRDA. Title V of the LMRDA stipulates, among other things, the fiduciary responsibility of officers of labor organizations. As a general rule, weaknesses in financial controls can lead to violations of Section 501 of the LMRDA.

17. Duties involving the processing of cash receipts were not adequately segregated. Presently, one staff member (the Accountant Secretary) at the NPMHU receives, records, and deposits incoming checks. It is noted that the Comptroller reviews all receipts and records accounting codes on incoming checks. The I-CAP team recommends further segregation of duties as follows: one staff member lists all receipts; a second staff member records all receipts to the general ledger; a third staff member prepares deposit slips and makes bank deposits; and the first staff member reconciles receipts to the cancelled bank deposit slips.
18. Internal control monitoring should be designed to assure that ongoing supervision by a principal officer occurs in the course of normal operations. No principal officer is involved in any aspect of the receipt process. The I-CAP team recommends that the National Secretary-Treasurer review the monthly bank reconciliations performed by the Comptroller.
19. All NPMHU Accounting Department staff members (five in total) have access to blank checks which are stored in a locked file cabinet. As a financial safeguard,

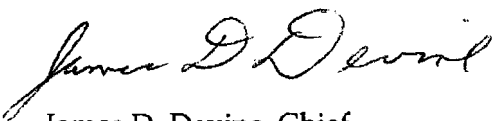
the I-CAP team recommends limiting the access to two persons on the accounting staff.

20. The audit revealed that NPMHU checks contain one of the following three signature patterns: a) two original signatures; b) one original signature and one stamp signature; or c) two stamp signatures. In the sample of cancelled checks examined by the I-CAP team, approximately 50% contained two stamp signatures. In furtherance of internal controls and the fiduciary responsibility of the officers and to ensure that all union funds are being use solely for union purposes, the I-CAP team recommends that at least one NPMHU principal officer review and sign all union checks. In circumstances when union checks must be paid and both principal officers are out-of-town, at least one principal officer should provide advance authorization via email or other similar means.

As discussed during the exit interview, the NPMHU will submit, within thirty days from the date of this letter, an amended Form LM-2 for the fiscal year ending December 31, 2005 and a response letter to this closing letter. The response letter should identify the corrective actions implemented by the NPMHU based on the results of this compliance audit. Additionally, if your organization's Form LM-2 for fiscal year ending December 31, 2006 contains any of the reporting deficiencies noted in this closing letter that report must also be amended and submitted within thirty days from the date of this letter. We will schedule an on-site follow-up in approximately six months to review corrective actions taken, to discuss the amended Form LM-2 filed by the NPMHU, and to continue cooperative efforts to prevent and correct LMRDA deficiencies.

Please accept my appreciation for the cooperation and courtesy extended by you and your staff during this compliance audit. If you have any questions, please do not hesitate to contact me.

Sincerely,



James D. Devine, Chief
Division of International Union Audits

cc: Mark Gardner, National Secretary-Treasurer