



To the Executive Board of  
National Postal Mail Handlers  
Union, Local 305

In planning and performing our audit of the financial statements of the National Postal Mail Handlers Union, Local 305 (the Local) as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Local's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Local's internal control. Accordingly, we do not express an opinion on the effectiveness of the Local's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed on the attached pages, we identified a deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies. In addition, we noted matters involving the internal control and its operation that we have reported to management on the attached pages.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Local's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance (the Executive Board).

The existence of material weaknesses or significant deficiencies may already be known to management and may represent a conscious decision by management or those charged with governance (the Executive Board) to accept that degree of risk because of cost or other considerations. Management is responsible for making decisions concerning costs to be incurred and related benefits. The auditor's responsibility is to communicate material weaknesses and significant deficiencies.

We have previously discussed our observations and suggestions with Local personnel and would be pleased to discuss them in further detail at your convenience, to perform any additional study of the matters, or to assist you in implementing the recommendations, to the extent our independence is not impaired.

This communication is intended solely for the information and use of the Executive Board and management of the Local and is not intended to be, and should not be, used by anyone other than these specified parties.

*Novak Francella LLC*

June 19, 2014

## **MATERIAL WEAKNESS**

### **PREPARATION OF ANNUAL FINANCIAL STATEMENTS**

The Local's financial statements are the responsibility of the Local's management. An effective system of internal control includes controls over financial statement preparation, including footnote disclosures. Local management must possess the skills and competencies to prevent, detect, and correct material misstatements in the financial statements. Management does not have an effective system in place to prepare its financial statements that would prevent a material misstatement, aside from their reliance on the independent auditor.

#### **EFFECT:**

There is an increased likelihood that a misstatement of the Local's financial statements that is more than inconsequential would not be prevented or detected by the Local's internal accounting personnel.

#### **RECOMMENDATION:**

Management of the Local should continue to be highly involved in the activities of the Local and analyze financial data on a regular basis.

## **SIGNIFICANT DEFICIENCIES**

### **CREDIT CARD TRANSACTIONS**

During our audit procedures surrounding credit card expenditures, we noted certain transactions lacked sufficient documentation as to itemized receipts and the business purpose of the expenditures. Additionally, it was noted that one of the monthly credit card statements was missing.

#### **EFFECT:**

Failure to provide receipts for the credit card charges in a timely manner could cause the Form LM-2 to be filed incorrectly and there is an increased potential for misstatement, due to error or fraud.

#### **RECOMMENDATION:**

We recommend that the Local require employees and officers with credit cards to provide original receipts and business purpose to substantiate the related expenses. We recommend that the Local maintain copies of the monthly credit card statements.

### **SIGNATURE STAMP OF AUTHORIZED SIGNOR**

During our review of cash disbursements of the Local, we noted that the Treasurer and Office Manager have a signature stamp for the President. Upon further discussion, we discovered that it is only used when the President is out of town for prolonged periods of time.

We recommend that the Local discontinue using the signature stamp. If the Local thinks it is absolutely necessary, we recommend they implement controls to document the approval of use of the signature stamp and that it only be made available by the President when he is unavailable.

#### **LACK OF SEGREGATION OF DUTIES**

During our general audit procedures, we discovered that the Bookkeeper resigned in February 2014 and all the financial recordkeeping responsibilities were transitioned to the Treasurer. The Treasurer is responsible for the preparation of bank reconciliations, cash disbursement processing and record keeping, and depositing and recording cash receipts.

We recommend that adequate segregation of duties be maintained where possible to enhance internal controls. Internal control is most effective when the recordation of accounting transactions is performed by someone other than the individual preparing deposits and signing checks. Specifically, we recommend that the individual responsible for processing disbursements not have check signing authority. Authorization for disbursements should be done in accordance with the Local's Bylaws.

#### **OTHER MATTERS**

##### **BANK RECONCILIATION PROCEDURES**

During our audit, we noted that there were outstanding checks carried on the Local's checking account bank reconciliation for over six months.

We recommend the Local consider a policy for investigating, and potentially writing-off, outstanding checks older than six months.

##### **PAYROLL**

###### *Post-Check Payroll Register*

During our review of the payroll process of the Local, we noted that there is no review of the post-check payroll register after payroll is processed.

We recommend that the Treasurer and the President review a post-check payroll register after payroll is processed and compare it to the approved pre-check register, with documentation of the review, to ensure that only amounts approved were actually paid.

###### *Payroll Rate Increases*

During our procedures surrounding payroll, we noted that individuals at the Local received pay rate increases; however, there was a lack of documentation supporting the approval of the increases.

We recommend that pay rates be approved in accordance with the Bylaws, and supporting documentation for the approved rates be maintained in the correlating personnel files.

#### *Accrued Payroll*

During review of payroll, we noted that the accrued payroll had not been adjusted as of December 31, 2013.

We recommend that the Local implement procedures to evaluate payroll at year-end to determine the accuracy of the accrual.

#### **INCONSISTENCY BETWEEN THE BYLAWS AND THE CONSTITUTION**

During our procedures surrounding payroll, we noted that the Bylaws is not consistent with the Constitution of the National Postal Mail Handlers Union (the Constitution) in regards to compensation. Per Article IV, Section 7 of the Constitution, the Council of the Local Union shall consider and vote upon major policy issue such as the compensation of officers. Article III, Section 1 of the Bylaws states the salaries of the Local's President and the Treasurer should receive.

We recommend that the Local consider revising the Bylaws to be consistent with the Constitution.

#### **FIXED ASSETS SCHEDULE**

During our review of the fixed assets, we noted that the fixed assets schedule did not properly reflect the fixed assets balances at year-end. There was sufficient supporting documentation provided to prepare the fixed assets schedule; however, the Local relied on the independent auditor to prepare the schedule.

We recommend that the client prepare the fixed asset schedule to properly reflect the fixed asset balances at year-end.

#### **PAYMENTS TO PART-TIME BOOKKEEPER**

During our general audit procedures, we discovered that in 2014 the Local hired a part-time Bookkeeper and classified her as a contractor rather than an employee. Furthermore, the part-time Bookkeeper does not perform bookkeeping service for any other employers.

We recommend that the Local withhold payroll taxes from payments made to the part-time Bookkeeper. At the end of 2014, the part-time Bookkeeper should be issued a Form W-2 rather than a Form 1099.