

August 19, 2010

RE: Letter to AFT 2121 Members Regarding AFT Findings and Recommendations on 2121 Finances

Dear AFT 2121 members,

In reviewing our Local's expense reimbursements last spring, it came to our attention that a small number of expense reimbursements to one AFT 2121 representative appeared to have been inappropriate. To address the issue, the Executive Board decided to seek outside assistance in investigating this matter and determining appropriate corrective action. Though the reimbursements in question did not involve large amounts of money, the Executive Board takes its fiduciary responsibility to our members seriously, and, in addition to the actions described below, reported the matter to the Delegate Assembly.

Kay Neipert, Assistant Director of the AFT's Financial Services Departments, spent two days in the AFT office over the summer, looking closely at AFT 2121's reimbursements, financials, and procedures. Ms. Neipert subsequently furnished a report detailing her findings.

The report's findings do not indicate fraud, confirming our accountant's initial assessment that there was no evidence of fraud or malfeasance. However, Ms. Neipert did conclude that some of the reimbursements had been made for non-Union related expenses and that those monies should be reimbursed to AFT 2121. This has been done.

Ms. Neipert's findings also point to a number of incidents and procedures that require our attention in order to ensure that the Union's finances are being handled with the care and caution necessary to protect our members' dues. The report makes clear recommendations regarding procedural changes; AFT 2121 has already implemented several of these procedures and is in the process of implementing others.

The 2121 Executive Board has reviewed and adopted the report, and it has also passed a resolution to implement the report's recommendations, though for three minor recommendations (the time limit for reimbursement requests, non-receipt items, and the number of authorized check-writers), we will first need to determine whether they are feasible within our current needs and structure. Additionally, we are paying special attention to financial matters and are discussing what appropriate additional oversight or procedures can be put into place to avoid any future problems.

Additionally, AFT 2121's finances are audited annually by an independent outside auditor according to generally accepted accounting principles. We have in place a revised Segregation of Duties policy among those responsible for making payments of Union money (Treasurer, Office Clerk, Accountant), writing checks, posting these expenses to our accounting system and

reconciling them with bank statements. This provides a critical check and balance to all expenditures to ensure that they are made properly or come to our attention if there is a deficiency.

Because the AFT 2121 Executive Board takes seriously our responsibility to preserve the fiduciary integrity of the Union and in the interest of transparency and clarity, we have decided to make the AFT report from Ms. Neipert available to members for review. If you would like to read and/or download a copy of the six page report, you may do so at the AFT website (aft2121.org/html/ExBdminutes.html).

Sincerely,



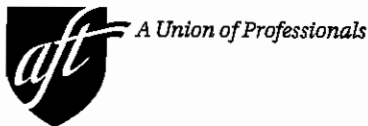
Alisa Messer, AFT 2121 President



Gus Goldstein, AFT 2121 Vice President



Chris Hanzo, AFT 2121 Executive Director



June 9, 2010

Alisa Messer, President
And Executive Board Members
Community College Teachers of San Francisco, AFT Local #2121
311 Miramar Ave.
San Francisco, California 94000-1210

Dear Ms. Messer and Board Members:

I have reviewed the documents provided by Community College Teachers of San Francisco, AFT Local #2121 (CCTSF or the Local) to the American Federation of Teachers (AFT) Financial Services Department in an effort to determine and evaluate the employee expense reimbursement system and to detect any improper reimbursements made to employees or board members during the period of July 1, 2008 through May 31, 2010.

My study and evaluation was intended primarily to develop recommendations to strengthen internal controls and improve employee reimbursement policies and procedures. The officers of CCTSF are responsible for establishing and maintaining a system of internal accounting controls.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. This report presents my findings and recommendations which I feel will strengthen internal controls and improve overall administration policies and procedures.

REVIEW OF INTERNAL CONTROLS

I noted certain matters involving the internal control process that are considered reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control process that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data.

Cash Disbursement Form:

All checks were written without attaching a voucher entry form or a check stub. The organization writes checks manually, therefore there is no check stub attached to invoices or supporting documentation. The Local's checkbook is kept in an unsecure drawer. The checkbook is available to any person to write checks. During my investigation I noted that six different people were allowed to write checks.

American Federation
of Teachers, AFL-CIO

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For better internal control, when writing checks for invoices received, I *recommend* that a cover sheet be used and attached along with the check stub of the check sent. One of the subjects that the current Treasurer teaches at the college is QuickBooks. I *recommend* that the Local consider changing the accounting software to QuickBooks so checks are written electronically using QuickBooks checks. In this way, the ledger will be updated as checks are written and limits the amount of people writing checks.

It is the responsibility of the Treasurer to write checks, and he should have one backup person allowed to write checks and have access to blank checks. Blank checks should be kept in a secured locked place.

Reimbursement for Meals:

CCTSF's practice is to reimburse individuals on a receipt basis. There is no limit set for daily expenses.

I found several defects in the expense report system when reimbursing for meal expenditures:

- Receipts were not original,
- Meal expenses were not accompanied by an itemized receipt,
- Receipts did not have the restaurant name and date imprinted on it.

I *recommend* that a per diem limit be set based on government rates. Any meal expense during the day that goes beyond this rate should be the responsibility of the person requesting reimbursement.

I also *recommend* that all expenses be accompanied by original itemized receipts before being reimbursed. The receipt should indicate the name and budget code of the event for which reimbursement is requested.

In addition, meal expenses must be accompanied by an itemized receipt. Showing the items purchased along with the restaurant name and date. All individuals present should be listed along with the purpose of the meal.

Miscalculation of Reimbursements:

In one reimbursement, the meal cost \$5.58 and the person requesting the reimbursement wrote that the meal cost \$15.02 which was the change given back for the meal. (Amount tendered of $\$20.60 - 5.58 = 15.02$)

I *recommend* that expense reports be verified carefully, which should include recalculating to ensure that calculations are done properly.

Transportation:

I noticed that some reimbursements for transportation were estimates for gasoline, calculated as approximately \$5 or \$7 per trip; other times gas

receipts were attached. And some used the standard mileage rate used by the government.

One expense report had only a notation saying that expenses were for CFT sponsored trip to OH, \$50 for Bart, Muni, taxi, no receipts were included.

I recommend that only one method is used to calculate trips made by car in order for reimbursements to be consistent. Receipts must be provided for all taxis, parking and road tolls. If in some cases a receipt for Bart or Muni can not be provided, a breakdown of each expense must be provided.

Cut-Off Time for Submitting Expenses:

On October 5, 2009, an individual submitted receipts for Cocal and the Christmas party. These receipts were dated December of 2007. These were June 30, 2008 expenses and were paid out from the June 30, 2009 budget.

I recommend that a policy be created and specify that expenses over 60 days should not be reimbursed. This will avoid 2-year old expenses being reimbursed and expensed from the wrong budget year.

Missing Expense Reports:

For all expense reimbursements written during the two years ended in June 30, 2010 and 2009, there was no supporting documentation for 12 disbursements, 6 each year. Before I started my engagement, more were missing; however, the Local's Assistant was able to find a number. She explained to me that these were misfiled in the wrong category folder.

I recommend that file cash disbursements be filed numerically by check number. This would make it easier to file and retrieve invoices when necessary. Filing by budget category folders takes longer to file. If the person responsible for filing invoices does not file right away, because there is limited time, then these sit in a pile and are filed when more time is found. In the meanwhile, invoices can be mislaid or lost.

Expense Forms:

Generally, all expenses had expense forms attached to them, with the exception of the Political Director. My engagement also included analyzing if certain expenditures reimbursed to the Political Director were for legitimate expenditures.

Expense report forms used to request reimbursements were very poorly designed. This would be appropriate for small local trips.

I recommend that a more detail expense report be developed and submitted electronically, so reports are readable.

During the partial year ended May 31, 2010 and the year ended June 30, 2009, the Political Director submitted 3 and 4 expense reports, respectively. The following discrepancies were noted:

- None of his expenses accompany an expense report. He was later asked to produce an expense report for each expense submitted; however, they were poorly completed.
- On 1/1/09, he requested reimbursement for a Labor Conference that he attended in Chicago. He also included three old receipts dated March 1007 and a dinner dated October 2008. No calculator tape was run to verify if these expenses were added correctly. He was reimbursed \$902.29 while the actual sum of these receipts was \$908.55.
- On 2/09/09, \$160.85 was reimbursed for a Political Action meeting for several pizzas. The receipt does not have the restaurant name.
- On 6/26/09, an original expense report could not be located, only a copy was provided for my review. Some of the receipts were fading and I could not read the receipts properly. The reimbursement amount was \$223.55, while my calculations came to \$234.08. The Political Director assured that he only submitted original receipts. I believe that while the board was analyzing his expenses before my arrival, all of his original documents were in the custody of some of the previous examiners.
- On 9/14/09, the Political Director submitted receipts for a CFT Task Force meeting that occurred on August 2009 and he also included older receipts to be reimbursed. He did the same thing on the next two reimbursements. I asked the Political Director why he included extremely old receipts every time. He explained that every time he turned in reimbursements, usually after some meeting event, he would remember that he had old receipts that he had forgotten to submit in the past and he would include them. Three of these receipts were for unrelated union business, which was confirmed by the Political Director.
- These were a hotel bill for a night in Anaheim, CA, a hotel bill for a night in Dallas, TX and meal in Texas. The total of these expenditures is \$389.23. When I inquired what these charges were, he explained that he is a member of his local church, and he participated in a seminar in Texas where he felt that he could apply the information that he learned from the seminar to the local. I inquired if the Anaheim trip was also a church event. He explained that it was some other seminar not related to his church.
- Total reimbursed to the Political Director on the 2/8/10 expense report was \$749.38 while my calculation was \$756.59. On 3/24/10 he was reimbursed \$623.90 while my calculation was \$733.90. There are a couple of receipts that do not have the restaurant name. One receipt looked like a calculator tape. I am uncertain of the type of expenditures these were.

- During his last trip to Los Angeles (3/21/10), he took three people out for lunch. When paying for other people, the Department of Labor requires that all names of the parties during this particular event, need to be included in the back of the receipt along with the name of the event.
- Four out of seven expenses were miscalculated. The net of all of these miscalculations came to an underpayment of \$110 by the local.

On May 11, 2010, a subcommittee of the Executive Board, engaged in a fact finding investigation and \$382 was returned by the Political Director for the two hotel bills reimbursed by the Local for unrelated seminars. The Local has not deposited this check yet pending conclusion of this report.

I *recommend* that any trips, or large meal expenditures for special events be approved by the Board prior to commencing. An approved travel authorization should be submitted in with travel expenses. I also *recommend* that an expense reimbursement form be completed when requesting reimbursement.

I *recommend* that the Treasurer verify and recalculate all expenses, ensuring that the amount claimed is correct and approved to be disbursed.

Checks and Signatures:

During my review of cancelled checks I found the following discrepancies:

- Check was addressed to the same person that signed the check. From my sampled population, this occurred twice, once with the Treasurer and once with the Vice President. For good internal controls and for the protection of the payee, the person writing the check should not sign his own check.
- In two checks, one paid to the Treasurer and the other to the Political Director, somebody signed on behalf of the Executive Director. The Executive Director does not believe that those signatures were his.
- I found one particular check (#3562) addressed to the Political Director that made me believe that the Treasurer completed the date, and the payee portion, but the amount was written by a different person. The signatures on the check were legitimate. It appears that blank checks were signed ahead of time and kept in the unlocked drawer, then the Treasurer would prepare the check and hand a blank check to the person receiving the reimbursement for them to finish writing the amounts. However, the Treasurer assured me the different hand writing belonged to him. There were receipts to support the amount reimbursed. The Political Director miscalculated total receipts turned in.

I *recommend* only the Treasurer and his backup person be allowed to write checks and have access to blank checks. I also *recommend* that no blank checks be pre signed. This will prevent the above mentioned defects in the internal control system.

Two individuals explained to me that in the past some of the checks were signed on behalf of others when nobody was available to sign. I *recommend* a person signing checks only signs their own name.

CONCLUSION

I found several weaknesses in the record keeping and internal controls of the expense reimbursement system.

There were no policies or expense reimbursement guidelines to guide the organization on its reimbursement practices. Should policies such as no reimbursement after 60 days of incurring expenses, or only original receipts, and attachment of travel and expenditures authorization had taken place, most of the exceptions found would have occurred.

I do believe that the parties involved did not fraudulently sign checks. I agree the local should accept and deposit the check the Political Director paid back on April 17, 2010 in the amount of \$382 for the two hotel bills mentioned above. Further, the local should not have reimbursed expenses that were over a year past due. However, the Local reimbursed not only the Political Director but others for untimely expenses. It would not be fair to request reimbursement only from the Political Director.

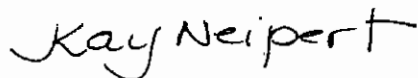
Of all expense reimbursement requests submitted by the Political Director, there was a shortage of \$113 due to him because of his own miscalculation of expenses when he submitted them. Because expenditures made by the Political Director were not properly approved by the board before commencing them, the Local should retain this \$113 along with the \$382 check. Total reimbursement by the Political Director will then come to \$495.

No further reimbursements should be made for past activities to the Political Director. This should apply to all people seeking reimbursements.

In order to improve the record keeping and internal controls, please implement the recommendations included in this letter. These changes will help assure fiduciary accountability on behalf of the AFT.

I am not independent to the Community College Teachers of San Francisco, AFT Local #2121.

Sincerely,



Kay Neipert, CFE, CPA
Assistant Director
AFT Financial Services

cc: Sol Smith, Regional Director, AFT Western Regional Office
Dennis Smith, Secretary-Treasurer, California Federation of Teachers
Chris Hanzo, Executive Director, Community College Teachers of San Francisco, AFT Local #2121.
John Feldman, Deputy General Manager for Finance, AFT Office of Secretary-Treasurer