



DEC 9 2004

President William H. Young  
National Association of Letter Carriers  
1000 Indiana Avenue, NW.  
Washington, DC 20001

Dear President Young:

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 (LMRDA) by your International (IU) and affiliated unions. This letter outlines several issues and problem areas as discussed during the exit interview on December 9, 2004, with the Secretary-Treasurer, Mr. David Dorsey, Ms. Susan Weaver, 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 reporting deficiencies with the support for certain officer expenses during the fiscal year ending March 31, 2004. On Schedule 9 of the Form LM-2, there were reimbursements for three trustees who hold office in an affiliate union. The supporting documentation from NALC was compared with the disbursements listed on Schedule 9 for each of the three trustees. The supporting documentation did not substantiate the amounts set forth on Schedule 9 of the Form LM-2.

The officer and employee expenses are manually calculated creating a higher risk for errors. The reporting deficiencies for the officers mentioned above set forth costs that were more than presented on the Form LM-2. This was due to reimbursements that were not reflected in Schedule 9.

Further, the I-CAP team noted the there were two discrepancies in the ending accounts payable amount set forth on Statement A of the Form LM-2. One of the discrepancies was the accounts payable balance was less than substantiated from the supporting documentation provided by NALC. The second discrepancy was the inclusion of certain accrued expenses in the ending accounts payable balance. It was determined by the I-CAP team that the accrued expenses were valid accounts payable. In the future, transactions in accounts payable should be properly identified.

NALC officers all receive a monthly allowance that has been reported on Schedule 9 but not in the proper column. The costs have been reflected in Column (D) or Column (F) of Schedule 9 of the Form LM-2 based on whether there is a receipt to substantiate union business. All allowances regardless of substantiation should be reported in Column (E) of Schedule 9 of the Form LM-2.

NALC affiliate documentation provided to the I-CAP team did not always provide information about the number of mergers and terminations or the disposition of the assets. There were 35 terminal reports not filed with OLMS, and these affiliates were reflected as active by OLMS. These reports should have been filed by the IU as these affiliates were no longer active. There were no assets transferred in these terminated affiliates.

OLMS is requesting NALC within 30 calendar days of the date on this letter to file an amended LM-2 report for the fiscal year ending March 31, 2004, to correct the LMRDA Section 201 deficiencies listed above. The deficiencies were understated costs for officer expenses, understated accounts payable, and inaccurate reporting of allowances for NALC officers. Further, in the future, the union was advised to prepare and file timely, accurate merger and termination reports with OLMS that clearly identifies where assets were transferred if applicable.

#### 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 NALC for a period of at least 5 years following the date the financial report is filed. The I-CAP team identified the following deficiencies.

1. **NALC backup documentation for reimbursed officer and employee expenses did not always include receipts for individual expenses during the audit period. In 50 percent of the transactions sampled, there were no receipts. As NALC officials were informed at the exit interview, backup documentation, such as receipts for restaurant charges, meals, and airfare must be maintained and retained by NALC for all disbursements regardless of amount.**
2. NALC records for reimbursed officer and employee expenses during the audit period did not always document the nature of the expense. Documentation is necessary to determine whether the expense was personal or official union business. Union business could not be determined in 38 percent of the tested items.
3. NALC did not consistently maintain the records to support its financial report for the required period of 5 years. Receipts were missing in 36 percent of the items sampled and a justification for union business was lacking in 29 percent of the sampled items.

Loan Payments-LMRDA Section 503

The I-CAP Team also noted instances of loan payments that exceeded \$2,000. There were two loans to employees, one for \$2,600 and one for \$4,886. Both loans are now repaid. LMRDA Section 503 prohibits any loan, directly or indirectly, to any officer or employee in excess of \$2,000. We were informed that the independent CPA firm for NALC has advised the IU regarding the LMRDA loan restrictions, and there should be no further loans exceeding the authorized amount.

Officer Holding Prohibitions-LMRDA Section 504

The union did not have a system in place to determine whether officers or employees of the IU and its affiliates have criminal records. The I-CAP team conducted a sample of employees and officers to test whether there were convictions. One of the employees in the sample had a prior conviction that was outside of the prohibition period established by the LMRDA. We discussed with the union the importance of verifying background information to ensure individuals do not hold office in violation of LMRDA Section 504.

Internal Controls

Deficiencies were noted in the IU financial practices that could result in the misappropriation of funds. Per capita payments are wired from the United States Postal Service (USPS). NALC prepares checks that are then sent to each affiliate for their portion of the dues collected through payroll deductions at the USPS.

Although some research may be conducted, there is little oversight at the IU to ensure the affiliate checks are accurate. The I-CAP team was told by NALC that it is the responsibility of the affiliates to confirm the correct amount of dues remitted. Of the affiliates sampled, 50 percent did not reconcile per capita receipts. One of the affiliates that did not reconcile relies on the IU to verify the accuracy of their per capita payments.

In addition, the I-CAP team was informed by NALC that the affiliates are responsible for financial practices. The NALC has a fiduciary manual that is sent to each newly elected affiliate officer yet there are no internal auditors at the IU level or random audits of the affiliates to ensure funds are properly safeguarded. The IU does address financial and other issues that are specifically referred from the affiliates.

We selected a test sample of small and large affiliates to evaluate their implementation of internal controls. In all but one affiliate selected for testing, internal controls were lacking. For example, the smaller affiliates had little in the way of segregation of duties even though there were several staff members at each location. We found per capita checks are being sent to residential addresses of a member who has authority to then deposit the checks in addition to controlling the bank account and having the responsibility for bank reconciliation.

President William H. Young

4

The I-CAP team also noted that it was sometimes difficult to trace the flow of transactions from the original supporting documentation to the general ledger and lastly to the bank accounts. For example, there were a number of rent payments received by NALC that were deposited into multiple NALC bank accounts with other receipts making it difficult to test the rent portion of the receipt without several meetings with NALC staff.

Further, rent received on three floors of the NALC building was not always in agreement with the contract. Also, there were delays in depositing checks by NALC received for building rent. Sometimes these checks were not deposited for a number of months. The I-CAP team suggests monthly reconciliations be performed by the IU staff for rent receipts.

Lastly, there were expenses that were misclassified. For example, storage costs were classified as a postal expense and expenditures for flowers were included as a travel expense. Although the amounts were immaterial, the I-CAP team recommends timely reviews of expenses to ensure the classification is correct.

#### Health Benefit Plan

NALC began including its Health Benefit Plan (HBP) on the Form LM-2 for the fiscal year ending March 31, 2002. The inclusion of the HBP was discussed during the audit. OLMS determined the HBP meets the definition of a subsidiary. The HBP can continue to be included with the IU on the Form LM-2. Also, an option with the revised Form LM-2 will allow the subsidiary to be reported on the Form T-1 instead of being included on the NALC's LM-2.

We will contact you again in approximately 6 months. At that time, we will specifically determine what corrective actions the IU and its affiliates have taken based on the information provided in this closing letter. We will continue cooperative efforts to prevent and correct LMRDA deficiencies and to discuss the amended report filed.

We want to express our 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 us.

Sincerely,



Kim R. Marzewski, Chief  
Division of International Union Audits