

JOSEPH N. LOPARDO
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**TO: The International Executive Committee of the
Transport Workers Union of America, AFL-CIO**

FROM: Joseph N. Lopardo, CPA

**RE: Results of the review of the financial records of Transport Workers
Union of America Local 250-A as part of its legal and fiduciary
responsibility of receivership**

I. Introduction

On March 18, 2019, the International Executive Council ("IEC") of the Transport Workers Union of America, AFL-CIO ("TWU") voted, in accordance with Article XVIII(3) of the TWU Constitution, to appoint, effective immediately, an Administrator of the affairs of TWU Local 250-A. Under the TWU Constitution, the Administrator has the authority and duty to take over and conserve the assets of the Local Union and to have sole and exclusive authority to speak and act for TWU Local 250-A, and to administer its affairs. The Individual appointed as Administrator was TWU Administrative Vice President Curtis Tate, who continues to be the Administrator. It is understood that, during the period of Administration, the Local officers are suspended from office, and the Local By-Laws are not in force. However, the Administrator has the discretion, in accord with the TWU Constitution, to use the services of the Local officers, and to permit them to continue to use their titles.

The Administrator has asked us to submit this review to report on the steps that have been taken, since his appointment, to conserve the assets of the Local and to determine both the exact financial position of the Local and what steps are necessary in order for the Local, upon resuming its status as an autonomous local, to maintain a financially sound position. In preparing this review, the Local's financial records, transactions and practices has been carefully examined.

II. Objective

The objective of this review is to determine the adequacy of Local 250-A's financial records, transactions and practices and to identify issues that will need to be dealt with in the future if the Local is to maintain itself on a sound financial footing.

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III. Scope and Methodology

Our objective in this review was to first understand the financial records, transactions and practices of TWU Local 250-A. We obtained, reviewed and analyzed internal documents, records and related third-party documents relevant to our review. We met and communicated with Mr. Terrence Hall who was serving as Secretary-Treasurer of the Local as of the time the Administrator took control of the Local, and who continues to perform some of the duties of his office subject to instructions from and the supervision of the Administrator and Darryn Tyson, bookkeeper, in person. by email and by phone calls. We also met and discussed procedures with the Local's outside CPA firm to understand how their services were provided to the Local.

IV. The Accounting System of the Local as it Was Operating Prior to Administration

It became apparent at the onset of this review, that TWU Local 250-A did not have adequate control over its financial position.

The local currently uses QuickBooks accounting software for paying its payroll and lost time wages. At the end of each month, the local prepares an excel schedule of all checks paid and deposits received and remits such, as well as copies of all invoices and bank statements to the local's outside CPA who prepares and maintains the general ledger, bank reconciliations, payroll tax returns and financial statements to be submitted to the TWU of America.

The local does not maintain general ledgers, bank reconciliations and never keeps record of ongoing cash balances. No internal reports are created for review by the Executive Board.

Based upon our ongoing review and advice, the Administrator made the determination that it was imperative to revise the current accounting system and bring more control into the local and utilize the outside CPA for more of a review role instead of a bookkeeping role.

We advised the Administrator that it was important to get things on the correct path as soon and as quickly as possible and by doing so, we would be able to disclose inadequacies and issues that needed to be addressed going forward.

V. Progress in Revising Accounting System

As stated in our initial assessment, we felt it imperative that we revise the current accounting system and bring more control into the Local and utilize the role of the outside CPA for more of a review role instead of a bookkeeping role. The Administrator agreed and authorized us to take the actions reported below.

The 2019 version of QuickBooks was purchased for the Local. We created a new Chart of Account to be used by the bookkeeper commencing May 1, 2019. We utilized the outside CPA's balances as of April 30, 2019 as our opening balances instead of recreating entries since the beginning of the year.

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Since we started using a newer version of QuickBooks, we decided to continue to use the 2017 version for generating payroll and lost time wages, since converting payroll data mid-year could cause discrepancies. We have discussed setting up the 2020 payroll on the newer version of QuickBooks so that commencing January 2020, payroll will be automatically integrated into the general ledger.

The Local bookkeeper and local personnel have been instructed with procedures for recording all deposits, wire transfers, debit and credit memos as well as the proper way of reconciling the bank accounts on a monthly basis using QuickBooks.

The Local has also been instructed with the procedures for calculating "Per Capita Tax" to the International.

We compared the Local's books with those prepared by the outside CPA firm for the months of May 2019 & June 2019 and made the necessary adjustments that we feel are necessary to provide the Local with a properly prepared set of books.

Commencing July 1, 2019, we instructed the outside CPA to begin using the Local's files as the permanent set of books going forward. By doing so we have given them access to the appropriate passwords to access these files.

We will monitor the work of the bookkeeping staff as well as the outside CPA firm until we feel that the Local has better control of its financial records and transactions.

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Financial Statement Comments

Items of Concern

Cash and Cash Balances

Per Capita to TWU of America

Life Insurance to Members and Retirees

Officers' Severance

COPE Account

Cash Balances

As of the beginning of 2019, the Local maintained 6 Bank Accounts:

United Business Bank – General Checking Account

United Business Bank – Agency Shop Account

Unify Financial Credit Union

United Business Bank – COPE Account

United Business Bank – Legal Activity Account

United Business Bank – Officers Severance Account

On March 22, 2019 the Agency Shop account was closed and combined with the General checking account since an Agency Shop account is no longer needed.

\$17,368 was transferred from Unify Financial Credit Union to a new savings account with United Business Bank in June 2019. A minimal balance of less than \$20 remains in the Unify Financial Credit Union account until the account is closed.

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Per Capita to the TWU of America

As per the Transport Workers Union of America's Constitution, all locals are required to remit 30% of all member dues to the International on a monthly basis as collected.

TWU Local 250-A members are paid on a bi-weekly basis.

Therefore, there are normally 2 pay periods in a given month.

However, for "2" months of the year, there are "3" pay periods.

A review of member dues collected and "Per Capita" paid, discovered that in a month where there were "3" pay periods, the local was only remitting "Per Capita" for "2" of the pay periods. We reviewed years 2017, 2018 and 2019 (thru June 2019) and calculated shortages to the International.

It was also discovered that a procedural manual was found at the Local disclosing that this was the procedure to be followed by the Local on a recurring basis. We were unable to determine when this manual was prepared and by whom, who authorized this procedure, and how long this practice has been in place.

Our review disclosed that shortage of the year 2017 amounted to \$38,742 while the shortage for 2018 amounted to \$37,888. Also noted, that for 2019, prior to our review, the Local incurred a shortage of \$18,788 for the "3" pay periods, April 2, 16 and 30, 2019. The local shorted the "Per Capita Tax" to the TWU of America for the periods reviewed amounted to \$95,418. It's unknown how long this practice has been in existence.

As of July 1, 2019, the International Administrator of the affairs of the Local has directed the Local to end this procedure and remit 30% of all dues collected, regardless of the amount of pay periods in a given month.

Also, effective December 2019, all "Member Dues" are being remitted directly to the TWU of America via "wire transfer" from the City and County of San Francisco. The TWU of America maintains 30% Per Capita and wire transfers the Local's portion directly into the Local's checking account.

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Life Insurance to Members

Local 250-A provides a life insurance benefit to all of its members through a policy maintained through Metropolitan Life Insurance. The cost of the policy for active members is paid for by the Local out of the same revenue--essentially, members' dues--that must pay for the union's expenses in functioning as a collective bargaining representative. Active employees' dependents are insured, along with the employees themselves. The policy also covers members of Local 200, which reimburses Local 250-A for the expense of including them; and retirees, who pay 7.00 a month if under age 65, \$3.00 a month if over (it is unclear why the cost for life insurance should decrease with age). The net cost to the Local of maintaining this policy is approximately \$135,000 per year--more than 11.5 percent of the Local's total annual costs.

It should be noted that the Local began paying for this policy as a result of the Employer, which had historically paid for the benefit, is no longer doing so. An expense that was, for the Employer, so tiny as to be invisible, became, overnight, a major part of the Local's annual expenses. There is no evidence that the Local considered the extent of the liability when it undertook it. Nor has it sought a source of funds beyond its due's income for the benefit or sought to somehow modify the benefit so as to minimize its now major impact on the Local's finances.

In the long run, this and all other Local's must always maintain awareness that member benefits once funded by the Employer cannot be funded by the union; any attempt to do so must be financed outside of the usual stream of union revenues. In the short run, once the Local emerges from trusteeship, its officers and Board must either locate a source of non-dues funds to pay for this benefit, or else modify it so that it fits within the Local's budget and does not interfere with providing the funds for the ordinary functioning of the union.

Officers' Severance

When a member becomes an officer of the Local and a full-time employee of the Local, the Employer ceases contributions to the San Francisco Employees' Retirement System (SFERS). In order for the officer to continue to accrue his/her pension benefits, the Local decided to pay SFERS the sums that SFERS had calculated would be due in order to continue the pension accruals; the officer also made his/her own contribution. However, SFERS has ceased accepting pension contributions directly from unions. As a result, the amounts have been paid to the officers as severance payments when they leave office. Aside from the tax problem thus created for the officer (the monies are properly taxed as income), there is a significant problem that the Local has in making these payments. Current officers entered office on January 1, 2018; as of June 30, 2019, the amount accrued that needs to eventually be paid is \$162,966 (calculations based on formulas provided by Local Secretary-Treasurer Terrence Hall). The Local has set aside some monies to offset this liability, the amount set aside as of June 30, 2019 is the sum of only \$36,057, approximately 20% of the total, this shortfall obviously increases by the month. The underfunding of \$126,909 has been reflected in our internally prepared financial statement as of June 30, 2019.

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The failure to properly fund the pension related payments is another illustration of what had been the non-existent financial controls at the Local prior to the arrival of the Administrator; in effect, the Local was borrowing roughly 10% of its annual budget from monies that should have been set aside for the pension/severance benefits--and without plan as to how the pension payments would be paid out.

We recommend that steps be taken that would require the Local to set aside monies for this benefit monthly, to be paid into a special account that could not be used for any other purpose.

Our review revealed to us that, as of the time the Administrator took control of the Local, the Local was moving toward inevitable insolvency as a result of the combination of chronic deficit spending, with both the absence of an accounting system that would provide the officers with an accurate and timely picture of Local finances, and the lack of focused concern with finances of the officers and Executive Board. As reported above, the Administrator has now effected changes in the Local Accounting System which should enable the officers and Board, after the trusteeship is terminated, to keep close track of the progress of Local finances.

In order for the Accounting System to be meaningful, though, its adoption must be accompanied by adoption of an annual budget that is balanced, and concern by the officers for keeping within the budget. We recommend that a budget be adopted annually for the following year during October each year. We further recommend that the Secretary Treasurer's report to the Executive Board each month specifically include a report on whether revenues and expenditures have remained within the bounds of the budget, if not, what can be done to meet the budget guidelines.

Summary and Conclusions

In my opinion, as of December 31, 2019, the ability for TWU Local 250-A to stay the course as a financially sound local is dependent upon various actions:

A realistic plan to fund the shortfall in "Officers Severance account", including written detailed procedures for calculating "Officers' Severance" Establish and adhere to a realistic budget for 2020 and for subsequent years comply with the TWU Constitution section on Dues

Review and revise Life Insurance policy benefit for all members and retirees

Control Lost Time Wages

Monthly review of income and expenditures by executive board.

In addition, as of December 31, 2019, the "Officers Severance" account is underfunded by approximately \$184,000. As of December 31, 2019, no additional funds have been added to the "Officers Severance."

Although certain expenses incurred for the year 2019 are greater than normal, such as Legal fees and Lost Time Wages, due to contract negotiations, the Local needs to control and cut spending for the remainder of the year and prepare and adhere to a strict budget for 2020. This budget should be prepared as soon as possible and must be approved by the Executive board of TWU Local 250-A. It should be properly documented in the Executive Board Minutes.

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Any budget or financial plan must address the following:

1. Revenues: Dues structure must be compliant with the TWU Constitution.

2. Expenditures:

A. Officers' Severance: as recommended above, monies must be set aside monthly to provide for the month's accrual of liability for these severance/pension payments, and the separate account established for these sums should not be drawn upon for any other purpose.

B. Life insurance: the Local must consider either increasing the revenues from which these benefits are financed (by some member contributions), or a cut in the generosity of the benefit (such as by no longer providing insurance to dependents) in order to minimize the cost of the decision of the Local to take over the cost of these benefits from the Employer.

C. Care should be taken to control the amount of lost time being paid for. This should be addressed in the budget, and monthly expenditures should be kept to the expenditures provided for in the budget.

When the trusteeship at Local 250-A is concluded, the Local will have the opportunity and obligation to show that it can represent its members effectively while managing its finances prudently. To do so, it will have to deal appropriately with the issues we have focused on in this review.

Other Items Noted as part of our Review:

The Transport Workers Union of America AFL-CIO requires all Local Secretary-Treasurer to have a Certified (Financial) Audit each year.