



December 21, 2016

Mr. Shawn Scott, President
Steelworkers Local 1259
7817 Noid Drive
Brooklyn Park, MN 55428

Case Number: 320-6007326 [REDACTED]
LM Number: 019830

Dear Mr. Scott:

This office has recently completed an audit of Steelworkers Local 1259 under the Compliance Audit Program (CAP) to determine your organization's compliance with the provisions of the Labor-Management Reporting and Disclosure Act of 1959 (LMRDA). As discussed during the exit interview with you and Secretary-Treasurer [REDACTED] on November 29, 2016, the following problems were disclosed during the CAP. The matters listed below are not an exhaustive list of all possible problem areas since the audit conducted was limited in scope.

Recordkeeping Violations

Title II of the LMRDA establishes certain reporting and recordkeeping requirements. Section 206 requires, among other things, that labor organizations maintain adequate records for at least five years by which each receipt and disbursement of funds, as well as all account balances, can be verified, explained, and clarified. As a general rule, labor organizations must maintain all records used or received in the course of union business.

For disbursements, this includes not only original bills, invoices, receipts, vouchers, and applicable resolutions, but also documentation showing the nature of the union business requiring the disbursement, the goods or services received, and the identity of the recipient(s) of the goods or services. In most instances, this documentation requirement can be satisfied with a sufficiently descriptive expense receipt or invoice. If an expense receipt is not sufficiently descriptive, a union officer or employee should write a note on it providing the additional information. For money it receives, the labor organization must keep at least one record showing the date, amount, purpose, and source of that money. The labor organization must also retain bank records for all accounts.

The audit of Local 1259's 2015 records revealed the following recordkeeping violations:

1. Credit Card Expenses

Local 1259 did not retain adequate documentation for credit card expenses incurred by former President [REDACTED] and former Secretary-Treasurer [REDACTED] totaling at least \$4,499.46. For example, [REDACTED] charged \$137.64 to the union credit card at Office Max on January 21, 2015 for the purchase of office supplies. In support of this expense, the union only retained the credit card statement, which is not sufficient. In another example, [REDACTED] charged \$117.98 to the union credit card at Flowers by Legacy on November 30, 2015 for an unknown purpose. The union also only retained a credit card statement in support of this expense, which is not sufficient.

As noted above, labor organizations must retain original receipts, bills, and vouchers for all disbursements. The president and treasurer (or corresponding principal officers) of your union, who are required to sign your union's LM report, are responsible for properly maintaining union records.

2. Meal Expenses

Local 1259 did not require [REDACTED] and [REDACTED] to submit itemized receipts for at least three meal expenses charged to the union's credit card totaling at least \$262.82 during the audit year. For example, [REDACTED] charged \$92.30 at Manning's Restaurant on February 18, 2015 for an unknown purpose. A credit card signature receipt was maintained for this expense, which is not sufficient. The union must maintain itemized receipts provided by restaurants to officers and employees. These itemized receipts are necessary to determine if such disbursements are for union business purposes and to sufficiently fulfill the recordkeeping requirement of LMRDA Section 206.

Local 1259 records of meal expenses did not always include written explanations of the union business conducted or the names and titles of the persons incurring the restaurant charges. For example, [REDACTED] charged \$57.42 to the union credit card at Davanni's Restaurant on June 26, 2015. An itemized receipt was maintained for this charge, but the union failed to record the names of those present for the meal or the union purpose for purchasing the meal. Union records of meal expenses must include written explanations of the union business conducted and the full names and titles of all persons who incurred the restaurant charges. Also, the records retained must identify the names of the restaurants where the officers or employees incurred meal expenses.

3. Reimbursed Auto Expenses

Union officers and employees received reimbursement for the business use of their personal vehicles, but did not retain adequate documentation to support payments made to them totaling at least \$5,250.07 during 2015. Mileage reimbursements were claimed on expense vouchers that normally identified the dates of travel, the number of miles driven each day, the mileage rate claimed, and the total miles driven; however, the expense vouchers were not sufficient because in many instances they failed to identify the locations

traveled to and from and the union business purpose. As an example, [REDACTED] was reimbursed \$32.20 for mileage on June 5, 2015 to purchase a computer for the recording secretary. The voucher retained for this mileage expense identified the date of travel, the number of miles driven, the mileage rate claimed, and the union business purpose; however, the expense voucher was not sufficient because it failed to identify the locations traveled to and from. The union must maintain records which identify the dates of travel, locations traveled to and from, and number of miles driven. The record must also show the business purpose of each use of a personal vehicle for business travel by an officer or employee who was reimbursed for mileage expenses.

4. Lack of Salary Authorization

Local 1259 did not maintain records to verify that the salaries reported in Item 24 (All Officer and Disbursements to Officers) of the LM-3 for the positions of president, vice president, financial secretary, recording secretary, trustee, and inside guard were the authorized amounts and therefore were correctly reported. During the audit, [REDACTED] stated that he did not know when the officers' salaries were authorized, where this authorization is documented, and that he continued paying officers the salaries that were in place when he took office in 2016. During the exit interview, you stated that the officers' salaries are discussed each year at the January membership meetings. You advised that you would ensure that the authorized salary amounts are recorded in the union's meeting minutes.

The union must keep a record, such as meeting minutes, to show the current salary authorized by the entity or individual in the union with the authority to establish salaries.

5. Disposition of Property

Local 1259 did not maintain an inventory of gift cards and watches totaling at least \$2,775 that it gave away during 2015. During the audit year, the union frequently gave away watches to members who retired and gift cards to Cub Foods to members. The union maintained copies of letters that were issued to the members receiving the gift cards; however, the letters did not identify the amount of gift card that was given to the member or the type of gift card that was given.

The union must report the value of any union property on hand at the beginning and end of each year in Item 30 (Other Assets) of the LM-3. The union must also retain an inventory or similar record of property on hand to verify, clarify, and explain the information that must be reported in Item 30. In addition, in the case of items given away to members, the union must retain records that identify the date the items were given away and the recipients of those items. The type and value of any property received or given away must be identified in the additional information section (Item 56) of the Form LM-3 with the identity of the recipient(s) or donor of such property.

Based on your assurance that Local 1259 will retain adequate documentation in the future, OLMS will take no further enforcement action at this time regarding the above violations.

Reporting Violations

The audit disclosed a violation of LMRDA Section 201(b), which requires labor organizations to file annual financial reports accurately disclosing their financial condition and operations. The Labor Organization Annual Report (Form LM-3) filed by Local 1259 for the fiscal year ended December 31, 2015, was deficient in the following areas:

1. Acquire/Dispose of Property

Item 13 (During the reporting period did your organization acquire or dispose of any assets in any manner other than by purchase or sale?) should have been answered, "Yes," because the union gave away gift cards and watches totaling more than \$2,775 during the year. The union must identify the type and value of any property received or given away in the additional information section of the LM report along with the identity of the recipient(s) or donor(s) of such property. The union does not have to itemize every recipient of such giveaways by name. The union can describe the recipients by broad categories, if appropriate, such as "members" or "new retirees." In addition, the union must report the cost, book value, and trade-in allowance for assets that it traded in.

2. Disbursements to Officers

Local 1259 did not include credit card charges and some reimbursements to [REDACTED] and [REDACTED] totaling at least \$11,296.18 in the amounts reported in Column E (Allowances and Other Disbursements) of Item 24 (All Officers and Disbursements to Officers). For example, [REDACTED] received monthly rent payments of \$250 (\$3,000 per year) for the use of his home to conduct union business, received monthly reimbursements for his cell phone of approximately \$80 per month (approximately \$960 per year), had his home internet paid for by the union at approximately \$66 per month (approximately \$792 per year), and made \$247.04 in charges to his union credit card for meals during 2015; however, Local 1259 reported only \$1,229 in Column E for [REDACTED]. [REDACTED]. It appears these payments were erroneously reported in Item 48 (Office and Administrative Expenses) and Item 54 (Other Disbursements).

Additionally, Local 1259 did not report former President [REDACTED] and the total amount of payments to him or on his behalf in Item 24. [REDACTED] was Local 1259's president from January 2015 through October 2015. [REDACTED] collected a salary, was reimbursed for expenses, and made charges on the union credit card totaling at least \$10,560.99. The union must report in Item 24 all persons who held office during the year, regardless of whether they received any payments from the union.

The union must report most direct disbursements to Local 1259 officers and some indirect disbursements made on behalf of its officers in Item 24. A "direct disbursement" to an

officer is a payment made to an officer in the form of cash, property, goods, services, or other things of value. See the instructions for Item 24 for a discussion of certain direct disbursements to officers that do not have to be reported in Item 24. An "indirect disbursement" to an officer is a payment to another party (including a credit card company) for cash, property, goods, services, or other things of value received by or on behalf of an officer. However, indirect disbursements for temporary lodging (such as a union check issued to a hotel for room rent only) or for transportation by a public carrier (such as an airline) for an officer traveling on union business should be reported in Item 48 (Office and Administrative Expense).

I am not requiring that Local 1259 file an amended LM report for 2015 to correct the deficient items, but Local 1259 has agreed to properly report the deficient items on all future reports it files with OLMS.

Other Issues

1. Expense Policy

As I discussed during the exit interview, the audit revealed that Local 1259 does not have a clear policy regarding the types of expenses personnel may claim for reimbursement, including rent for officers that conduct union business at their personal residence, cell phone expenses, and home internet expenses. As mentioned above, [REDACTED] received monthly rent payments totaling \$3,000 for 2015 along with monthly reimbursements for his cell phone and internet. Local 1259's bylaws do not contain specific provisions regarding the authorization of such disbursements nor do the union meeting minutes reflect that these types of disbursements were authorized by the executive board or membership at a meeting. During the audit, [REDACTED] stated that the executive board was aware of and approved the monthly payments to [REDACTED] for rent, cell phone, and internet. Local 1259 stopped making monthly rent payments to officers that work out of their personal residence after you became president because the executive board did not feel that the expenses were necessary.

To ensure proper financial control over union disbursements, OLMS recommends that unions (1) adopt a clear policy for the payment of union related expenses and under what circumstances expenses may be claimed for reimbursement; (2) establish what documentation is needed for an official to be reimbursed; and (3) establish a procedure that provides for the authorization and approval of expenses.

OLMS recommends that union policies and procedures for expenses be reduced to writing and added to your union's bylaws or discussed at an executive board or membership meeting where they can be supported by entries in the meeting minutes. Once established, it is important that your union consistently follows its procedures for handling payments for expenses.

2. Credit Card Policy

The audit revealed that Local 1259 does not have a clear policy regarding the types of expenses that officers may charge to union credit cards. During the audit, [REDACTED] and Recording Secretary [REDACTED] stated that officers are authorized to use the union credit card to purchase various union expenses, including meals. The audit found that [REDACTED]. [REDACTED] charged numerous meals at restaurants, many locally, to the union's credit card. [REDACTED] stated that they felt some of these meal charges may have been unnecessary, but acknowledged that the union's executive board were aware of the meal expenses and approved them. [REDACTED] also stated that since he has taken office, the union has reduced the meal expenses that are charged to the union credit cards. OLMS recommends that unions (1) adopt clear policies and procedures for credit card use, (2) maintain detailed documentation to support each credit card charge, and (3) regularly monitor compliance with the established credit card policies and procedures. Please refer to the OLMS Compliance Tip Publication "Union Credit Card Policy" that was provided to you at the exit interview for additional information regarding such policies.

3. Signing Blank Checks

During the audit, [REDACTED] advised that you sign blank checks once per month that are to be used for normal union business, such as paying officer salary. Article VII, Section 5 of the Steelworkers International Union Constitution requires that all checks be signed by the president, financial secretary, and treasurer. The three signature requirement is an effective internal control of union funds. Its purpose is to attest to the authenticity of a completed document already signed. However, signing a blank check in advance does not attest to the authenticity of a completed check, and negates the purpose of the three signature requirement. OLMS recommends that Local 1259 review these procedures to improve internal control of union finances.

I want to extend my personal appreciation to Steelworkers Local 1259 for the cooperation and courtesy extended during this compliance audit. I strongly recommend that you make sure this letter and the compliance assistance materials provided to you are passed on to future officers. If we can provide any additional assistance, please do not hesitate to call.

Sincerely,

[REDACTED]
Investigator

cc: [REDACTED], Secretary-Treasurer
[REDACTED], Recording Secretary