



July 26, 2005

Mr. O.V. Delle-Femine
National Director
Aircraft Mechanics Fraternal Association
67 Water Street, Suite 208A
Laconia, NH 03246

Dear Mr. Delle-Femine:

The Office of Labor-Management Standards within the U.S. 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 the Aircraft Mechanics Fraternal Association (AMFA or National Union). The I-CAP team conducted an exit interview on July 21, 2005 with you and AMFA Treasurer, Doug Butz, to review its findings including issues and problem areas identified during the audit and actions required to correct deficiencies.

You were informed at the exit interview that an amended Labor Organization Annual Report, Form LM-2, for the year ending December 31, 2003 is required to be submitted within thirty days from the date of this letter to correct reporting and other deficiencies. Specific information on these deficiencies is presented below. 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 AMFA, and to continue cooperative efforts to prevent and/or correct LMRDA deficiencies. This letter does not purport to be an exhaustive list of all possible problem areas since the compliance audit was limited in scope.

AUDIT DETAILS:

Reporting Deficiencies - LMRDA Section 201

Section 201 (b) of the LMRDA requires that National Unions file with OLMS an annual financial report that accurately discloses the National Unions' financial condition and operations. The following deficiencies were noted on the AMFA's Form LM-2 for the fiscal year ended December 31, 2003.

1. The entries for Other Disbursements on Schedule 15 included individual officer meals grouped under Travel Expense, Representation and Negotiation-Travel and Campaign-Travel. Officer meals charged to a credit card that are indirectly reimbursed to the officer by the National Union are required to be reflected in column (F) of Schedule 9 of the Form LM-2 by officer, not grouped as Other Disbursements on Schedule 15. The National Union has agreed to make this correction on the amended Form LM-2 to correct the deficiency.

2. Legal expenses paid by the National Union on behalf of the locals were reflected as Loans Made in Item 69 of Statement B. When repaid by the local, the receipts were reflected as Repayment of Loans Made in Item 51 of Statement B. The legal expenses should be reflected as Professional Fees in Item 62 of Statement B. The reimbursements from the locals for the expenses should be reflected as Other Receipts in Item 54 of Statement B. The National Union has agreed to correct this deficiency on the amended Form LM-2.
3. Several items on the Form LM-2 did not disclose the level of detail required by the Form LM-2 instructions. For example, Item 75 in support of Item 23 did not disclose the fair market value of the accounts receivable pledged as security for a line of credit with the National Union's bank. The National Union will reflect the disclosure in future Form LM-2 filings.
4. Insufficient detail was provided in Column (A) of Schedule 11 to identify the type of benefits included under "Indirect benefits paid through airline reimbursements." In addition, insufficient detail was provided to adequately describe the purpose of the disbursements in Column (A) of Schedule 15 described as "Member Services." The National Union will provide sufficient detail in future Form LM-2 filings.
5. Receipts listed in Schedule 14 from "Patches, Pins, and Stickers" should have been reported in Item 45, Sale of Supplies. Disbursements for the purchase of supplies for resale should be reported in Item 65. AMFA inventory of supplies remaining for resale at the end of the reporting period should be reported in Schedule 3, Other Assets. The National Union will reflect the purchase and sale of supplies and remaining inventory in future Form LM-2 filings.

Inadequate Recordkeeping – LMRDA Section 206

LMRDA Section 206 requires that every person filing reports maintain records on the matters to be reported. These records must provide sufficient detail to permit the reports to 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. There were instances noted during this audit where all required documentation was not maintained by the National Union and no adequate explanation of the National Union purpose for disbursements was provided. During the exit interview, AMFA officials were informed that back-up documentation must be maintained and retained for all disbursements, regardless of amount, for the required five year period. In addition, written documentation is necessary to determine whether the expense was for personal or official union business.

6. 95% of the documentation provided for officer expenses supported union business. In the remaining transactions, the union purpose was vaguely defined as "national business." 97% of itemized receipts were available for review and in the remaining instances there were only credit card statements to support the union business.

7. In reviewing the transactions listed on Line 10, Representation and Negotiation-Professional Fees, of Schedule 15, there were invoices that listed the hours worked and rate per hour with a vague purpose such as “negotiations.” There was also no written evidence of approval by the union of the disbursements.

Elections-LMRDA Section 401

Elections of local delegates to the national convention, who also nominate candidates for national office or elect national officers, are considered to be part of national elections and therefore not local elections.

8. The McCormick Group management contract with AMFA included in its base contract the provision of consulting services relative to national elections. The I-CAP team identified disbursements reimbursed to the McCormick Group by AMFA for the preparation of delegate elections that should have been included in the base contract. The I-CAP team recommends AMFA to clarify what is included in the base contract and also identify those disbursements that would not be included in the base contract.

Bonding Requirements -LMRDA Section 502

Section 502 of the LMRDA requires that officers, agents, shop stewards or other representatives or employees of a labor organization who handle funds or other property of the labor organization must be bonded.

9. AMFA contracts with an outside firm, the McCormick Group, to conduct all of the union’s daily financial operations. AMFA and its contractor are required to comply with the Section 502 bonding requirements. The McCormick Group failed to obtain a fidelity bond that is in compliance with the requirements of the LMRDA. The McCormick Group’s policy included a deductible, which is not permitted by the LMRDA on a fidelity bond. In addition, the insurer selected by the McCormick Group was not an approved bonding company. The I-CAP team advised the McCormick Group and union on the companies that are approved insurers. The McCormick Group obtained a fidelity bond that complies with the LMRDA requirements.

Internal Financial Controls

Adequate internal financial controls are an essential component to fulfilling the union’s obligations under Titles II and V of the LMRDA. The I-CAP team identified various instances of inadequate internal financial controls during the AMFA audit.

10. Two employees of the McCormick Group are responsible for both the receipts and disbursements of the union. Signature stamps can be utilized in lieu of original signatures. To improve internal financial controls, the I-CAP team recommends two original signatures on the checks by authorized officials of the union. In addition, the I-CAP team recommends having bank statements sent directly to a union official for

review instead of to the McCormick Group. The bank statements should be provided to the McCormick Group to reconcile after they have been reviewed by the union official. Finally, the I-CAP team recommends that a union official periodically review the accounting records prepared by the McCormick Group.


11. The I-CAP team identified weaknesses in the internal controls for telephone, postage, and copier disbursements. When AMFA initiates a phone call or utilizes a postage meter, a code is entered. The code can be used in the AMFA office space and in the McCormick Group office space located in the same building. AMFA reimburses McCormick Group for telephone and postage expenses based on the code. The McCormick Group copier was used by AMFA staff as a back-up and there were charges assessed to AMFA based on usage. The I-CAP did not find evidence that AMFA substantiates the costs that are reimbursed to the McCormick Group for telephone, postage, and copier disbursements. The I-CAP team recommends the codes for the telephone and postage meter are only used in AMFA office space and all charges, including those for the copier, are reviewed and approved by AMFA before the expenditure is paid.
12. The McCormick Group charged a monthly lease fee to AMFA for a computer that could not be located by the union. The I-CAP team found the monthly fee for the lease had been paid by AMFA for two years although AMFA had no record of leasing the computer. The I-CAP team recommends AMFA obtain reimbursement from the McCormick Group for the lease payments and AMFA did obtain reimbursement.

As discussed in the exit interview, the union will submit a response to this closing letter along with the requested amended report for fiscal year 2003. The response letter should identify the corrective actions implemented by the union based on the results of the compliance audit. There should also be an amended report submitted for the fiscal year which ended December 31, 2004, for any of the deficiencies identified in the audit that appear on the 2004 Form LM-2. As indicated, 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 AMFA, and to continue cooperative efforts to prevent and/or correct LMRDA deficiencies.

Finally, although certain entities and individuals are required to file reports under the LMRDA, the AMFA's arrangement with the McCormick Group to perform all of the union's administrative functions may conceal otherwise reportable information from the public and from union members. AMFA was informed that the new electronic Form LM-2 will require disbursements to be listed in separate functional categories: representational activities; political activities and lobbying; contributions, gifts, and grants; general overhead; and union administration. This presentation will provide a more detailed accounting of the funding dedicated to the contract staff than was required in the prior Form LM-2.

I want to express my 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 me.

Sincerely,

A handwritten signature in cursive script that reads "Kim Marzewski".

Kim Marzewski, Chief
Division of International Union Audits