

U.S. Department of Labor

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



April 9, 2007

Mr. Chris Albers
President
Writers Guild of America East, AFL-CIO
555 West 57th Street
New York, New York 10019

RE: International Compliance Audit Program (I-CAP)
Writers Guild of America East, AFL-CIO
LM File Number 000-298

Dear President Albers:

The Office of Labor-Management Standards (OLMS) within the Department of Labor 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 (LMRDA) by the Writers Guild of America, East (WGAE). The I-CAP team conducted an exit interview in person on November 9, 2006 with Gail Lee, Secretary-Treasurer; Mona Mangan, Executive Director; Uma Sarada, Administrator; Sofia Ovsyanker, Controller; Eric Greene, outside counsel; and Noah Rifkin, independent accountant. At that time, and during a follow-up conference call conducted on April 2, 2007, we reviewed the audit findings, including 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 generally 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 and duration.

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 March 31, 2006, 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.

Reporting Violation - LMRDA Section 201 (a)

Section 201(a) of the LMRDA requires that every labor organization that amends its constitution and bylaws file a copy of the revised documents when the union files its next annual financial report with OLMS.

1. The WGAE's most recent constitution, dated March 23, 1998, had not been filed with OLMS at the start of the audit. Copies of this constitution have now been filed. All future changes to the constitution must be filed with OLMS with the WGAE's next annual financial report.

Reporting Deficiencies - LMRDA Section 201(b)

Section 201(b) of the LMRDA requires that every labor organization file with OLMS an annual financial report that accurately discloses the union's financial condition and operations. Deficiencies were noted on the WGAE Form LM-2 for the fiscal year ending March 31, 2006. The deficiencies identified in this section must be corrected in an amended Form LM-2 for the reporting period ending March 31, 2006. Further, subsequent Form LM-2 filings must be prepared so as not to contain these deficiencies.

2. The WGAE answered "No" to Item 17 (Contingent Liabilities). The audit revealed two contingent liabilities: 1) litigation involving the Writers Guild of America, West that was still pending as of March 31, 2006; and 2) the employment contract between the WGAE and the Executive Director, allowing certain severance contingencies. The WGAE is required to answer "Yes" to Item 17 and describe the contingencies in Item 69 (Additional Information).
3. The WGAE incorrectly reported \$322,960 of cash balances on deposit with union's broker in Item 26 and Schedule 5 (Investments). The total of all the union's cash, including certificates of deposit, money market accounts, and all other cash balances in financial institutions, is reportable in Item 22 (Cash).
4. The Form LM-2 was signed, in both Items 70 and 71, by an employee of the organization. The Form LM-2 must be signed by both the president and treasurer, or corresponding principal officers. A corresponding principal officer is an officer who performs the duties of the principal executive or principal financial officer. If a corresponding principal officer signs the report, an explanation is required in Item 69.

5. The individual lines (Lines 1 through 24) of Schedule 1 (Accounts Receivable Aging Schedule) should be used to report individual accounts receivable of \$5,000 or more that were 90 days or more past due at the end of the reporting period or that were liquidated, reduced or written off during the reporting period. Any amounts owed to the union in all other accounts receivable (those less than \$5,000) should be aggregated in the line titled, "Totals from all other accounts receivable." The WGAE's reporting in this matter is deficient in three ways:
- a) First, the WGAE reported an aggregate amount (\$237,098) of accounts receivable from numerous members in Line 1 of Schedule 1. Line 1 should only be used to report an individual accounts receivable. Accounts receivable from members that are individually less than \$5,000 should be aggregated in the line titled, "Totals from all other accounts receivable."
 - b) Second, the WGAE did not properly age the accounts receivable from members. The WGAE reported no amount of these member receivables as 90 or more days past due. The audit determined that these balances included receivables that were over 90 days past due. The WGAE must properly age these accounts receivable in Columns C and D of Schedule 1.
 - c) Third, the audit determined that on March 31, 2006, the union reduced its accounts receivable by \$38,309 by moving that amount into an allowance for doubtful accounts. In accordance with Form LM-2 instructions, the union reported its net accounts receivable in Schedule 1. However, the union did not disclose its allowance for doubtful accounts in Item 69 (Additional Information). In further compliance with Form LM-2 instructions, when accounts receivable are carried on the union's books at net (gross accounts receivable less the allowance for doubtful accounts), the union should report the allowance for doubtful accounts in Item 69.
6. The WGAE did not report an "E" next to the name of [REDACTED] in Column A on Schedule 2 (Loans Receivable). The LM-2 instructions require the union to report an "O" (officer) or "E" (employee) after the name of each officer or employee listed.
7. Schedule 2 included amounts owed to the WGAE for an "erroneous overpayment" of payroll taxes and an "advance" to the Industry Health Fund. These amounts owed are not properly classified as loans and should be reported in Schedule 7 (Other Assets).

8. The WGAE did not report any withholding or deductions on Line 9 (Less Deductions) of Schedule 12 (Disbursements to Employees). The union must report the total amount of all withheld taxes and other deductions on Line 9 and then report the difference of Line 9 from Line 8 (Total Employee Disbursements) on Line 10 (Net Disbursements).
9. The WGAE entered "Office" as the position of Nicole Brown-Courtne in Column B of Schedule 12. This description does not adequately identify the position held. A more descriptive position must be reported.
10. Membership categories reported on Schedule 13 (Membership Status) were not further defined in Item 69 (Additional Information). The Form LM-2 instructions require a definition of each membership category including a description of the members and an indication of whether the members pay full dues.
11. The audit revealed that refund receipts of \$497.67 and \$914.25 were "netted" against general ledger disbursement accounts 4500, legal expenses, and 4830, hotel expenses, respectively. The Form LM-2 instructions prohibit "netting." All cash flowing in and out of the labor organization must be reported on the Form LM-2. These refund receipt amounts are reportable in Schedule 14 (Other Receipts).
12. Many of the itemization pages for Schedule 15 (Representational Activities), and Schedule 19 (Union Administration) contain inadequate descriptions of the itemized disbursement purpose in Column C. Inadequate descriptions of the itemized disbursement purpose include: "Legal Counsel" and "Union Activities." The LM-2 instructions require sufficient detail to identify the purpose of these disbursements.
13. Many of the itemization pages for Schedule 19 (Union Administration) contain inadequate descriptions of the business type in Column B. Inadequate business type descriptions include: "Vendor," "Union Function," "Awards Ceremony," and "Processing." The LM-2 instructions require more descriptive classifications for business types.
14. The WGAE did not include all major disbursements in itemization pages for Schedules 15 through 19 as required. The LM-2 instructions define a "major" disbursement as: 1) any individual disbursement of \$5,000 or more; or 2) total disbursements to any single entity or individual that aggregate to \$5,000 or more during the reporting period. The audit revealed major disbursements to nine separate entities that were not included in itemization pages for

Schedules 15, 18, and 19. These major disbursements must be included on either existing or new itemization pages.

15. Schedule 19 (Union Administration) included non-itemized disbursements to Intra-Boro Acres for taxi services incurred by WGAE officers and employees. These amounts must be reported next to the names of the officers or employees who incurred those expenses in Schedules 11 (All Officers and Disbursements to Officers) or Schedule 12 (Disbursements to Employees), as appropriate.
16. Schedule 20 (Benefits) included disbursements of \$6,234 to Geller Group, Ltd. and \$3,700 to Employee Security, Inc. for administrative fees. These disbursements are neither direct nor indirect disbursements for benefits and are instead reportable on Schedule 18 (General Overhead). Also, disbursements to Geller Group, Ltd. are reportable in an itemization page for Schedule 18.

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 which 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 report is filed. Records over five years must be retained 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 WGAE did not comply with the recordkeeping requirements of Section 206. During the exit interview, WGAE officials were informed that adequate records necessary to document all financial transactions, regardless of the amount, must be maintained for a minimum of five years.

17. WGAE officers and employees failed to maintain adequate documentation for reimbursed expenses and expenses charged to union credit cards. Documentation was inadequate in two ways:
 - a) The WGAE did not always maintain a receipt or bill to document expenses. The receipts that the union did maintain, such as for meal expenses, were not always itemized. 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.

- b) Also, WGAE records for meal expenses sometimes included no explanation of union business conducted and no identification of the persons incurring the meal expense. 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.

Inadequate Bonding - LMRDA Section 502

Section 502 of the LMRDA requires that every person who handles funds or other property of the union shall be bonded for no less than ten percent of the total funds handled by those individuals or their predecessors during the preceding fiscal year, but in no case more than \$500,000. The audit disclosed a violation of LMRDA Section 502.

- 18. Two employees who handle member receipts were bonded for \$100,000. The audit determined that the amount of member receipts handled by these employees requires that they must be bonded for \$500,000. The I-CAP team verified that the additional bonding coverage was obtained during the audit. The WGAE should regularly review bond limits applicable to its employees to ensure full compliance with Section 502.

Office Holding Prohibitions - LMRDA Section 504

Section 504 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. It is also a violation of Section 504 for another person to willfully and knowingly hire, retain, employ or otherwise place the barred person in a prohibited capacity.

- 19. The WGAE does not conduct criminal background checks of officers or employees to ensure that they do not hold office or employment in violation of LMRDA Section 504. The I-CAP team emphasized the importance of verifying background information to ensure compliance with Section 504, and recommends that the WGAE establish a system for determining whether officers and employees have disqualifying criminal records.

Internal Controls

Adequate internal financial controls are essential to prevent the misuse of union 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 rule, weaknesses in financial controls can lead to violations of Section 501 of the LMRDA.

20. The WGAE does not have a clear policy regarding the types of expenses officers and employees may claim for reimbursement nor the types of expenses that may be charged to union credit cards. The WGAE expense policy is a confusing compilation of various memoranda and personnel instructions dating back to 1984. To improve internal controls and prevent financial abuse, the I-CAP team recommends that a clear expense policy be established and expressed in one consolidated document.
21. Checks received by the WGAE for deposit are secured in a safe but are not stamped "For Deposit Only." The I-CAP team recommends that all undeposited checks be stamped when received to properly control and secure these assets.
22. The Controller records and processes most financial transactions for the WGAE and also reconciles the union's bank accounts. It is recommended that bank reconciliations be reviewed by another official of the union to improve controls and safeguarding of these assets.
23. The Controller processes most disbursements and checks for the WGAE and also distributes signed checks to payees. It is recommended that an employee who has no access to the financial records receive all signed checks from the signers and distribute them to the appropriate payees.
24. WGAE does not routinely have an officer sign union checks with an original signature or review supporting documentation for disbursements. Currently, the Executive Director and/or the Administrator review disbursement documents and sign union checks. To strengthen the internal controls, to facilitate the fiduciary responsibility of the officers, and to ensure that all union funds are being used only for union purposes, the I-CAP team recommends that at least one WGAE officer routinely review supporting documentation and sign union checks with an original signature. Also, the I-CAP team recommends that an officer's approval for payment be recorded by initialing and dating the disbursement documents.
25. The WGAE does not have a formal investment policy defining its objectives for invested funds. It is recommended that a formal, written policy be established to memorialize the union's investment objectives and policies.
26. The WGAE does not have a detailed inventory of furniture, equipment, and other assets that identifies all assets on hand. It is recommended that a

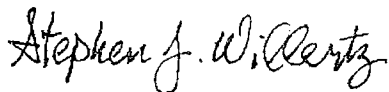
physical inventory be conducted and recorded to verify assets on hand and better safeguard these assets.

27. The audit revealed four WGAE checks totaling \$1,521.10 dating back to August 2004 that are still identified as outstanding on recent bank reconciliations. It is recommended that outstanding checks be periodically reviewed for re-issue or voiding.

As discussed during the exit interview, the WGAE will submit, within thirty days from the date of this letter, an amended Form LM-2 for the fiscal year ending March 31, 2006 and a response letter to this closing letter. The response letter will identify the corrective actions implemented by the WGAE based on the results of the compliance audit. All subsequent Form LM-2 filings must also be prepared so as not to contain the deficiencies outlined in 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 WGAE, and to continue cooperative efforts to prevent and correct LMRDA deficiencies.

Please accept my appreciation for the cooperation and courtesy extended by your staff during this compliance audit. If you have questions, please do not hesitate to call me.

Sincerely,



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

cc: Gail Lee, Secretary-Treasurer