

APPENDIX D

REPORT OF AUDIT COMMITTEE TO GEORGE DAVIS, PRESIDENT, LOCAL 689, AMALGAMATED TRANSIT UNION OCTOBER 2, 1979

INTRODUCTION

A memorandum written by the firm Matthews, Carter & Boyce outlining a number of deficiencies in Local 689's accounting procedures for the year 1978 came to the attention of the membership. At the August 7 union meeting an audit committee was elected by the membership present to examine the financial situation for the union for the year 1978. President George Davis later ruled the election of this committee contrary to the by-laws of Local 689, but appointed the same members to an audit committee.

Olaf Haug, a member of the accounting firm of Matthews, Carter & Boyce, and the person who actually audits the Local's books, stated to the audit committee at our first meeting on August 16 that these deficiencies have been going on for a number of years. According to Haug these deficiencies were brought to the attention of the Financial Secretary-Treasurer approximately 2 1/2 years ago. A year later he brought these deficiencies to the attention of the executive board. After conducting the audit of December 31, 1978, Haug says he felt these deficiencies had not satisfactorily been corrected and wrote a memorandum dated April 24, 1979 to the executive board outlining the deficiencies he saw and suggesting certain controls. In our meeting with Haug on August 16, he stated that these deficiencies still have not been entirely corrected.

The scope of this report is limited to the investigation of deficiencies outlined in Haug's memorandum and several by-law violations that were found in the course of our investigation. The report covers only the year 1978 except where explicitly noted otherwise.

DETAILED EXPLANATION OF DEFICIENCIES

Cash Receipts: All monies which the Local receives are supposed to be logged in to a daily cash receipt book before being deposited in the general checking account. On a number of occasions this has not been done particularly when a withdrawal is made from a union savings account or from a certificate of deposit, it is often placed in the general checking account without being logged. The effect of this is that the cash receipt book does not accurately reflect the sum total of monies received and renders this book useless for accounting purposes.

Employee Reimbursable Expenses: Vouchered expenses as noted in the memorandum are "incomplete, inconsistent and lack supporting documentation." In making our investigation of vouchers for the year 1978 we found that out of approximately \$14,000 in vouchered expenses, only 5 vouchers had receipts attached. Of these five, 2 were for gasoline, 1 was for a meal and 2 were for reimbursement of class reunion tickets. In addition many of the vouchers did not break down the expenses being submitted as was the executive board's policy at that time. Vouchers were usually submitted on a monthly basis and consequently expenses were listed for example: Meals--\$45, Travel--\$35, Parking--\$25 without any breakdown of what meals were taken when and how much each meal cost. The same was true of other categories.

When we totaled the expenses submitted by union members for which there was no supporting data the figure was \$8,305.90. The criteria applied to arrive at this figure was no receipts present or no itemization of expenses and we did not count expenses submitted that were less than \$10.

It was also noted by us that money was paid out on at least two occasions for which there were no vouchers on file for 1978. The vouchers were submitted later in January 1979 and there was no supporting documentation for either of

these.

As noted in the memorandum, there was no set policy as to which expenses submitted were to be considered reimbursable. For example, one officer was reimbursed \$110 for two tickets he had purchased to his class reunion because he was on union business at the time the reunion was held. Another officer had his American Express card renewal charge paid because he used the card to charge items incurred for the union. Some board members submitted vouchers for gasoline while others submitted vouchers for auto expenses at the rate of \$0.17 per mile. At least one officer submits a voucher for his parking space at the garage underneath the union hall, but we could find no evidence that other officers do the same.

We also found that often when union members are advanced money to attend, for example, a convention, they came back with no receipts and returned no money to the union.

Finally, we found as noted in the memorandum, that a large number of vouchers were either not signed, incorrectly dated, improperly filled out and were not approved by the President or signed by the Financial Secretary-Treasurer as was the Local's policy at that time.

As a footnote, it must be noted that in regards to receipts accompanying vouchered expense slips, it was not the Local's policy to require such receipts in order for money to be paid out.

Payment of Per Capita Taxes, TRP, Union Dues and Health & Welfare Charges:

As noted in the memorandum, these were not paid to the proper authorities on a timely basis. In regards to TRP, this costs the Local money because the funds are sitting dormant in the general checking account instead of making money by being invested as they would be if they were paid in a timely way. In regards to per capita taxes paid to the International Union, if they fall more than two months behind, which they have, the International Union may deny benefits to the Local and its members to which they would otherwise be entitled. And if by the 10th day of the fourth month, the Local is to be suspended by the International and it is the duty of the Local president to report same to the Local union. Olaf Haug reported to us that at one point the Local was nearly six months behind in paying per capita taxes.

Payments to Union Members: This represents the largest expense of the Local and totaled \$170,908.88 for the year 1978. Probably the biggest deficiency from the membership's point of view is that there is no review as to the accuracy of the hours submitted for payment. None of the manifests detailed the work performed. In the space marked "Duties performed" the only thing filled in on all manifests was "Committee work." There is no log kept as to which member is off on committee work, what their responsibilities are and who authorized them to be off. We could find no written reports as required by the by-laws of committee work. And according to both the President and Secretary-Treasurer, neither do any spot checking to determine if a member off on committee work is actually on union business during the times that he is supposed to be.

In addition, as noted in the memorandum, members do not fill out the manifests as they perform the work. Instead members submit their hours monthly on the same manifest. We also found manifests that were incorrectly dated, improperly filled out and many were not approved for payment by the President or the Secretary-Treasurer before payment was issued. On a number of occasions payments were issued prior to the union member's signing the payroll manifest. And on at least one occasion a payment of \$1,020 was made to a member without the member ever signing the payroll manifest.

Federal Payroll Tax Deposits: Penalties totaling \$635.65 were levied against the Local for late filing for Federal and FICA taxes by the IRS during the year 1978. According to Olaf Haug, late payment of these taxes has been a recurring problem throughout the past six years and the penalties incurred during 1978 are not adequately explained by the unusually heavy load placed on the Secretary-Treasurer in his capacity as business agent during the months July through October. The filing schedule for these taxes requires that the Secretary-Treasurer be on top of these taxes on at least a weekly basis. Deposits of these taxes are to be made every 3 months or when they reach \$2,400 whichever comes first, and must be made within 3 days or a penalty is assessed.

DETAILED EXPLANATION OF BY-LAW VIOLATIONS

Section 21(a) of the Local By-Laws of National Capital Local Division 689 of the Amalgamated Transit Union states that:

"All committees appointed by the Executive Board or by the Division shall report in writing to the body that authorized them to act, and they shall furnish a copy of the report to the Recording Secretary. No compensation will be allowed to any member for work performed for this Division unless the work requires absence from his duty."

It has been the officers policy to ignore this by-law during 1978. We found that there was no attempt made to determine whether the duties performed by union members required the absence from their duty. In addition we found that even though all executive board members had assigned days off of Saturday and Sunday that payments were routinely made for work performed on their assigned days in clear violation of this by-law. For example during July 1978, members of the executive board were paid a total of 192 hours for work performed on Saturdays and Sundays.

When questioned by the audit committee, the President of the Local said that he checked with International Vice-President Walter Bierwagon and that Section 21(a) means exactly what it says. The President of Local 689 further stated that henceforth payments would not be made to union members which did not require the absence from their duties. When the Financial Secretary-Treasurer was questioned about this by-law he acknowledged it and stated his intent to continue paying members for bona-fide work performed outside their normal working hours. In addition he stated that a Board member on vacation would be paid for any work performed.

Section 18(a): Section 18(a) states in part:

"...members doing committee work were paid \$22.50 per day for each full day lost doing such work, and at their regular rate of pay for all time lost if they lost part of a day."

What is referred to here is what is commonly called "Executive Board" pay for committee work. When the cost-of-living is incorporated into this 1964 rate of \$22.50 per day, it averaged approximately \$12 per hour during 1978, but varied somewhat because of the different cost-of-living increases that were received during 1978. We found that contrary to the Local's by-laws, the Secretary-Treasurer states that board members received this "Executive Board" pay regardless of whether they lost a full day or part of a day on committee work. According to the Local By-Laws they should only have been paid at their regular wage rate for times when they lost only part of a day's pay from Metro.

Section 18(a): Section 18(a) states in part:

"Executive Board members received \$22.50 per day for each regular meeting of the Board."

We found what we believe to be a by-law violation concerning double payment for executive board meetings. Members of the executive board receive this payment (with cost-of-living adjustments since 1964) for the regular monthly meeting of the executive board in their monthly check. In addition, members of the board are filling out payroll manifests for time lost if the board meetings are held during the week (the regular meeting of the executive board has been held on a Friday once a month). According to the Financial Secretary-Treasurer, both payments are being issued. We believe this constitutes double payment for executive board meetings and the intent of the by-laws was that you were to receive only one full day's pay at "Executive Board" rates, not two payments at "Executive Board" rates for one day's meeting.

SPORTS PROGRAM

Sports Program: The sports program of the Local is handled by the President of the Local. The money is allocated by the executive board and dispensed by the president as he sees fit for such expenses as facilities, equipment, and uniforms for various sports teams at different divisions and shops. We found that there is no inventory conducted of equipment and uniforms from year to year and that because of this there seems to be some duplication in sports program expenditures. There is an additional problem in that all equipment is retained by the coach of a team and not returned to the union hall at the end of a season. It has been the case that when the coach either leaves Metro's employment or a team is not organized in the following year, the equipment is not retained by the Local.

UNCOVERED AREAS

Uncovered Areas: The audit committee had intended to go into a number of other areas dealing with the union's financial practices, but were unable to for a variety of reasons. The initial delay pending a ruling from the International concerning the legality of an elected committee without sufficient membership notice, officers' vacations, the International convention and the difficulties of making appointments prevented further investigation. Only two full meetings and one additional meeting between the chairman of the committee and the Local's president were held at the union hall. The initial meeting was held between the committee, President George Davis and Olaf Haug, who audits the Local's books. This meeting focused primarily on Haug's explanation of the memorandum he had written. The second meeting was held with Rodney Richmond, Financial Secretary-Treasurer of the Local, and enabled the committee to question Mr. Richmond about the state of the union's finances and examine the payroll manifests and vouchered expense slips. A third meeting between the chairman of the committee, Eugene Abney and George Davis was held after working hours to discuss the sports program. After a number of delays in attempting to hold another meeting with Mr. Richmond, we were told by Mr. Richmond that no more examination of the books was possible. His explanation for this was that the committee had already spent a day going through them and that he didn't have the time to do this kind of thing again. Hence a number of areas are not covered by this report.

CONCLUSIONS OF THE COMMITTEE

The primary question that the membership has is "Is all the money accounted for?" The answer to that question depends on how you define "accounted for." From the auditor's standpoint the answer to the question is yes. As long as there are vouchers for every expenditure made by a union member, as long as there is a payroll manifest, as long as the checkbook balances, the auditor is satisfied. He does not look into the Local's by-laws, nor does he require documentation of expenses.

If you define "accounted for" to mean following the Local's by-laws and following generally accepted accounting principles and procedures the answer is no, the money is not accounted for. For the year 1978 thousands of dollars were spent for which there is no supporting documentation or for which no internal controls were instituted. The few internal controls that had been adopted in the past such as requiring the president and the secretary-treasurer's signature on vouchers and payroll manifests in order for payment to be approved were also not followed. In short it is our finding that the Local has been run like a Mom & Pop grocery store rather than an institution with a budget of over \$800,000 which is accountable to 4,500 members. And we find that the potential for abuse in running the union's finances in this manner is very great. For example thousands of dollars were spent in 1978 contrary to the Local's by-laws.

The question next on the minds of the membership is who is responsible? The primary responsibility for enforcement of by-laws, internal financial controls and proper accounting procedure rests with the three top elected positions in the union--The President, the Secretary-Treasurer and the Recording Secretary--all of whom have duties which include administering the local on a day to day basis.

Of these three the principal responsibility rests with the Financial Secretary Treasurer who keeps the books and is the person most on top of the financial workings of the union. The Financial Secretary-Treasurer has been aware of deficiencies in the union's accounting system for a number of years as well as being conscious of making payments to union members in violation of the by-laws. The reason for these continued deficiencies given by the Financial Secretary-Treasurer is a lack of policy set by the Executive Board and the lack of time to do complete financial work due to the dual responsibilities of his office as business agent of the Local and disagreement with some of the Local's by-laws. None of these explanations are satisfactory to us. Both the International and Local by-laws provide that it is the duty of all officers to see that all by-laws are carried out. On the question of remedying deficiencies in the accounting system, the Financial Secretary-Treasurer has the power to set policy. His signature is required on all checks and his signature is required on all manifests and vouchers to approve payment. These checks could have been held up until adequate documentation of expenses was provided and a system of internal control instituted. And on the question of not having enough time, even with the addition of 4 paid business agents for 1979, Olaf Haug reported to us that the financial accounting system is still not up to par.

Secondary responsibility rests with the President of the Local. The International by-laws clearly provide that the President of the Local has ultimate responsibility for administering the Local. Once again, his signature is required to authorize all payments and his signature is required on all checks written and if necessary his signature could have been withheld until appropriate financial practices were instituted. And thirdly, but to a much lesser degree, the Recording Secretary has some responsibility and could have taken similar actions to the President.

While the overall responsibility for administering the local rests with the three full-time elected officers as provided for in the by-laws, the Executive Board acts as the governing body of the Local. The Executive Board has known about the problems in internal accounting for at least a year and a half. The failure of the executive board to set firm policies in this regards leaves them

with the secondary share of the blame for this situation.

Finally the membership which had taken little interest in the financial affairs of the union until recently deserves a share of the blame. The situation has been going on for years and finances of the union have generally gone unquestioned by the membership. The officers and executive board members are accountable to the membership and had the membership sought information on accounting procedures and enforcement of local and international by-laws, the situation could probably have been remedied long ago.

The purpose of assigning responsibility for the lack of by-law enforcement and poor accounting practices is not to "get" any member or group of members of this union. Instead it is an attempt to clarify the responsibilities of the top officers, executive board and membership in this regard and to get the system of checks and balances working again within the Local.

RECOMMENDATIONS

Cash Receipts: Our recommendations are the same as those contained in the Memorandum: "In order to insure a complete and accurate record of all monies received by the Local office, incoming cash receipts from all sources must be recorded in the daily cash receipt book prior to being deposited into the general checking account.

Employee Reimbursable Expenses: The Executive Board must set a policy as to which expenses are reimbursable and a uniform policy must be established. Signatures of the President and Financial Secretary-Treasurer must be affixed to the voucher to indicate that voucher has been approved. A new voucher form must be designed that enables the employee to list expenses in detail and attach supporting documentation. Vouchered expenses must be entered daily on separate voucher slips.

By-law change: No reimbursement will be made to any union member for an amount greater than \$10 unless receipts are attached to vouchered expense slip.

Payment of Per Capita Taxes, FFP, Union Dues and Health & Welfare Charges: These expenses are not considered funds of the Local and must be paid at least monthly to the proper authorities.

Payments to Union Members: A new manifest must be drawn up so that an employee can list duties performed and times that these duties were performed can be entered. The signatures of the President and Financial Secretary-Treasurer must be affixed to the manifest to indicate approval of payment.

By-law changes: (1) A daily manifest must be kept by each member off on union business. Manifests are to be turned in Friday of each week. The member on union business must list the duties performed and the hours when performed. The listing of duties shall constitute the written committee report as required by the by-laws. (2) President to keep a log book of all members off on committee work, the dates and hours authorized to be off, the duties to be performed, and he shall affix his signature to each entry. (3) The Financial Secretary-Treasurer shall verify the accuracy of the hours reported by "spot checking" employees off on union business and by checking the president's log of approved committee work before issuance of payment. (4) The Financial Secretary-Treasurer shall check to insure that manifest is correctly filled out, dated and signed by union member before a payment can be issued.

Federal Payroll Taxes: Federal payroll taxes should be deposited in a timely way to prevent unnecessary penalties by the IRS.

By-law Enforcement: Sections 21(a) and 18(a) of the Local By-laws should be enforced by the officers of this Local regardless of their personal opinions on the wisdom of these by-laws until such time that they are changed. Enforcement

of by-laws is the duty of all officers under the Local By-Laws and the International's General Laws and Constitution. Penalty for failure to do so is impeachment of officers by membership as provided by the Local By-Laws and International's General Laws and Constitution.

Further By-Law Changes:

(1) The Financial Secretary-Treasurer shall read a monthly financial report at the first regular union meeting of each month for the previous month's financial transactions.

(2) Before any money can be expended (other than what is specifically provided for in the Local By-Laws and International's Constitution and General Laws), it shall be put to the members in attendance at a regular union meeting and can be expended only by a majority vote of the members present at that meeting.

(3) An audit committee consisting of 3 members (these members cannot hold any other office within the union while serving on the audit committee) elected by the membership on a yearly basis at a regular union meeting to be present at any and all meetings in which the union's auditor is making reports or suggestions on the union's financial status of the union. Members of this audit committee shall be empowered to have access to all financial records and correspondence and shall be empowered to interview all concerned parties including but not limited to the officers and members of the executive board and the certified public accountant retained by the Local.

Sports Program: A uniform policy regarding payments to sports teams at the various Divisions should be established to eliminate charges of favoritism. All sports equipment, uniforms and other items purchased with the Local's funds should be turned into the union hall at the end of the season. An inventory should be conducted each year so that equipment can be replaced as needed.

SUMMARY

We calculate that had these recommendations been followed in 1978, the Local would have saved in excess of \$40,000. It is our belief that these recommendations will rectify the current financial deficiencies and are necessary since these deficiencies for 1978 are not yet corrected despite some progress in a few areas.

Respectfully Submitted,

Eugene Abney
Eugene Abney, Chairman
Bladensburg Shop

Craig Simpson
Craig Simpson, Member
Northern Division

Richard Mance
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FOOTNOTE: This report is a copy of the original submitted to President Davis. The only changes are that some typographical errors in the original have been corrected. This copy has been prepared by members of the Audit Committee on their own time and at their own expense after being refused the right to read this report at the October 2, 1979 regular union meeting. The duplication of this report was done on a mimeograph machine by members of the Audit Committee.