

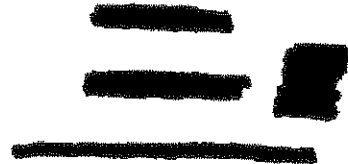
U.S. Department of Labor

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



July 20, 2005

Mr. Joseph T. Hansen
International President
United Food and Commercial Workers International Union
1775 K Street, N.W.
Washington, D.C. 20006



Dear Mr. Hansen:

The Office of Labor-Management Standards (OLMS) within the U. S. Department of Labor has recently completed a compliance audit at your headquarters under the International Compliance Audit Program (I-CAP). The purpose of this audit was to determine compliance with provisions of the Labor-Management Reporting and Disclosure Act of 1959 (LMRDA) by the United Food and Commercial Workers International Union (UFCW or IU) and affiliated unions. During the exit interview on June 21, 2005 the I-CAP team discussed its findings including the issues and problem areas identified during the audit, and the actions required to correct deficiencies.

You were informed at the exit interview that an amended Labor Organization Annual Report, Form LM-2, for the year ending December 31, 2003 is required to be submitted within thirty days from the date of this letter to correct reporting and other deficiencies. Specific information on these deficiencies is presented below. 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 UFCW, and to continue cooperative efforts to prevent and/or correct LMRDA deficiencies. This letter does not purport to be an exhaustive list of all possible problem areas since the compliance audit was limited in scope.

AUDIT DETAILS:

Reporting Deficiencies - LMRDA Section 201

Section 201 (b) of the LMRDA requires that unions file with OLMS an annual financial report that accurately discloses the unions' financial condition and operations. The following deficiencies were noted on the UFCW's Form LM-2 for the fiscal year ended December 31, 2003.

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1. In 16 instances, the union purpose for travel of an officer was not substantiated with supporting documentation. In one instance, the former President was paid by the IU for a hotel room, and also reimbursed by an affiliate for an additional room charge at another hotel for the same night. The IU did not provide an adequate explanation to substantiate payments for two hotel rooms on the same night. As discussed during the exit interview, the subject entries will be moved from Column (F) to Column (G) of Schedule 9 on the amended report.
2. Although the UFCW constitution does allow spouses to travel if a union purpose is identified, there were ten instances where a spouse traveled and the union purpose was not identified. ~~_____~~
~~_____~~
3. In nine instances, disbursements were made for personal expenses such as dry cleaning that were not repaid by an officer or employee.
4. When comparing entries on Statement A, Assets and Liabilities and on Statement B, Receipts and Disbursements to the IU general ledger, there were deficiencies identified by the I-CAP team. Several different versions of the general ledger were provided by the union. All versions contained discrepancies when compared to entries on the Form LM-2. The I-CAP team compared specific transactions that are included in the totals on the Form LM-2 with supporting documentation from the IU and found additional deficiencies.
5. The substantiation provided by the union to support totals on the Form LM-2 was insufficient. The IU does not have an integrated financial system and the creation of a general ledger requires manual intervention by IU personnel. The last version of the general ledger provided by the IU contained discrepancies that the IU stated were the result of a foreign currency translation. However, the CPA for the IU explained that there had been several additional adjustments. These unrecorded adjustments included an incorrect general ledger coding of an asset instead of a liability and the omission of a general ledger account. To increase the accuracy of the Form LM-2, it is recommended that the IU consider developing a system that would automatically create financial reports without manual adjustments.

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6. The totals listed on Schedule I for Loans Made During the Period and Repayments Received During the Period were understated. These totals are also reported on Statement B, Receipts and Disbursements; Item 51, Repayment of Loans Made; and Item 69, Loans Made, where both entries were correctly stated. These totals should agree.
7. Schedule 4 included two line items, Deferred Income and Security Deposits, which did not include adequate descriptions. The Form LM-2 instructions require sufficient descriptions to identify the purposes of the liabilities.
8. Two payments were incorrectly listed on Schedule 12, Contributions, Gifts, and Grants. The two payments should have been listed on Schedule 13, Office and Administrative Expense. As discussed during the exit interview, the subject entries will be moved to Schedule 13 on the amended report.
9. Schedule 15 contained disbursements for non-allocable costs. These disbursements were direct payments made to vendors for officer and employee hotel and transportation costs associated with performing union business. The disbursements should have been reflected on Schedule 13 with an adequate description that sufficiently identifies the disbursement. Additionally, relocation disbursements on Schedule 15, Line 4 should be assigned to specific officers on Schedule 9. As discussed during the exit interview, the subject entries will be moved to Schedule 13 and Schedule 9.

Report of Officers and Employees of Labor Organizations-LMRDA Section 202

Section 202 of the LMRDA requires every labor organization officer and employee to file a Form LM-30 with the Secretary of Labor if they or their spouse or minor child engage in certain financial transactions with employers and with businesses that deal with their labor organization or with employers whose employees their labor organization represents. The IU was advised of the importance of having its officers and employees at the IU and affiliate level file accurate Form LM-30's. In the interest of achieving greater compliance with the reporting requirements of the Form LM-30, OLMS has recently announced that it is temporarily not requiring a new filer to submit reports covering the same

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financial interest for any prior year absent extraordinary circumstances. The new filer must submit his or her initial report voluntarily (that is, without being directed by OLMS) during a "grace period," which ends August 15, 2005. Further information on the Form LM-30 requirement can be found on the OLMS website <http://www.dol.gov/esa/regs/compliance/olms/LM30factsheet.htm>.

10. We noted that the one Form LM-30 that was filed during the audit period ending December 31, 2003, by an employee of one of the IU's affiliates, did not itemize the total income received by the employee's company from the affiliate as required and did not disclose the amount of compensation received by the employee from the business.

Inadequate Recordkeeping - LMRDA Section 206

LMRDA Section 206 requires that every person filing reports maintain records on the matters to be reported. These records must provide sufficient detail to permit them to 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. In certain instances noted during this audit, the required documentation was not maintained by the IU. During the exit interview UFCW officials were informed that back-up documentation must be maintained and retained for all disbursements, regardless of amount for the required five year period. In addition, written documentation is necessary to determine whether the disbursement was for personal or official union business.

11. UFCW was unable to provide adequate substantiation to support total membership at the end of the reporting period as reflected in Item 18 on the Form LM-2. The IU provided the total membership on a print screen from their financial system, but does not maintain reports on a monthly basis, nor could UFCW provide reports for prior periods. This inability to verify the membership total affected reconciling the Per Capita Tax on Statement B, Line 40, of the Form LM-2.
12. The union did not maintain all of its itemized receipts nor did it always clearly identify the union purpose. The majority of the missing receipts were for meal charges. For example, a credit card bill was provided with no supporting documentation detailing the itemization of the charge. Also, the purpose for a trip was listed as a "management committee meeting."

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Fiduciary Responsibility of Officers of Labor Organizations-LMRDA Section 501

Section 501(a) of the LMRDA requires officers, agents, shop stewards, and other representatives of a labor organization to expend its money and property solely for the benefit of the organization and its members. Certain of the transactions relating to the former President that were reviewed by the I-CAP team raised questions as to whether he complied with this provision. No such questionable transactions were identified in connection with the current officers of the union. These fiduciary obligations are placed on union officials because of the position of trust they hold; violations of fiduciary duty are enforceable by the members of the union. As noted in item 16 below, UFCW travel policy requires that union employees shall be prudent when incurring travel expenses for union business.

13. [REDACTED]

Affiliates

14. UFCW affiliate documentation did not always contain accurate information about the number of mergers and terminations or the disposition of the assets of affiliates that have ceased to exist. There were 32 terminal reports not filed with OLMS, and these affiliates were reflected as active by OLMS. In addition, one terminal report was filed with OLMS that did not identify the disposition of assets for which the IU could not account. OLMS will pursue with the respective affiliates the terminal reports not filed.

Internal Controls

15. There were 19 instances where leases were not properly executed. Seven leases were signed by an unauthorized party, two leases had no IU signature and one lease was not signed by the tenant of the IU. There were also five affiliate leases that were executed by the affiliate, but the IU was the authorized signatory. Lastly, there were four affiliate leases that did not list the IU as the landlord. We recommend the IU reflect the correct information and signatures on executed leases. This will ensure the terms of the lease can be fulfilled and, if not, the IU or affiliate has recourse through the properly executed lease contract.

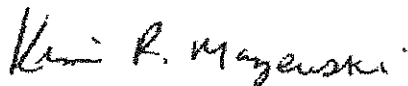
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16. The general travel policy provided by UFCW stated the union employees should exercise the same care in incurring expenses that one would do in their personal travel. The policy also states that excessive travel expenses are an unnecessary drain on UFCW funds and conducting business should be at a minimum cost to complete an assignment. There were several instances where it is questionable whether this travel policy was followed. For example, an employee during the audit period was reimbursed for two flights within Canada at a cost of over \$2,000 per flight. In addition, the former president was reimbursed for hotel costs while on a four-day trip where the cost per night was \$1,000. The I-CAP team recommends the travel policy be enforced for all travel conducted by officers and employees.

As discussed in the exit interview, the IU will submit a response to this closing letter along with the requested amended report. The response letter should identify the corrective actions implemented by the union based on the results of the compliance audit. There should also be an amended report submitted for the fiscal year ended December 31, 2004 for any of the deficiencies identified in the audit that appear on the 2004 Form LM-2. We will schedule an on-site follow-up in approximately six months to review LMRDA compliance and the amended Form LM-2, discuss the corrective actions that have been taken, and to continue cooperative efforts.

Thank you for the cooperation and courtesy extended by you and your staff during this compliance audit. If we can be of any assistance in the future, please do not hesitate to call us.

Sincerely,



Kim R. Marzewski, Chief
Division of International Union Audits