

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



May 3, 2007

Mr. Michael Sacco
President
United Industrial, Service, Transportation,
Professional and Government Workers of
North America, SIUNA, AFL-CIO
5201 Auth Way
Camp Springs, MD 20746

RE: International Compliance Audit Program (I-CAP)
United Industrial, Service, Transportation, Professional and
Government Workers of North America, SIUNA, AFL-CIO
LM File Number 000-364

Dear President Sacco:

The Office of Labor-Management Standards (OLMS) within the Department of Labor recently completed a compliance audit of the United Industrial, Service, Transportation, Professional and Government Workers of North America, SIUNA, AFL-CIO (UIW), 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 April 12, 2007, the I-CAP team conducted an exit interview with you, Mr. David W. Heindel, Secretary-Treasurer; Ms. Leslie Tarantola, Counsel for the UIW and Seafarers International Union of North America (Seafarers); and Mr. Joseph Musher of Buchbinder Tunick & Company LLP, Certified Public Accountants. During the exit interview, the I-CAP team reviewed audit findings, identified actions that the UIW 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 in both scope and duration.

You were advised during 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 regarding the deficiencies is presented below.

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 UIW 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 FY 2005 reporting period. Further, subsequent Form LM-2 filings must be prepared so as not to contain these deficiencies.

1. The UIW incorrectly reported a total membership of 7,754 in Item 20 and Schedule 13 (Membership Status). The audit revealed and the UIW confirmed a total membership of 8,075.
2. In Item 21 (Rates of Dues and Fees), the UIW incorrectly reported its dues rate as 1.5% per pay rate and its initiation fee as "100 per year". The audit revealed and the UIW confirmed that its dues rate was 1.5 times the hourly pay rate per month and its initiation fee was \$100 per member.
3. The UIW incorrectly included \$2,800 as its Wilmington, California regional office petty cash fund balance in the total amount reported in Item 22 (Cash). The audit disclosed that the actual petty cash fund balance maintained in the Wilmington office was \$500. In addition, the union also incorrectly reported other cash balances in Item 22. The UIW incorrectly included cash balances of \$3,000 and \$1,000 for its accounts maintained in Panama and Ohio, respectively, when the actual balances in those accounts were lesser amounts at both the start and the end of the reporting period. The union must report the actual cash balances in Item 22.
4. The UIW was not able to account for the reduction in the above noted Wilmington, California petty cash fund balance from \$2,800 to \$500 which occurred at some point prior to the start of the audit period. This undocumented \$2,300 cash balance reduction must be reported in Item 13 as a loss of funds and further explained in Item 69 (Additional Information).
5. The UIW incorrectly reported a disbursement of \$304,400 in Item 63 (To Affiliates of Funds Collected on Their Behalf). The audit revealed that this transaction was not a disbursement of funds collected on behalf of an affiliate and instead, was payment of an accounts payable debt owed to an affiliated organization. The \$304,400 disbursement should be reported in Schedule 18 (General Overhead) with an itemization page. Additional explanation regarding this disbursement may be reported in Item 69 (Additional Information), but is not required.

6. The UIW reported the following in Item 69 (Additional Information): "During 2005, a check in the amount of \$30,000 was issued to [REDACTED] to be used as an advance to pay convention delegates convention per diem. Of this total, \$22,582 was paid to the delegates and the balance of \$7,418 was returned and is included in other receipts." The UIW reported a \$30,000 disbursement to [REDACTED] for "Petty Cash - Convention Per Diem" in an itemization page in Schedule 19 (Union Administration). The UIW also reported a \$7,418 receipt from [REDACTED] for "RTN of Petty Cash Convention Per Diem" in an itemization page in Schedule 14 (Other Receipts). These transactions were reported erroneously. The audit disclosed that [REDACTED] handled and administered the petty cash fund at the UIW convention from which \$22,582 was disbursed in separate cash payments to individual convention delegates. These disbursements should be treated as separate disbursements to individual convention delegates. Generally, these disbursements should be reported in Schedule 19 (Union Administration) unless any of the disbursements were to UIW officers or employees, in which case they would be reportable in Schedule 11 or 12, as appropriate. The \$7,418 that was not disbursed from the petty cash fund at the UIW convention and was returned to UIW bank accounts should not be reported as a disbursement or a receipt on the Form LM-2. Since this \$7,418 was never disbursed outside the UIW, it should be treated as an interfund transfer and should not be reflected on Statement B of the Form LM-2.
7. The UIW incorrectly reported two automobiles as "Traded In" in Schedule 3 (Sale of Investments and Fixed Assets). Traded-in automobiles are reportable in Items 15 and 69 rather than in Schedule 3.
8. The UIW incorrectly reported all of the property that it owns in St. Croix, Virgin Islands as "32&33 King Street Fredericksted, St. Croix, VI" in Schedule 6 (Fixed Assets). The audit determined that the union owns several separate and distinct plots of land in St. Croix, and over the past several years, has sold individual plots. Each separate plot of land or building must be itemized per the Form LM-2 instructions for Schedule 6.
9. The UIW did not include Vice President [REDACTED] on Schedule 11 (All Officers and Disbursements to Officers). The Form LM-2 instructions for Schedule 11 require the listing of every person who held office at any time during the reporting period, regardless of whether any disbursements were made to them or on their behalf.
10. The UIW incorrectly reported auto allowances paid to union officers and employees in Column D (Gross Salary) on Schedules 11 and 12. Allowances paid to officers or employees must be reported in Column E (Allowances) on Schedule 11 or 12, as appropriate.

11. The UIW made some disbursements to hotels on behalf of officers and employees that, in addition to lodging, included movie charges. Because movie charges are a personal expense, those amounts must be reported next to the names of the officers or employees who incurred those charges in Column G (Other Disbursements) on Schedule 11 or 12, as appropriate.
12. The UIW reported disbursements for rent, utilities, water and sewer, building services, building repairs, accounting and audit fees, telephone, licensing fees, workers compensation insurance, postage, mail, freight, office equipment rent, bank interest, and bank charges in Schedule 15 (Representational Activities). These types of disbursements are reportable in Schedule 18 (General Overhead) unless they were paid for a specific representational expense, such as for a phone bank set up to coordinate an organizing campaign, in which case the disbursements must be reported in Schedule 15.
13. The itemization pages for Schedule 18 (General Overhead) disclose disbursements for real estate taxes, including disbursements to the "Government of the VI" (Virgin Islands) and to the "Franklin County Treasurer" (Franklin County, Ohio). These disbursements are reportable in Item 65 (Direct Taxes).
14. An itemization page for Schedule 18 (General Overhead) reports disbursements to NGL Insurance Group. The audit determined that these disbursements to NGL Insurance Group included payments for automobile insurance for union-owned vehicles assigned to particular UIW officials. The portions of these disbursements for automobile insurance are reportable next to the names of the assigned officers or employees in Schedule 11 (All Officers and Disbursements to Officers) or Schedule 12 (Disbursements to Employees), as appropriate.

Other Reporting Issue

The audit determined that the following internal UIW reporting procedure may be inconsistent with the Form LM-2 reporting requirements.

15. The UIW worksheet given by the union to its officers and employees to complete in support of time percentage allocations reported in Schedules 11 and 12 included only four of the five LM-2 functional categories. The UIW worksheet did not include Contributions, Gifts, and Grants. Based on these worksheets, in Schedules 11 and 12, the UIW reported zero as the percentage of time spent by each officer and employee in the category of Contributions, Gifts, and Grants. The audit discovered no evidence indicating that this reporting was inaccurate. However, the omission of this functional category from the UIW worksheet could cause an officer or employee to overlook time devoted to this functional

category. The I-CAP team recommends that the union include all five LM-2 functional categories on the worksheet that it gives to officers and employees to complete in support of the time allocations in Schedules 11 and 12.

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 UIW 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.

16. The UIW pays real estate taxes in lieu of rent for its regional office in Columbus, Ohio based on an oral agreement with the affiliated organization that owns the building. There is nothing in writing to document this agreement. The UIW must maintain a written record that verifies, explains, or clarifies why the UIW pays real estate taxes for a building it does not own. Therefore, the UIW must execute and retain a rental agreement or similar document outlining the terms and conditions for this payment arrangement.
17. One of the vehicles owned by the UIW was not titled in the name of the UIW and was instead titled in the name of an affiliated labor organization. The UIW must maintain written documentation of ownership to verify, explain, or clarify its fixed assets reported in Schedule 6. Therefore, the UIW must arrange to have the title for this vehicle transferred to the UIW.
18. Two bank accounts containing funds that the UIW purports and reports as its own, are not held in the name of the UIW and are instead held in the name of an affiliated labor organization. The UIW must maintain written documentation to verify that the funds the UIW reports on its Form LM-2 are, indeed, its own. The UIW must maintain its bank accounts in its own name.
19. As noted above in the reporting section, the UIW was not able to account for the reduction in its Wilmington, California petty cash fund balance from \$2,800 to \$500 which occurred at some point prior to the start of the audit period. The UIW had no records to document this loss of funds. Unions must retain records

to verify all assets, liabilities, receipts, and disbursements reported on LM reports.

20. The UIW did not require officers and employees to 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.
21. UIW records pertaining to meal expenses sometimes included no written explanation of union business conducted and only the names of the persons incurring the restaurant charges. 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.
22. UIW officers and employees who were assigned union-owned vehicles failed to maintain mileage logs documenting the business use of the vehicles. In the case of union-owned and leased vehicles, logs are required to be maintained for each vehicle documenting the date, number of miles driven, and business purpose for each use.

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.

23. The audit revealed that the UIW commingles its funds in bank accounts shared with affiliated organizations, including the Seafarers International Union of North America (Seafarers) and the Seafarers Atlantic, Gulf, Lakes and Inland Waters District (Seafarers A&G). Specifically, the UIW makes the majority of its disbursements through shared bank accounts and relies on the Controller and the accounting staff of Seafarers A&G to coordinate and manage its financial activities. Although UIW representatives explained that the sharing of bank accounts saves time and administrative costs given the staffing arrangement, these cost considerations should be weighed against the potential for fraud caused by commingling funds. An accounting trail that clearly distinguishes UIW transactions and account balances from those of any other organization at any given point will reduce the potential for fraud or financial mismanagement.

The I-CAP Team strongly recommends that the UIW segregate its funds and make all disbursements from its own bank accounts.

24. The audit revealed that no UIW officer regularly reviews or signs union checks. UIW checks are routinely signed by the Controller and Assistant Controller of Seafarers A&G and a supervisory employee of the Seafarers Vacation Plan. In furtherance of internal controls and the fiduciary responsibility of the officers and to ensure that all union funds are being used solely for union purposes, the I-CAP Team recommends that at least one UIW officer review and sign all union checks.
25. The audit also revealed that no UIW officer reviews or approves bank transfers. The Controller and Assistant Controller of the Seafarers A&G transfer hundreds of thousands of dollars between UIW bank accounts, affiliated organization bank accounts, and shared bank accounts on a regular basis. Internal controls should also be improved over money transfers between bank accounts to enhance the fiduciary responsibility of the officers, and to ensure the propriety of all fund transfers. The I-CAP team recommends that the UIW President and/or Secretary-Treasurer approve all fund transfers in advance.
26. The UIW holds bank accounts, an automobile, and real estate property in names other than the UIW. The UIW should ensure that it maintains written proof of ownership that clearly sets forth the UIW as the owner of record for all union assets.
27. The I-CAP Team's review of leasing agreements for UIW headquarters and regional offices revealed that the Controller of Seafarers A&G signed three of the agreements as either the tenant or landlord on behalf of the UIW. As leasing agreements are contractual obligations, the Controller's duties as recordkeeper are incompatible with authorizing contracts. We recommend that a UIW officer sign contracts on behalf of the UIW for proper segregation of the duties of authorization and recording.
28. The UIW maintained a \$30,000 petty cash fund at its convention and disbursed expense money to individual convention delegates in cash. As a financial safeguard, we recommend that the UIW instead pay delegate expenses by check.

Fiduciary Responsibility of Officers of Labor Organizations – LMRDA Section 501

Because officers, agents, and other representatives of a labor organization hold positions of trust in the organization, they have a duty to hold and to expend its money and property solely for the benefit of the organization and its members. These safeguards for labor organizations are established in Section 501(a) of the LMRDA,

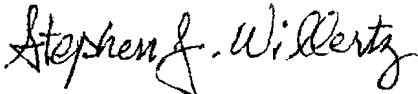
Fiduciary Responsibility of Officers of Labor Organizations. Violations of fiduciary duty are enforceable by the members of the union.

29. Although the I-CAP did not disclose a violation of Section 501(a), the above noted lack of internal controls and oversight could result in the failure of the officers of the UIW to demonstrate that they have complied with the provisions of Section 501(a).

As discussed during the exit interview, the UIW 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 UIW 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, then 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 UIW, 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,



Stephen J. Willertz, Acting Chief
Division of International Union Audits

cc: David W. Heindel, Secretary-Treasurer