

**U.S. Department of Labor**

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



November 3, 2006

Mr. John Rhodes  
President  
Association of Western Pulp and Paper Workers  
1430 SW Clay Street  
Portland, Oregon 97208

Dear President Rhodes:

The Office of Labor-Management Standards (OLMS) within the Department of Labor (Department) has recently completed a compliance audit of your organization under the International Compliance Audit Program (I-CAP). The purpose of this audit was to assess compliance with provisions of the Labor-Management Reporting and Disclosure Act of 1959, as amended (LMRDA) by the Association of Western Pulp and Paper Workers (AWPPW or IU). The I-CAP team conducted an exit interview on July 21, 2006, with you; Mr. James Hassey, Secretary/Treasurer; Mr. Darrell Moffatt, Trustee; Mr. Frank Messineo, Trustee; and Ms. Jeanine Schell, Trustee. At that time, we reviewed the audit findings, the issues and problem areas identified during the audit, actions required to correct deficiencies, and recommendations to enhance internal controls. This letter outlines the I-CAP audit's civil findings as discussed during the exit interview. This letter does not purport to be an exhaustive list of all possible problem areas or violations since the compliance audit was limited in scope.

Officials of your organization were informed 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. We will schedule an on-site follow-up audit in approximately six months to review corrective actions taken, to discuss the amended Form LM-2 filed by the IU, and to continue cooperative efforts to prevent and/or correct LMRDA deficiencies.

**AUDIT DETAILS:**

**Reporting Deficiencies - LMRDA Section 201**

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 AWPPW Form LM-2 for the fiscal year ending December 31, 2005 (the audit period of January 1, 2005 to December 31, 2005). The deficiencies identified in this section must be corrected in an amended Form LM-2 for the FY 2005 reporting period. Further, subsequent Form LM-2 filings must be prepared so as not to contain these deficiencies.

1. The IU misclassified and incorrectly reported three asset account balances on Statement A, Assets and Liabilities. Specifically, the Cash, Investments, and U.S. Treasury Securities balances were not properly reported. Details of the reporting errors for each balance are listed below.
  - (a) The Cash balance in Item 22 on Statement A, Assets and Liabilities was overstated. The reported Cash balance incorrectly included amounts that should have been reported as Investments on Statement A, Item 26, Investments, and on Schedule 5, Investments. In addition, some U.S. Treasury Securities were reported in the Cash balance rather than on Statement A, Item 25, U.S. Treasury Securities. Further, a Cash balance was incorrectly reported as an investment at Item 26, Investments, on Statement A. Form LM-2 instructions permit only cash on hand or deposited at banks, credit unions and other financial institutions to be included in Item 22 on Statement A.
  - (b) The IU's investment balance reported on Form LM-2 was understated. Some investments were incorrectly reported as Cash. Also, some cash was incorrectly reported in the investment balance. Form LM-2 instructions require all investments other than U.S. Treasury Securities (excluding savings accounts, certificates of deposit, or money market accounts) be reported in Item 5 of Statement A, Assets and Liabilities and on Schedule 5, Investments.
  - (c) The IU did not report any U.S. Treasury Securities in Item 25 of Statement A, Assets and Liabilities. The I-CAP team identified U.S. Treasury Securities that were incorrectly reported in the Cash balance. Form LM-2 instructions require that all U.S. Treasury Securities be reported in Item 25 of Statement A.

2. Item 54, Union Administration, on Statement B, Receipts and Disbursements incorrectly included payments to the United Brotherhood of Carpenters and Joiners of America (UBCJA) totaling \$345,528. These payments were reimbursements to UBCJA for salaries and expenses paid on behalf of AWPPW. The IU is required to report these salaries and expenses on Schedule 11, All Officers and Disbursements to Officers, or Schedule 12, Disbursements to Employees, as appropriate, with an explanation of the reimbursement in Item 69, Additional Information Summary. Any payments for benefits must be reported in Item 55, Benefits and on Schedule 20, Benefits with a similar explanation in Item 69.
3. The Detailed Summary Page for Schedule 15, line 2 incorrectly included cumulative payments totaling \$8,784 to one vendor, which should have been reported on Line 1 in Schedule 15 and on an itemization page. The IU is required to accurately identify and report all disbursement transactions of \$5,000 or more on the itemization pages.
4. The IU did not report any accounts receivable at Item 23 of Statement A or on Schedule 1, Accounts Receivable Aging Schedule. The I-CAP team identified accounts receivable that should have been reported for the audit period. Form LM-2 instructions require the IU to report all assets, including accounts receivable, which should be reported in Item 23 of Statement A and on Schedule 1.
5. No accounts payable were reported at Item 30, Accounts Payable on Statement A or Schedule 8, Accounts Payable Aging Schedule. The I-CAP team identified accounts payable that should have been reported on Form LM-2 for the audit period. The IU is required to report all accounts payable in Item 30 of Statement A and on Schedule 8 as required by the Form LM-2 instructions.
6. The IU incorrectly reported the investment balance for the AWPPW Building Corporation. This balance was incorrectly adjusted for various repairs, occupancy expenses, and building depreciation. These transactions are not applicable to an investment account. Occupancy expenses and other non-investment transactions should be reflected as disbursements on Statement B, Receipts and Disbursements. The IU is required to correct the reported balance in Item 26, Investments, on Statement A, Assets and Liabilities, and on Schedule 5, Investments.
7. Item 40, Interest, on Statement B, Receipts and Disbursements, incorrectly included dividend income of \$11,747 and losses on sales of investments of \$142,813. Form LM-2 instructions require that dividends be reported in Item

- 41, Dividends, on Statement B and losses on sales of investments be reported in Item 43, Sale of Investments and Fixed Assets.
8. The IU did not report any dividends in Item 41, Dividends, of Statement B, Receipts and Disbursements. The I-CAP team determined that dividends were incorrectly reported as interest in Item 40 of Statement B and that additional dividend income from a Smith Barney account was not recorded or reported on the Form LM-2 by the IU. All dividends from stocks and other investments received by the IU must be reported in Item 41 of Statement B.
  9. The I-CAP team determined that investment sales and reinvestments were transacted by the IU during FY 2005 yet were not listed as required. Form LM-2 instructions require that Sales of Investments and Fixed Assets be reported on Schedule 3 and in Item 43 of Statement B, Receipts and Disbursements. In addition, Reinvestments are required to be reported in Line 14 on Schedule 3, Sale of Investments and Fixed Assets.
  10. The I-CAP team determined that investment purchases and reinvestments were transacted by the IU during FY 2005 yet were not listed as required. The IU did not report any Purchases of Investments on the Form LM-2 at Schedule 4, Purchase of Investments and Fixed Assets or in Item 60 of Statement B, Receipts and Disbursements. Similarly, the IU did not report any Reinvestments in Line 14 of Schedule 4.
  11. The I-CAP team determined that the reported balance for Fixed Assets on Schedule 6, Fixed Assets, and in Item 27 of Statement A, Assets and Liabilities, included amounts for missing assets and omitted balances for other assets that were still owned as of December 31, 2005. A physical inventory is required to be conducted by the IU to determine the correct balance of assets owned for the audit period and to amend the reported balance on Form LM-2.

#### Inadequate Record keeping - LMRDA Section 206

Pursuant to Section 206 of the LMRDA, every person required to file any report under this title shall maintain records on the matters reported which will provide in sufficient detail the information and data from which the documents 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 report is filed. Records over five years in age must be maintained if necessary to verify reports filed within the last five years. Records, such as meeting minutes that note approval for spousal travel or officer salary increases, must be retained for as long as they remain necessary to verify current financial activities of the union. There were instances noted during this audit

where the IU did not comply with the record keeping requirements of Section 206. During the exit interview, AWPPW officials were informed that sufficient documentation must be maintained, regardless of the value of the transaction being recorded, for a minimum of five years.

12. The I-CAP team observed numerous instances of missing documents for reimbursed expenses, missing copies of expense documents, reimbursements without itemized expenses, and reimbursed mileage without documentation of the departure and destination points. Documentation that itemizes expenses is necessary to ensure disbursements are solely for union purposes and to satisfy the record keeping requirements under Section 206 of the LMRDA. Failure to properly document expenses was observed in 39% of the sampled expense reports. The IU should maintain supporting documentation for all reimbursed expenses, maintain original itemized receipts, and document the departure and destination points for reimbursed mileage in the future to comply with Section 206 of the LMRDA.
13. Approval of reimbursed expenses was not documented on 32% of the sampled expense reports. The AWPPW expense policy requires approval of officer and employee expenses for union purposes. The IU should ensure that approvals of reimbursed union expenses are recorded on the supporting documents to comply with IU policy and to meet the requirements of Section 206.
14. The I-CAP team reviewed selected expense reports from the previous five years to determine whether supporting documentation had been retained and if expenses were approved for union purposes. Recordkeeping deficiencies were identified as follows:
  - a) 16% of the expense reports did not have original documents,
  - b) 60% of the expense reports did not have officer approvals,
  - c) 20% of the expense reports did not identify the union purposes, and
  - d) certain expense reports did not itemize meal expenses or identify the members incurring the meal expenses.

The AWPPW should retain approved, itemized, original documents identifying union purposes on all reimbursed expenses in the future to properly comply with Section 206.

### Office Holding Prohibitions - LMRDA Section 504

Section 504(a) 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.

15. The AWPPW does not conduct criminal background checks of officers or employees. The IU should ensure that officers or employees do not hold office or employment in violation of LMRDA Section 504. 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 funds and to support the 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 matter, weaknesses in financial controls can lead to violations of Section 501 of the LMRDA.

16. Duties involving the processing of cash receipts were not adequately segregated. One staff member receives checks, enters receipts into the general ledger, prepares deposits and makes deposits at the bank. The I-CAP team recommends duties be appropriately segregated, with one staff member assigned to receive and list the receipt of checks along with reconciling this list to the bank's canceled deposit slips. A second employee would record all receipts in the general ledger; and a third staff member would prepare the deposit slip and deposit the checks in the bank.
17. The I-CAP team also noted that funds awaiting deposit are not properly secured and large amounts are held for extended periods before being deposited. The I-CAP team recommends that received funds be promptly endorsed for deposit only, properly secured until deposit, and deposited on a more frequent and regular basis to better safeguard IU assets. The IU began implementing some of these recommendations during the I-CAP audit.
18. The I-CAP team determined that disbursement procedures were deficient in several areas. Disbursement documentation rarely included approval on the supporting documents. Blank checks, signature plates and stamps were accessible to the employee preparing, recording and distributing checks. The I-CAP team recommends two signatures for all disbursements. In addition, disbursement approvals should be noted on supporting documents; custody

and use of blank checks, signature stamps and plates should be restricted to someone not recording or preparing checks and signed checks should be distributed by someone not preparing or recording checks.

19. The IU does not have a formal capitalization policy for fixed assets and had not conducted regular physical inventory of fixed assets. The inventory of fixed assets included many items more properly reportable as disbursements, such as a coat tree for \$18 and a paper punch for \$26. A formal capitalization policy should be adopted by the IU and regular physical inventories conducted to verify assets on hand and safeguard IU assets.
20. Several internal control deficiencies were observed by the I-CAP team for investments. Only one approval signature is required for investment transactions. Two officers should approve investment transactions to safeguard union funds. Current objectives and portfolio performance varies from the investment policy and broker contracts entered into with the AWPPW. The investment policy and broker contracts should be reviewed and updated to reflect current objectives as negotiated with the IU.
21. The IU occupies 100% of a building owned by AWPPW Building Corporation and is currently paying rents based on past verbal agreements. It is recommended that the IU execute a formal written lease agreement to authorize their obligations and perfect their rights to the IU office space.
22. A semi-annual review of financial transactions by elected trustees and an audit by an independent Certified Public Accountant (CPA) before a newly elected Secretary/Treasurer assumes office is required by the IU constitution. These procedures are sound and should be continued, but the I-CAP team recommends an additional CPA audit including procedural advice for recording of transactions and preparation of the amended Form LM-2 to facilitate accurate and complete recording of required information on the Form LM-2. The IU had commenced inquiries to secure services of a CPA during the I-CAP audit.

As discussed in the exit interview, the AWPPW must submit an amended Form LM-2 for the fiscal year ending December 31, 2005 and respond to this closing letter within thirty days from the date of this letter. The response letter must identify the corrective actions implemented by the AWPPW based on the results of the compliance audit. All subsequent Form LM-2 filings must also be prepared so as not to contain these deficiencies. We will schedule an on-site follow-up audit in approximately six months to review LMRDA compliance and the amended Form LM-2, to discuss the corrective actions that have been taken and to assist your organization in complying with LMRDA requirements.

We want to express our appreciation for the cooperation and courtesy extended by you and your staff during this compliance audit. If we can be of any assistance in the future, please do not hesitate to call us.

Sincerely,

A handwritten signature in black ink that reads "Kelley Andrews". The signature is written in a cursive style with a large, prominent "K" and "A".

Kelley Andrews  
Director, Office of Enforcement  
and International Union Audits