

# HOOD & STRONG LLP

CERTIFIED PUBLIC ACCOUNTANTS

October 24, 2007

THE BOARD OF DIRECTORS  
UNION OF CALIFORNIA STATE WORKERS  
S.E.I.U. LOCAL 1000 (dba S.E.I.U. Local 1000)  
Sacramento, California

In planning and performing our audit of the financial statements of the **UNION OF CALIFORNIA STATE WORKERS, S.E.I.U. LOCAL 1000 (dba S.E.I.U. Local 1000) (the Local)** as of and for the year December 31, 2006, 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 for the purpose of expressing our 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We consider the following control deficiency to be a significant deficiency:

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### **Disbursement Documentation**

#### *Observation*

Subsequent to December 31, 2006, we noted a number of disbursements without documentation, or with incomplete documentation, to support the amount of the disbursement, but having the approval of Local personnel advising the California State Employees Association (CSEA) Accounting Department to process the payment. In a number of instances, the invoice, as processed by the CSEA Accounting Department, had the written notation "waived by Comptroller" to indicate that they had been requested to process the invoice for payment either without any documentation or with the incomplete documentation that had been provided by the Local.

#### *Recommendation*

In order to improve and strengthen the Local's controls over cash disbursements, and to ensure that the Local is in compliance with both Department of Labor and Internal Revenue Service documentation requirements, we strongly recommend that the Local ensure that complete documentation is attached to each disbursement made prior to the issuance of the check.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We consider the following significant deficiencies to be material weaknesses:

### **Bank Account Reconciliation Procedures - 2007**

#### *Observation*

During our review of the post December 31, 2006 cash account activity and bank account reconciliations, we noted that the monthly bank account "reconciliation" for the newly established checking account at Wells Fargo Bank, as presently prepared, is not a full reconciliation of the balance per the Wells Fargo Bank's end of month statement of account with the Local's account balance as reflected on its general ledger. The presently prepared "reconciliation" appears to be a summary of the month's cash receipts and cash disbursement which is then provided to the CSEA Accounting Department as a basis for CSEA recording the month's cash receipts and cash disbursement activity in the general ledger account for the Wells Fargo Bank checking account.

#### *Recommendation*

In order to improve the Local's controls over cash assets, we recommend that the Local reinstitute the practice of preparing a full monthly bank account reconciliation (which reconciles the end of month balance per the bank statement to the Local's end of month balance per its general ledger account, identifying all reconciling items such as outstanding checks, deposits-in-transit, bank charges, and any other reconciling items which might have occurred during the month). Such monthly bank account reconciliations should then be reviewed and approved by a financially qualified person who is independent of the Local's cash receipts and cash disbursements process.

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### **Segregation of Duties within Local 1000 - 2007**

#### *Observation*

The new procedures designed and implemented by the Local in the formation of the Local's own Finance and Accounting function appear to concentrate numerous key functions in one key position, the Comptroller, without an effective monitoring and review function. As presently established, the Comptroller will have access to all cash receipt and cash disbursement activity (except payroll disbursements which are processed by the CSEA Accounting Department), will handle investment account transactions, will prepare the monthly bank account and investment account reconciliations (without subsequent independent review), will develop all journal entries provided to the CSEA Accounting Department for processing in the Local's general ledger and then review the general ledger and financial statements prepared by the CSEA Accounting Department and presented to the Local for review and approval.

#### *Recommendation*

In order to strengthen the controls over the Local's cash and investment assets, as well as the overall control over the general ledger and financial statement preparation process, we strongly recommend that the Local implement procedures to have a financially qualified person, who is independent of the above described processes, review and approve all key financial activity on a monthly basis.

Following are descriptions of other identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

### **Chapter Accounting**

#### *Observation*

During the preparation of the Local's "Hudson" report for the year ended December 31, 2006 (which allocates the Local's expenses between "chargeable" and "non-chargeable" to agency fee-payers), we noted several District Labor Council's (DLC's) which had unusable accounting records.

These DLC's, which maintain their own financial records throughout the year and do not use the accounting services available through the Local's Accounting Department, presented inadequate and incomplete financial records for 2006. As such, the records for these DLC's were unauditable and a proper allocation of their expenses between "chargeable" and "non-chargeable" could not be made. Accordingly, all expenses of these DLC's were considered "non-chargeable" and thus served to reduce the "chargeable" expense percentage used for agency fee-payers for the Local.

We did notice the effort put forth by the officers which brought more DLC's in-house than we have seen in prior years' audits.

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*Recommendation*

In order to increase the Local's "chargeable" expense percentage in future years, we recommend that the Local take steps to improve the accounting records for DLC's which have historically exhibited difficulty in maintaining good quality accounting records. The Local should meet with the officials of such DLC's and stress the need for good quality accounting records and provide training as necessary. Should the DLC's in question fail to improve, the Local should consider requiring these DLC's to use the available accounting services of the Local's Accounting Department

**Travel Advances**

*Observation*

The Local provides travel advances to an extensive number of individuals who attend the bi-annual General Council meeting. Individuals receiving such travel advances are subsequently required to provide documentation of the expenses incurred and paid using the travel advance, thus showing the proper use of the funds advances and "clearing" the travel advance (at which time the advance is relieved from the travel advance asset account and charged to expense). Uncleared travel advances continue to be carried in the travel advance asset account (as a receivable from the individuals who received the uncleared travel advances), without reserve to reduce such amounts to their net realizable value. This procedure is followed to provide a detail history of the individuals who have received travel advances in the past without subsequently "clearing" the travel advances as required (and thus providing the information needed to identify such individuals and thus deny them future travel advances). The Local issues Forms 1099 to the Internal Revenue Service for individuals who have failed to properly "clear" their travel advances.

*Recommendation*

In order to improve the overall accounting for such travel advances, we recommend that the Local instruct CSEA to establish a reserve account for any old "uncleared" travel advances, thus providing a method of continuing to carry the detail of "uncleared" travel advances within the general ledger account and at the same time allowing for the reduction of such travel advances to their net realizable value.

**Disbursement to Establish Trust Account with Attorney**

*Observation*

During 2006, the Local issued a check in the amount of \$500,000 to an attorney to hold in the attorney's trust account (which funds were to be used for legal fees to be incurred related to the CSEA's anticipated legal action to revoke the charter of Local 1000). However, the attorney holding the funds in trust for this matter proceeded to use these funds in the trust account, without the Local's knowledge or approval, to charge for legal services related to other matters not covered by the purpose for which the funds were originally deposited in the trust account. Some time later, the Local contacted the attorney regarding the issues inappropriately billed against the trust funds.