

U.S. Department of Labor

Employment Standards Administration
Office of Labor-Management Standards
Washington, D.C. 20210



December 1, 2004

Mr. Dana Brigham, President
International Union of Elevator Constructors, AFL-CIO
5565 Sterrett Place, Suite 310
Columbia, MD 21044

Dear President Brigham:

The Office of Labor-Management Standards (OLMS) within the Department of Labor has recently completed a compliance audit at your headquarters under the International Compliance Audit Program (I-CAP). The purpose of this audit was to determine compliance with provisions of the Labor-Management Reporting and Disclosure Act of 1959, as amended (LMRDA) by your International (IU). This letter outlines several issues and problem areas as discussed during the exit interview on November 22, 2004 with Mr. Chapman, General Counsel, and you, but does not purport to be an exhaustive list of all possible problem areas since the compliance audit was limited in scope.

Reporting Deficiencies - LMRDA Section 201

Our audit revealed there were deficiencies with the Form LM-2 filed with OLMS for the fiscal year ended June 30, 2003. Schedule 9 included disbursements to officers in Column F that were subsequently reimbursed with officers' personal funds in preparation for the OLMS compliance audit. These disbursements and any other disbursements not necessary for conducting official union business must be reported in Column G of Schedule 9.

Three car leases for the President, Vice President, and Secretary-Treasurer were incorrectly included in Schedule 15, Other Disbursements. These leases must be reported in Schedule 9 as required by the Form LM-2 instructions.

In sampling the disbursement transactions on the Form LM-2, the I-CAP team noted there were three fixed assets not reflected in Statement A. The fixed assets not listed were printers, computer equipment, and a scanner. All three fixed assets were expensed by the union. The Form LM-2 instructions require a listing of all fixed assets that are expensed by the union.

OLMS is also requesting an amended Form LM-2 report to correct the above listed deficiencies for the fiscal year ended June 30, 2003. The report should be received within 30 days of the date of this letter. The deficiencies to be corrected are on Schedule 9 to accurately reflect officer expenses as personal or for union business and Statement A to include all fixed assets of the union.

Inadequate Recordkeeping - LMRDA Section 206

LMRDA Section 206 requires that all records necessary to verify, explain, or clarify the annual financial report must be retained and shall include, but not be limited to, vouchers, worksheets, receipts, and applicable resolutions. All records identified above must be maintained by the Elevator Constructors for a period of at least five years following the date the financial report is filed. It was also identified the internal policy of the union did not require receipts to be maintained in certain instances for union business. We request the union policy align with the requirements of the LMRDA Section 206. The I-CAP team identified the following deficiencies:

- a) The union was not able to timely retrieve the supporting documentation for the previous five years during the month of fieldwork conducted by the I-CAP team at the union. The I-CAP team requested supporting documentation for a sample of officer and employee expenses over the previous five years. Over half of the documentation was not available for review by the I-CAP team. The union was informed at the exit interview a six month follow-up at the union would be conducted requiring supporting documentation to be available to the I-CAP team to review in a timely manner.
- b) The back-up documentation that was provided for reimbursed officer and employee expenses often did not include itemized receipts. Itemized receipts were missing in 38% of sampled transactions. As the Elevator Constructor officials were informed at the exit interview, back-up documentation, such as itemized receipts for restaurant charges, meals, and airfare must be maintained and retained by the union for all disbursements for a period of five years regardless of amount.
- c) In the transactions sampled for reimbursed officer and employee expenses, there was either no substantiation or inadequate information provided to support the transaction as strictly for union business. Also, there was little or no evidence of approval by the union for the expense. For example, there were a number of restaurant receipts with "trustee" written on the back of the receipt, but no other information as to who was at the meal other than the credit card holder and what specific union business was discussed. Written documentation is necessary to determine whether the expense was personal or official union business in addition to evidence substantiating the union authorized the funds.

Internal Controls

The financial practices of the union were found to be lacking in several areas. The accountant has the authority to receive and deposit checks along with reconciling the bank statements. Also, the accountant receives vendor invoices, writes the checks, and utilizes signature stamps on the checks. Further, the accountant is the only union staff member to enter financial transactions into the accounting system. The I-CAP team recommends the union segregate the financial responsibilities to ensure union funds are properly safeguarded. This would entail a separation of duties between those staff that receive funds and those who expend funds in addition to having two original officer signatures on each check.

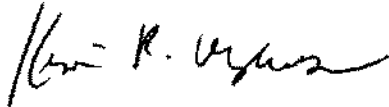
The CPA firm that prepares the financial statements and Form LM-2 corrects a number of the entries by the accountant each year. For example, all revenue received from affiliates was assigned to per capita tax. The I-CAP team identified the funds from the affiliates were also for merchandise in addition to a trade journal. Also, assets were sold and the accountant recorded the revenue and not the cost of goods sold. In addition, the I-CAP team found no evidence of an inventory listing that would assist in identifying the cost of goods sold.

The misclassified entries were corrected by the CPA yet if not identified at the end of the year would have resulted in errors on the Form LM-2. We recommend the accountant receive instruction in classifying routine entries that will affect the accuracy of the Form LM-2. The I-CAP team also recommends an inventory of fixed assets be maintained by the union to assist in properly safeguarding union assets. This inventory listing will further assist the accountant to properly reflect a gain or loss from a sale.

The IU constitution provision in Article V, Section 7 concerning extraordinary expenses is vague and the "incurred and/or authorized language" seems to imply that authorization may not be required in all instances, which is inconsistent with the requirements of the LMRDA. The I-CAP team recommends the IU establish and follow procedures for authorizing all disbursements necessary for union business.

I will contact you again in approximately six months to continue cooperative efforts to prevent and/or correct LMRDA deficiencies and, specifically, to determine what corrective actions have been taken at the IU level and to discuss the amended report filed. I want to express my appreciation for the cooperation and courtesy extended by you and your entire staff during this compliance audit. If we can be of any assistance in the future, please do not hesitate to call me at (202) 693-8275.

Sincerely,



Kim R. Marzewski, Chief
Division of International Union Audits