Ullico And Global Crossing:
The Tip of the Union Pension Fund Scandal Iceberg

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Mr. Chairman and Members of the Subcommittee, thank you for this opportunity to testify.

My name is Ken Boehm and I serve as Chairman of the National Legal and Policy Center (NLPC). My legal center sponsors the Organized Labor Accountability Project which publishes *Union Corruption Update*, a fortnightly newsletter summarizing union corruption news and legal cases. Our database of union corruption case information is available on the web at **www.nlpc.org** and is used by the public, media, elected officials and union members as an authoritative archive of union corruption cases.

The Global Crossing bankruptcy, the fourth largest in U.S. history, has cost investors billions, resulted in over 9,000 people losing their jobs and has set in motion a federal investigation as to questionable accounting practices.

The Ullico Insider Stock Scandals

As a result of a series of recent articles in *Business Week* and *The Wall Street Journal,* a whole new controversy linked to Global Crossing has arisen. The focus is on Ullico, a privately held insurance company which is owned largely by unions and their pension funds. It was an early major investor in Global Crossing and its directors used the telecom's volatile stock price history to personally enrich themselves at the expense of the union members and retirees whose pension funds own Ullico. Its board of directors is mostly made up of current or former union presidents and includes AFL-CIO head John Sweeney.

The multi-billion dollar Ullico was one of the original investors in Global Crossing, providing $7.6 million to the company in seed money. Global Crossing chairman Gary Winnick was pleased to get the early money and allowed Ullico directors the opportunity to personally buy the Global Crossing stock at IPO prices. This sweetheart stock investment deal allowed some Ullico directors to make millions off the sale of the stock according to labor officials. ("Global Crossing: Labor's Questionable Windfall," by Aaron Bernstein, *Business Week*, March 14, 2002) The fact that Gary Winnick offered such a lucrative deal to Ullico directors has raised questions as to the integrity of Ullico's investment decision making with respect to Global Crossing as well as with other Ullico investments of pension funds into deals associated with Winnick during the same time period.

Ullico's directors also benefitted personally from an arrangement set up in 1997, the same year Ullico made its original investment in Global Crossing, which allowed Ullico to repurchase its stock from shareholders. Departing from a practice of giving Ullico's stock a fixed value of $25 a share, Ullico began changing its share price annually according to a value determined by an accounting review. Insiders knew in advance of the price change whether the stock would go up or down and set up a system that allowed them to buy or sell to lock in a profit. It was the equivalent of investing in the stock market when you knew for sure which way a given stock would go.

In practice, this scheme allowed directors to make virtually guaranteed insider profits.

Here's the way *Business Week* labor reporter Aaron Bernstein describes how Ullico directors personally profited from the arrangement they approved for themselves:

> **Fall, 1999** Ullico is losing money on its operations but earns $127 million by selling some Global stock. Insiders knew those gains would lift the annual valuation of Ullico's shares from $54 to about $146

when its books closed on Dec. 31.

December 1999 Ullico offers each director the chance to buy 4,000 Ullico shares at the 1998 valuation of $54. The union pension funds that own almost all of Ullico aren't given the same offer, or even told about it.

Dec. 2000/Jan. 2001 Ullico buys back 205,000 of its 7.9 million shares at $146. Stockholders with fewer than 10,000 shares are allowed to sell all their holdings, so officers and directors can take full advantage, but the pension funds can't. Insiders know the decline of Global Crossing's stock puts the true value of Ullico's shares closer to $75.

Dec. 2001/Jan. 2002 Ullico buys back an additional 200,000 shares, allowing officers and directors who hadn't sold before to cash out at $75. Again, insiders know that the further collapse of Global has again cut Ullico's true value, this time to $44.

March 2002 Ullico's pension-fund shareholders now own a less valuable company. Its Global profits have gone disproportionately to officers and directors, some of whom are trustees of the union pension funds that lost out on the deal.
("Global Crossing: Labor's Questionable Windfall," Aaron Bernstein, *Business Week,* March 14, 2002)

In a follow-up article to the one above, Mr. Bernstein summed up the Ullico controversy by stating, "The labor movement is being roiled by what could be one of its worst scandals in years."

Just blocks from this hearing room, a federal grand jury has been hearing evidence about the Ullico case. Ullico officials have been subpoenaed to describe how board members bought and sold stock in the privately held Ullico.

The Ullico Board

The U.S. Attorney's office originally came across the Ullico case while conducting a criminal investigation of Mr. Jake West, former head of the ironworkers union. Mr. West, a Ullico director since 1990, has been indicted on federal charges that he embezzled funds from his union. He is currently awaiting trial on the embezzlement charges.

Mr. West isn't the only Ullico director with a questionable background.

Another director (since 1993) is former Laborers Union boss, Arthur Coia. A draft racketeering complaint by the U.S. Department of Justice in 1994 described Coia as influenced by organized crime. An internal memo at the time by the head of the Organized Crime and Racketeering section of the Justice Department referred to him more succinctly as a "mob puppet." In January, 2000, Arthur Coia pled guilty to fraud for evading Rhode Island taxes on the purchase of a $1 million Ferrari.

Apparently, this guilty plea by one of its directors was not viewed as a problem to overseeing the integrity of billions in union pension funds. The Ullico board allowed Coia to remain on their board. As of today, he has refused to state publicly whether he profited from either the Global Crossing IPO stock deal or the insider Ullico stock deals.

One of the more interesting Ullico directors is Marty Maddaloni, a director since 1998 and President of the United Association of Plumbers and Pipefitters union. Maddaloni also heads one of his union's pension funds which has been involved in one of the biggest real estate boondoggles in pension fund history. After purchasing the rundown Diplomat Hotel in Hollywood, Florida for $40 million, renovation costs ballooned to $400 million, then $600 million and finally, when the hotel opened two years late, the final cost was in excess of $800 million. An independent appraiser valued the property as being worth $587 million, more than $200 million less than the pension fund paid for the project.

The Hotel Diplomat renovation had numerous other problems. The construction was so mismanaged that walls tilted, floors sloped and pipes leaked. Some of the contractors hired for the job had been banned from New York City construction because of bid rigging.

To make matters worse, Maddaloni has recently written to union locals letting them know that the Department of Labor is nearing the end of its lengthy investigation of the Hotel Diplomat boondoggle and they may take action against the trustees of the pension fund as a result of that investigation.

Things haven't been much better for Maddaloni on the Ullico front. In a front page story on April 5, 2002, *Wall Street Journal* reporters Tom Hamburger and John Harwood revealed that Maddaloni had reaped a profit of $184,000 selling Ullico shares back to the company. After describing the process of insider trading, the reporters concluded, "A platoon of union chiefs responsible for serving their members used Ullico as a means of enriching themselves."

One of the Ullico directors most on the spot over the scandal is Morton Bahr, the longtime head of the Communications Workers of America (CWA) and a Ullico director since 1996. Many of the workers who lost their jobs and their life savings because of the Global Crossing bankruptcy were CWA members.

And the emerging record shows that Bahr was intimately involved in the Ullico-Global Crossing deal from the beginning. Bahr pushed for the Global Crossing deal even though the company was involved in telecommunications but not unionized. Time and again, Bahr used his authority as CWA boss to promote the interests of Gary Winnick's Global Crossing:

- Bahr supported Global Crossing's merger with Frontier Communications and opposed the bid for Frontier by Qwest.
- Bahr wrote 14 state governors supporting a takeover of U.S. West by Global Crossing
- Bahr's support of the Ullico initial major investment in Global Crossing was essential since he represented one of the larger unions involved in Ullico.

Apparently the favoritism was not a one-way street. The *Wall Street Journal* expose of the Ullico scandal revealed that Bahr had personally profited from insider trading of Ullico stock to the tune of $27,000. However, a spokesman for Mr. Bahr assured the reporter that Bahr was "concerned about the propriety of stock trading by Ullico board members." ("Inside Deal: How Union Bosses Enriched Themselves on an Insurer's Board," by Tom Hamburger and John Harwood, *The Wall Street Journal,* April 5, 2002, page 1)

The revelation was especially embarrassing to Bahr since less than a month earlier he had put out a press release in which he blasted "corporate arrogance" and singled out the "secret dealings and employee abuses of Enron and Global Crossing." (PR Newswire, March 6, 2002, Communications Workers of America)

Many CWA members, especially in upstate New York, had special reasons to question secret dealings and employee abuses by Global Crossing. And by Morton Bahr. Not only had Bahr pushed hard for the takeover of Frontier by Global, but the Global disaster meant a triple hit to CWA members at Frontier:

- When Global sought to sell off Frontier to Citizens Communications in late 2000, it claimed ownership of the pension assets of Frontier.
- When Global filed for bankruptcy in January 2002, many of the CWA members lost their jobs.
- Those with their retirement savings locked in 401(k) accounts with Global Crossing stocks watched in horror as their life savings became virtually worthless.

If any doubt remains that telecommunications workers from Frontier were truly victimized by the Global Crossing meltdown, consider these comments from blue collar employees of Frontier Communications which was taken over by Global Crossing:

- Zigment Ozarowsky, former Global Crossing Employee: I worked 38 years for the company, and I lost 3,195 shares, which actually amounts to about $200,000.
- Tim Dailor, Global Crossing employee: I lost 8,300 and some odd shares, about $400,000.
- Anthony Alfano, Global Crossing employee: I've contributed about probably $150,000. With company match it was probably about $200,000. ("401[CHAOS], by Paul Solman, WGBH, Boston, as broadcast on NewsHour with Jim Lehrer, Feb. 28, 2002)

To add insult to injury, those who lost their jobs and their life savings and who also had CWA pension funds invested in Ullico now know that the head of their own union was revealed as profiting on insider trading - at their expense. But they can take comfort in the fact that his spokesman says he was really concerned about the propriety of the stock deals.

Conflict of Interest

Union leaders have a fiduciary duty to serve the best interests of their members. This duty is found throughout federal labor law. In reaction to the old-fashioned corruption of sweetheart deals in which management paid labor bosses bribes to betray their union, federal law strictly forbids a whole range of corrupt practices:

- Employers may not contribute to union elections
- Employers may not give union officials money or anything of value
- Union officials have a very strict and very broadly construed fiduciary duty to

put their responsibility to their members above their own personal interests, especially their financial interests.

Aside from the federal grand jury currently hearing evidence pertaining to possible criminal liability in the Ullico case, the Department of Labor is investigating whether the Ullico stock schemes violated civil labor laws against conflict of interest. If such a conflict of interest occurred, and evidence is mounting that it clearly did, the result could be fines and removal of offenders from union office.

While the excellent investigative articles in *Business Week* and *The Wall Street Journal* have done a fine job of detailing the self-enrichment games played with Ullico stock at the expense of union pension funds, the conflicts of interest associated with Gary Winnick's dealings with the Ullico board were only touched.

Gary Winnick appears to be the last person a group of union bosses would ever want to associate with. At a time when railing against corporate greed is the staple of every union speech, Winnick comes off as a stereotype of a union boss's arch enemy. He began as an employee of convicted junk-bond king Michael Milken. Frequently described as an egomaniac, he lived a lifestyle that defined excess. His home cost $92 million. He sold in excess of $734 million in Global Crossing stock from the time it went public until it went bankrupt. And one of his top former executives has alleged that some of the especially questionable, if not out right illegal, accounting practices by Global were made to cover his cashing out.

So why would Ullico's board of union bosses not only invest more than $7 million in seed money with Winnick, but also get involved in a number of other venture capital deals? Certainly, the prospect of being cut in on the lucrative IPO stock offer was an inducement that may have made the Ullico board pour union pension funds into Winnick's non-union company.

The Ullico board also jumped into deals with Pacific Capital Group (PCG), an investment firm owned by Winnick. Together with PCG, Ullico invested in the high-flying internet company, Value America, another non-union company which quickly went into bankruptcy. And Ullico went in with PCG on Playa Vista, a troubled Los Angeles real estate deal plagued with environmental and regulatory problems. One of Ullico's top officials, former Democratic National Committee executive director Michael Steed went to Winnick's PGC as a managing director and went onto the Value America board.

As revelations continue to grow about the Ullico case, the most common reaction appears to be how closely the actions of the Ullico board resemble what union chiefs so often denounce as wrong with corporations. Consider this recent comment by AFL-Cio head John Sweeney:

> "Enron exposed what many of us have been saying: the boards of directors that are charged with acting in the interests of investors and the public are riddled with greed, self-dealing and plain selfishness."

Change a few words and you have a perfect description of the Ullico board on which John Sweeney sits. While he has publicly claimed not to have participated in the insider stock schemes, the fact remains that as a director he played a role in letting the schemes continue. Fiduciary duty extends to taking steps to prevent others from violating their fiduciary duties.

It's difficult to imagine the Ullico board going forward with their self-enriching schemes if the head of the AFL-CIO strongly opposed them. Nor is there any evidence that Mr. Sweeney or any of the other directors took any steps to expose the secret deals. Just the fact that the group of union bosses busily enriching themselves at the expense of their own members chose to keep their deals secret speaks volumes about what they considered the deals to be.

The Bigger Picture

The Ullico case is important because it involves the heads of some of the largest unions in the country improperly, if not illegally, enriching themselves at the expense of union members and retirees.

It's also important because it illustrates the growing trend of union corruption involving pensions.

Just as the Ullico stock scandal was being exposed, the Department of Labor announced that it was suing Ullico and a subsidiary for imprudently investing $10 million in assets of two Laborers International Union pension funds in a risky Las Vegas land deal. According to the Department of Labor, Ullico failed to properly investigate the large real estate investment and ended up abandoning the project without selling any lots.

A March 25, 2002 BNA Daily Labor Report article based on an interview with Department of Labor Inspector General Gordon S. Heddell provides a good idea of the scope of the problem affecting union pension funds. As of March, there were 357 pending labor racketeering investigations under way by the Inspector General. Of those 39% involved organized crime and of the 357 investigations, 44 percent involve pension and welfare plans.

The IG cited an number of cases in which pensions lost funds because of violations of fiduciary duties by plan trustees, the very issue involved in the Ullico case. The IG went on to state that investigations of this type involve plan assets of more than $1 billion are at risk.

Accompanying my testimony are 25 recent examples of union corruption involving union pension and benefit funds. A review shows that the cases are all recent, large and widespread. The Ullico case shows that the pension corruption goes right to the very top of the labor movement.

The amount of money being stolen from pension and benefit funds is staggering.

In an Oregon case, the Department of Labor estimates that a large number of union funds lost more than $100 million.

In a New York case, an alleged member of the Genovese crime family was recently indicted in connection with the embezzlement of more than $1 million from benefit funds of two locals of the United Brotherhood of Carpenters.

In some cases, only quick action by law enforcement has stopped major pension fund looting as when the F.B.I. uncovered plans in 2000 to move $300 million in union pension fund money into management firms run by the Lucchese crime family.

What Can Be Done

The first step is to admit that there is a major problem with the integrity of union pension funds. The Ullico case and the epidemic of related corruption provides ample evidence of the scale of the problem.

Second, the public, especially union members whose pension funds own Ullico, have a right to know what Ullico directors did to enrich themselves at the expense of the union members. A Congressional hearing featuring the entire Ullico board being sworn in and asked direct questions would be a good start. If they all chose to take the Fifth Amendment, that act will speak for itself. Certainly, hundreds of thousands of union members short-changed by the Ullico directors are entitled to an accounting.

Third, the laws regarding pension funds are sweeping but contain very serious loopholes. The Department of Labor Inspector General recently pointed to the fact that independent public accountants are not required to report ERISA violations to the Department of Labor. That loophole has no policy justification whatsoever and should be closed.

Fourth, union members are entitled to know the sources of income of top union officials. International union presidents receive large salaries and are expected to give their full time and attention to their duties. Had Ullico directors known they would have to disclose the insider stock profits, they may not have been so quick to enrich themselves. The annual financial disclosure form filed by unions with the Department of Labor, the LM2 form, should be amended to require union leaders to disclose all income by source and amount. A recent House hearing by two subcommittees of the Education and the Workforce Committee co-chaired by Congressmen Norwood of Georgia and Johnson of Texas featured extensive testimony calling for better disclosure of union financial information. The underlying policy is the time-honored belief that "Sunshine is the best disinfectant.

If protecting the integrity of pension funds relied upon by millions of honest, hardworking Americans is not an issue worth addressing, what is?

Top 25 Recent Union Corruption Stories Involving ERISA-Protected and Similar Benefit Funds

From the pages of the National Legal and Policy Center's Union Corruption Update: see http://www.nlpc.org/olap/ucu/index.htm

1. Oregon Boss Gets 15 Months for Racketeering, Some $100 Million Lost

U.S. District Judge Anna J. Brown (D. Or.) sentenced racketeer and tax-evader John D. Abbott, ex-secretary-treasurer and business manager of the Laborers' International Union of North America's District Council of Oregon, South Idaho, and Wyoming, November 21, 2001, to two concurrent terms of 15 months in prison and one year probation. He must pay $195,400 in restitution plus back taxes. He was an official for five LIUNA benefit funds.

He pled guilty on February 26, 2001, to accepting gratuities from union fund manager Jeffrey L. Grayson (indicted October 2, 2001 and whose sentencing is eminent) to use his influence as a pension trustee and filing a false tax return. Abbott pled guilty to racketeering charges, under 18 U.S.C. § 1954, and to understating his income on his 1997 tax return by $76,560. He earned the shortened sentence in exchange for cooperating against other trustees and Grayson in the massive $355 million Capital Consultants scam. Laborers lost about $25 million.

Assistant U.S. Attorney Lance Caldwell, told Brown that Abbott's testimony has been crucial in building the case against Grayson who was indicted on 22-counts. of conspiracy, witness tampering, money laundering, mail fraud, and making illegal payoffs to Abbott. Because of Abbott's cooperation, and the "very valuable" evidence it produced, the government recommended reducing his sentence from a maximum of 33 months.

Grayson assisted Abbott in 1998 when he was in trouble with LIUNA for allegedly pocketing office funds and failing to make restitution. Abbott, according to an audit released in March 1998, took at least $172,000 from office funds including $150,184 in personal charges on his union credit card. As Abbott was being pushed to explain what the audit uncovered, Grayson arranged the sale of Abbott's late wife's catering business, netting the union boss $60,000.

Abbott repaid the unauthorized credit card charges and promised LIUNA that he would pay back the rest of the money, nearly $32,000. But he failed to make payments, and in September 1998, LIUNA gave him the choice of resigning or being expelled. Abbott chose to quit and promised once more to reimburse the money he owed. Meanwhile, he organized a consulting company, Kaylano Consulting, and signed a contract with Grayson that promised to pay Kaylano at least $805,000 over five years.

Not everyone thought Abbott's 15-month sentence was sufficient. Gayland German, a retired Oregon LIUNA member who attended the hearing, later called Abbott "a Judas" and predicted his fellow union members "will be extremely disappointed" with the length of his sentence.

Forrest Rieke, Abbott's attorney, portrayed his client as just one of ten trustees with no more and no less clout than the rest. He called Lee Clinton, Abbott's successor at the District Council, to the stand, to testify that he saw no evidence of Abbott favoring Grayson in the placement of union money. But Clair Anderson, another ex-LIUNA boss who served on several trusts with Abbott, disagreed, telling the *Oregonian* after the sentencing that Abbott effectively controlled the trusts as well as the union. "He ruled with a strong hand," Anderson said. "He had influence with every damn local in the state."

Rieke told Brown that his client "simply has no money," and the judge agreed that he could work out a payment plan. Clinton estimated that Abbott receives between $8,000 and $10,000 a month in union pension payments. Abbott will report to prison on May 1, which will give him time to testify at Grayson's impending trial. Abbott's sentencing came 24 hours after Brown sentenced Grayson's son, Barclay, Capital Consultants' president, to 24 months imprisonment and three years probation for mail fraud. He pled guilty on March 19, 2001, and is cooperating. [UCU 4.25]

On a second front, a $16 million class action settlement was reached in cases filed by union members against their fund trustees for breach of fiduciary duty in the scandal. However, the funding of the settlement is now in question due to the financial difficulties of the insurance company that provided liability coverage for some of the funds' trustees. All the settlement payments were to be funded by the funds' fiduciary liability policies.

Before the insurer problem surfaced the five unions reached the following terms. The class action settlements with the Oregon Laborers Union and Idaho Laborers Union were filed March 7, 2002, with the U.S. District Court in Portland. A similar settlement for members of Office & Professional Employees International Union Local 11 based in Portland was scheduled to be filed in March 2002. These settlements called for a payment of $4 million to the trust funds administered by the Oregon Laborers Union, which lost an estimated $40 million in investments. The Idaho Laborers Union, which had a loss of $10 million, was scheduled to receive $1.9 million, and Local 11, which had a loss of $10 million, was scheduled to receive just under $1 million.

Another class action settlement was reached March 7 in the same federal court with members of plans administered by Portland-based Local 290 of the United Association of Plumbers & Pipe Fitters. It called for a payment of $3.7 million. The fund has $29 million at risk due to the investment losses at Capital Consultants. Finally, members of the Eighth District of the International Brotherhood of Electrical Workers in Denver were scheduled to settle in March a suit against trustees of their trust funds.The Eighth District includes Idaho, Utah, and Colorado. That settlement was expected to be for about $6 million. The trust has $50 million at risk due to investment losses at Capital Consultants. [UCU 5.6]

Finally on a third front, the Department of Labor April 4, 2002, filed five consent orders with the U.S. District Court in Portland settling allegations against more than 40 trustees of union pension and benefit funds concerning alleged ERISA violations of. At the same time the consent orders were filed, DOL filed the complaints upon which the settlements were based. DOL's settlement resulted in the dismissal of 27 trustees from their current positions and a new set of procedures that the funds' must abide by in the years ahead in their investment management.

Capital Consultants has been under federal receivership since September 2000. DOL estimates that a large number of union funds lost more than $100 million due to risky investments made by Capital Consultants. DOL's five lawsuits detailed how trustees in fund after fund ignored warnings by outside investment "monitors" of the risks of certain private investments. Trustees for a number of the funds ignored their funds' guidelines on the amount of their funds that should be invested in such ventures. When the amount of such investments exceed the guidelines, trustees often voted to relax the guidelines, the suits said. For example, in the case involving the Oregon Laborers-Employers Health and Welfare Trust, the plan called for investments only in readily marketable securities and real estate. Yet during the mid-1990s Capital Consultants invested up to 35% of the fund under its management in collateralized notes, the suit said.

Between 1995 and 1999 the trustees of the Oregon Laborers-Employers Pension Plan allowed Capital Consultants to invest 55%, or $ 103 million, of its assets under the firm's management in private placements, the suit said. Trustees of the union's 401(k) plan allowed up to 100% of the funds managed by Capital Consultants to be placed in risky private investments, contrary to the fund's diversification policy, the suit said.

Further, three funds were administered by IBEW's Eighth District. The union's pension fund in the early 1990s had a $300,000 limit on the amount Capital Consultants could loan to any one borrower in a private placement, according to the suits. In 1996 the trustees changed this limit to 20% of fund's assets under management by Capital Consultants. And in 1997 the trustees changed the limit to 50%. By 2000, the fund had $46 million under management by Capital Consultants, much of it private placements, the suit said.

Similarly, UA Local 290's pension plan was "repeatedly warned" in 1995 by its outside investment monitor about Capital Consultants' private placements, the suit said. The trustees were warned of the low returns and high risks of such investments, the suit said. The monitor characterized Capital Consultants' nontraditional asset portfolio as "drastically underperforming," the suit said. Trustees were charged with failure to protect interest, with failure to act with prudence and diligence, failure to heed warnings and for relying on inadequate investment reports.

In addition to Abbott, two other union officials who served as trustees were singled out for accepting tainted Capital Consultant gifts. The other two union officials charged in DOL's trustee suits for accepting gratuities as trustees were Gary Kirkland, chief executive of the Portland-based OPEIU Local 11, and Robert Legino, a trustee on two funds administered by the IBEW's Eighth District. A portion of the charges against Kirkland were not included in the settlement and remain in dispute with DOL. [UCU 5.8]

2. DOL Alleges ULLICO Imprudently Invested $10 Million

The Department of Labor sued Washington, D.C.-based Trust Fund Advisors, Inc., and its parent, ULLICO, March 22, 2002, for imprudently investing more than $10 million in assets of two Laborers' International Union of North America pension funds in a risky real estate project. LIUNA hired TFA as a union fund manager for the Local Union and District Council Pension Fund and National Industrial Pension Fund. TFA hired ULLICO to handle all real estate investments made on behalf of clients of TFA. ULLICO-TFA contracted with the pension funds in 1993-94 to handle their investment in real estate. Admitted criminal and ex-LIUNA boss Arthur A. Coia was elected to ULLICO's board in 1993 and was on the board as of Sept. 30, 2000, according to a State of New York's Insurance Department document.

The suit alleges that ULLICO-TFA violated ERISA by imprudently investing more than $10 million of plan assets in a risky real estate project. In 1995, ULLICO-TFA used plan assets to purchase and develop a 120-acre tract of raw land in North Las Vegas, Nevada, into saleable building lots. ULLICO-TFA then incorporated LF Las Vegas Realty Corp., paid close to $6 million for the property, and spent more than $4 million to develop it. The suit also alleges that ULLICO-TFA failed to properly investigate the merits of the Sommerset Ridge project (failed to obtain an appraisal) and, ultimately, abandoned the project in 1997 without selling any lots. The funds suffered losses when the property was sold in June 1999 to Capital Pacific Holdings for less than the money invested by the funds.

DOL is seeking a court order that requires ULLICO-TFA to reimburse the funds for all losses, plus interest, resulting from the breaches; and permanently bars them from violating ERISA in the future. The suit was filed in federal court in Washington, D.C.[UCU 5.7]

3. Trustees Settle ERISA Suit for $4.9 Million

Trustees of the National Electrical Benefit Fund must pay more than $4.9 million to reimburse the fund under a consent order settling Department of Labor charges that they breached their fiduciary duties under ERISA by investing in a Florida real estate limited partnership. The two trustees, Jack Moore and John Grau, also agreed to pay a civil penalty of $555,000 under the consent order signed October 16, 2001, by the U.S. District Judge Deborah K. Chasanow (D. Md.). The order resulted from a suit filed in May 1999 by DOL, alleging that the trustees imprudently loaned pension plan assets to a corporation for certain real estate purchases linked to tainted Democratic National Committee Chairman Terence McAuliffe.

Moore and Grau denied the allegations, but entered into the agreement with DOL after U.S. District Judge Alexander Williams, Jr. (D. Md.) ruled in July that DOL could proceed with its suit. Williams denied the trustees' motion for summary judgment, rejecting their contention that they did not breach their fiduciary duties because the real estate transactions had beneficial results.

According to Williams, the trustees arranged for the fund to become a limited partner in a partnership established to purchase real estate in Florida The fund subsequently loaned $10 million to the general partner of the partnership, McAuliffe, enabling him, through another company, to acquire and develop additional property. The trustees then took McAuliffe up on his offer to sell the fund shares in the partnership at a 15% discount, increasing the fund's interest to more than 88%. The partnership subsequently repurchased the fund's shares for more than $30 million.

NEBF is operated jointly by the International Brotherhood of Electrical Workers from which Moore retired as secretary in 1997, and the National Electrical Contractors Association. [UCU 4.22]

4. New York Boss Sentenced, Benefit Funds Lost $1 Million

On March 1, 2002, a boss and a member of the United Brotherhood of Carpenters were indicted, pled guilty, and sentenced in Manhattan Supreme Court for taking bribes to let a contractor use nonunion workers at two Manhattan job sites. Stephen Goworek was sentenced to six months in jail and 54 months' probation, and Thomas Riccardo got five years' probation. A third, John Mingione, pled not guilty and will return to court. The scheme allegedly caused the union's pension and welfare fund to be deprived of more than $1 million that was supposed to be paid by the contractor.

The New York State Attorney General charged Goworek in an 11-count indictment, which included Grand Larceny in the First and Second Degrees, four counts of Bribe Receiving by a Labor Official, and five counts of Violating a Fiduciary Duty. Before his arrest, Goworek managed UBC's Stamps Enforcement Unit of the Benefit Funds of the District Council of New York and Vicinity. As the Stamps Enforcement manager, he was responsible for ensuring that contractors remitted the payments to the benefit funds required by contract.

Mingione was a UBC shop steward, and Riccardo was on the payroll at one site. Both allegedly acted with Goworek in the bribery and grand larceny scheme. All three faced up to 25 years in prison if convicted of the top count of Grand Larceny in the First Degree. The indictments were the result of a nine-month state and federal probe. It targeted remodeling projects at the Warwick Hotel and Carlton Hotel. A contractor working on those projects cooperated in the probe, which included audio and video taping the defendants' demands for bribes, as well as the actual bribe payments. Some bribes were delivered by undercover agents from New York's Statewide Organized Crime Task Force.

"My office will continue to work with [the Department of Labor's] Inspector General to ensure that the labor laws are enforced, that workers receive the wages and benefits which they are entitled to, and that the integrity of the collective bargaining process is protected," New York State Atty. General Eliot Spitzer said. [UCU 5.6]

5. Genovese Allegedly Stole $1 Million from Union Funds

Federal prosecutors brought a 98-count indictment against 73 members and associates the Genovese crime family in New York. The charges include embezzlement, extortion, labor racketeering, loansharking, illegal gambling operations, selling counterfeit money, gun trafficking, credit card fraud, and attempted bank fraud, some of which led to conspiracy and racketeering counts. The crimes reportedly earned about $14 million this year. At least 60 defendants were arrested December 5; some were already in custody. If convicted, some defendants would face as little as 5 years in prison while others would face hundreds of years; one could face up to 530 years.

Among those indicted are 3 alleged "capos" or captains, who are responsible for supervising the criminal activities of the members of their crews. They were identified as Pasquale "Patsy" Parrello, Joseph Dente, Jr., and Rosario "Ross" Gangi, who is already serving a 97-month sentence in federal prison for his role in a penny stock fraud.

Parrello is accused of embezzling more than $1 million from the benefit funds of Local 11 and Local 964 of the United Brotherhood of Carpenters. Allegedly, Parrello and others stole the funds through S&F Carpentry, a unionized company based in Tuckahoe, N.Y., by reporting a fraction of the union carpenters they employed, using non-union labor and destroying payroll records. UBC members allegedly were threatened if they complained about the use of non-union workers. [UCU 4.26]

6. Chicago Bosses Sentenced for Abuse of Benefit Funds

On March 15, 2002, U.S. District Judge Blanche M. Manning (N.D. Ill.) sentenced John Serpico, ex-president of the Central States Joint Board and ex-vice president of the Laborers' International Union of North America to six concurrent 30 months prison terms followed by three years of supervised release. CSJB is a labor organization which handles pension and other employee benefit funds for eight locals including locals of LIUNA and the International Union of Allied Novelty & Production Workers. A jury convicted the powerful Chicago boss July 16, 2001, on six counts of mail fraud. Manning also fined him $100,000, ordered him to make restitution of $30,000, and ordered him to pay the cost of imprisonment. Serpico was CSJB president from 1975-94 and, at the time of the conviction, was a $50,000-a-year consultant. He was purged from LIUNA in 1995.

Serpico, 71, and his longtime mistress, Maria Busillo, 56, engaged in a 12-year scheme trading their control over union pension, benefit, and other funds to obtain some $5 million in loans for personal business ventures. Assistant U.S. Attorney David Glockner said Serpico and Busillo frequently flew together in a union jet to "frolic" at Busillo's beachfront condo in Marco Island, Florida, "financed in part with a loan obtained by dumping workers' money into a corrupt bank." Busillo allegedly obtained loans for a the Florida condo as well as for her $900,000 house in Glenview, Illinois. She reportedly obtained the loan on the house even though the monthly mortgage payment exceeded her gross income.

From 1978-90, the two obtained 17 loans from eight banks that received substantial union deposits, in some cases just days after the banks made the loans. The key dealings were with Capitol Bank & Trust. In return for some $5 million in personal loans at favorable rates, the two deposited about $4 million in union funds in Capitol. The bank also managed $16 million in union pension and welfare plans. Capitol pled guilty in 1996 to the scam and was fined $800,000. Its two owners were forced to sell it and were banned from banking. At Serpico's trial, ex-Capitol president Robert Hahn testified for the government. Among Capitol's actions was a $1.8 million loan to Serpico and his partner, ex-U.S. Representative Morgan F. Murphy (D-Ill.), on a film studio project despite cash-flow woes and no clients. The building was later bought by Oprah Winfrey and turned into Harpo Studios.

Manning sentenced Busillo, also an ex-CSJB president and ex-ANPW president, to 15 months imprisonment followed by three years supervised release on each of two mail fraud counts and one count of making a false statement on a loan application of which she had been convicted, with the sentences to run concurrently. Manning also fined her $100,000 and ordered to pay the cost of imprisonment.

Further, Serpico and Gilbert Cataldo, an ex-Chicago housing commissioner and ex-Illinois International Port District executive director, were convicted of sharing in a kickback scheme of more than $330,000 after CSJB secured a $6.5 million loan for a failing hotel project in Champaign, Illinois. Serpico was IIPD's longtime chairman until 1999 when he was indicted. Manning sentenced Cataldo to 21 months imprisonment followed by three years supervised release on each of three mail fraud counts of which he had been convicted, with the sentences to run concurrently. Manning also fined Cataldo $5,000 and ordered to perform 250 hours of community service.

"All three of these defendants have held themselves out for years and even throughout this trial as champions of labor and workers and pillars of the community," said Glockner. "The evidence in this case shows that they're simply crooks."

"Insufficient," is the way LIUNA dissident and Laborers for Justice leader Jim McGough described Serpico's sentence. Expressing outrage at the sentence's brevity, McGough told the Union Corruption Update, "Serpico raped and pillaged Laborers Local 8 and facilitated Organized Crime's control of the Laborers Union and Central States Joint Board."

Manning order the aging Serpico to surrender to prison June 28, but his attorney, Matthias Lydon, said he will seek his continued release pending appeal because of upcoming spinal surgery and an expected six-month recuperation period. After sentencing, Serpico, his hand raised to shield his face, ran into traffic outside the Dirksen Federal Building in an attempt to shake free from photographers. [UCU 5.7, 4.15]

7. New Jersey Boss Accused of Embezzling $2 Million

Carmelo J. Sita, ex-fund manager for the Hudson County (N.J.) District Council of Laborers (HCDCL) , was arrested the morning of December 12 at his home in Mountainside, N.J., and accused of embezzling more than $2 million from HCDCL and its benefit funds. He used the money for a lavish lifestyle, including a Martha's Vineyard vacation home and luxury cars, according to the 59-count indictment handed up December 10. U.S. Magistrate Judge Susan D. Wigenton set bail at $250,000, which was reportedly secured by a coop apartment that Sita owns on Manhattan's Upper West Side.

From January 1995 to March 1999, Sita allegedly conspired with others who concealed the embezzlement, and he wrote checks from benefit fund and HCDCL accounts to himself or to pay his personal expenses. Allegedly, Sita stole money to pay for "monthly credit card debts, mortgage payments, lease payments on luxury vehicles, personal taxes, Martha's Vineyard vacation home and boat, and unauthorized political and charitable contributions." Further, he allegedly used union money to pay country club dues. Specifically, the indictment charges him with conspiracy, theft from employee benefit and health care plans, health care fraud, and falsifying disbursement documents about HCDCL.

In addition to prison time, prosecutors are seeking criminal forfeiture of Sita's Mountainside home, his condo in Tisbury, Mass. (Martha's Vineyard), a Wellcraft 20-foot motor boat, and $1,062,787 million in cash. They charge that the property and money came from the embezzled funds.

Sita resigned in 1999 after 22 years as executive manager of HCDCL's benefit funds. The Jersey City based council consists of Laborers' International Union of North America Locals 21, 31, 202, and 325. He is now a self-employed consultant on commercial real estate deals. Sita's attorney, David A. Ruhnke, said his client denies any wrongdoing: "this indictment represents a gross misunderstanding of how matters of compensation were handled in this union." Ruhnke admitted that last year, the Department of Labor sued Sita and other bosses, accountants, and attorneys linked the funds over the alleged embezzlement. The parties reached a confidential settlement, he said. [UCU 4.26]

8. Rhode Island Embezzler Loses $1.3 Million Suit; Trustees to Repay $24,000

U.S. District Judge Ronald R. Lagueux (D.R.I.) ordered the trustees of the International Brotherhood of Electrical Workers Local 99 Health & Welfare Fund January 11, 2002, to repay $24,000 to cover improper benefit payments. A suit, filed in May 2001 by the Department of Labor claimed the board of trustees had violated a law protecting employee pension and welfare benefit plans. Allegedly, from January 1994 and December 31, 1995, trustees of for the Providence, R.I., based fund failed to adequately ensure the accuracy of employee eligibility data. As a result, payments were made to seven ineligible people. Lagueux's judgment also bars the defendants from committing similar infractions in the future. [UCU 5.2]

Further, ex-union pension manager and prison inmate Todd LaScola must repay $1,279,656 to Local 99's retirement plan under terms of a federal default judgment. Lagueux signed the order July 24, 2001, after LaScola and his firm, CPI Financial Services., Inc., failed to respond to an ERISA suit filed in January 2001 by DOL accusing them of misusing plan assets. DOL's suit alleged that LaScola invested approximately $5,970,000, over 20% the plan's total assets, in unregistered, highly risky notes issued by real estate limited partnerships owned by RBG Management Services., Inc., of Chicago. Allegedly, there was no trading market for the RBG notes, making the investment a violation of the plan's guidelines. LaScola received approximately $312,400 in commissions from RBG, as well as $127,652 in management fees from the plan.

In 1998, plan trustees demanded that LaScola immediately liquidate improper investments. He subsequently returned $5,993,800 to the plan, but he obtained that money through other illegal acts, for which he is currently serving a federal prison term. The $1.279 million ordered to be repaid is the total of the opportunity losses, $839,603, plus the commissions and management fees. LaScola must repay his criminal obligations before making these civil payments. He was ordered to repay $8.12 million May after pleading guilty to nine embezzlement and fraud charges. He is serving an eight-year sentence in a medium-security federal prison in Estill, S.C. [UCU 4.16]

9. DOL Wins $597,700 for Michigan Funds

On March 19, 2002, trustees and the ex-administrator of the Millwrights Local 1102 Supplemental Pension Plan and Health Plan, which are linked to United Brotherhood of Carpenters Local 1102 in Warren, Michigan, agreed to restore $597,775 to the plans. Further, U.S. District Judge Avern L. Cohn (E.D. Mich) ordered the trustees to resign their positions with the plans.

Cohn's judgment resolved a suit filed Aug. 23, 2000, by the Department of Labor against administrator Automated Benefit Services, Inc. and trustees Walter R. Mabry, Jerry D. Moore, Ronald M. Krochmalny, Keith R. Scrutton, Milford E. Woodbeck, Sr., and Roy Shields. Allegedly, the defendants violated pension laws by 1) paying unreasonable compensation and fees to ABS, 2) failing to prudently invest the plan's cash assets, 3) paying excessive fees relating to the collection of employer contributions to the plans, and 4) making mortgage loans to participants which did not comply with the terms of the pension plan document.

Cohn also ordered the pension plan to comply with the requirements of ERISA in any future activity and gave Nat'l City Bank of Cleveland the authority to manage the mortgage loan portfolio of the pension plan. Reportedly, the bank then exercised that authority and sold the pension plan's portfolio for $1,173,813.40. [UCU 5.7]

10. Two Confess to Embezzling some $453,000 from Benefit Funds

On April 11, 2002, Raymond Robertson, ex-general vice president of the International Association of Bridge, Structural, Ornamental & Reinforcing Iron Workers and director of its National Training Fund, pled guilty in U.S. District Court in Washington, D.C., to one count of conspiracy to defraud an employee welfare benefit plan, one count of aiding and abetting embezzlement from an organization receiving federal funds, and six counts of embezzlement from an employee welfare benefit plan. According to the plea agreement, he agreed to pay a fine of $30,000, to make restitution of $103,170, and to assist the government in other investigations.

Further, Kerry J. Tresselt, ex-bookkeeper for BSORIW admitted November 8, 2001, that she embezzled more than $350,000 from a union job-training fund, the National Ironworkers & Employers Apprenticeship & Journeyman Upgrading Fund, and attempted to cover it up. She pled guilty in U.S. District Court in Washington, D.C., to three counts of embezzlement from an employee benefit plan and one count of conspiring to make false statements. She admitted to illegally issuing checks to herself and others while working for the training fund set up by BSORIW with contributions from contractors. She agreed to make restitution and assist prosecutors in a continuing criminal probe of BSORIW.

From about 1985 to April 2001, Tresselt worked as the bookkeeper for the Fund. In that capacity, she was responsible for issuing checks drawn against the Fund's accounts, recording payments in the Fund's general ledger, and performing other bookkeeping responsibilities. Through several different types of schemes, Tresselt stole more than $350,000 from the Fund from approximately April 1998 through April 2001. Tresselt stole more than $30,000 through, in effect, a "ghost" employee scheme and more than $270,000 by simply writing checks to herself on the Fund's checking account. In addition, she stole more than $40,000 of funds obtained by the Fund in connection with a federal grant received from the Department of Labor to train workers in Poland. Tresselt stole that money by submitting false and fraudulent claims for work which she did not perform. Finally, Tresselt created false and fraudulent records to conceal and cover-up some of her thefts. Under federal sentencing guidelines, Tresselt reportedly faces up to to 27 months in federal prison when she is sentenced by Chief U.S. District Judge Thomas F. Hogan (D.D.C.).

Robertson and Tresselt are the sixth and seventh persons from BSORIW to be charged in the probe launched by the FBI and Department of Labor. Four other bosses have pled guilty to embezzlement or related charges. The fifth, ex-BSORIW boss Jacob "Jake" West, is awaiting trial. He is accused of embezzling $50,000. Others charged in the scandal are: Darrel E. Shelton, ex-general organizer, who pled guilty to embezzling as much as $120,000; Fred G. Summers, the former executive director of organizing, who admitted embezzling more than $50,000; James E. Cole, ex-general secretary , who pled guilty to embezzling more than 10,000; and Michael J. Brennan, the ex-head of the Iron Workers Political Action League, who pled guilty to charges involving the theft of $7,000. Brennan received probation. Shelton, Summers, and Cole are awaiting sentencing. [UCU 5.9, 4.23]

11. Northern Illinois Boss Charged with $353,000 Theft

Charles C. Isely, III, ex-president and treasurer of the International Employees Welfare Union was indicted December 19, 2001, on one count of embezzlement and three counts of mail fraud. He allegedly embezzled $353,000 from the Waukegan, Ill.-based union, which he founded and ran from 1974 to 1998. He allegedly wrote 30 fraudulent checks totaling $225,000 from IEWU's death trust fund. He also allegedly wrote another 40 checks for $108,000 on IEWU's bank accounts. The checks were allegedly routed to Isely's bank accounts and used for personal expenses. Further, Isely allegedly obtained a $20,000 bank loan under the union's name and reportedly deposited it in his personal bank account. The alleged crimes occurred in 1994-98. His wife, Patricia, IEWU's ex-vice president and secretary, was not charged. Both resigned in March 1998. In November 1998, Isley and his wife filed for bankruptcy and claimed outstanding debts to IEWU. [UCU 5.1]

12. Illinois Boss Gets Two Years for Taking $350,000

Patrick Stiles, ex-boss of Aurora (Illinois) Firefighters Local 99, pled guilty March 21, 2002, to felony theft in connection with the embezzlement of union and firefighters association funds and was sentenced tó two years in prison. The plea agreement, entered in Kane County Circuit Court before Judge Donald C. Hudson, requires Stiles to pay $244,000 in further restitution to Aurora Firefighters Local 99 and the Aurora Firefighters Relief Association. Stiles was released on bail and ordered to turn himself in to authorities on April 23.

Aurora police testified at a bail hearing in Oct. that Stiles had stolen about $350,000 from the two organizations, but the restitution was based on a $275,000 settlement in a related civil suit. Stiles, a firefighter, resigned January 15, 2001, after eleven years with the Aurora Fire Department. He was secretary and treasurer of the Relief Association from 1995 to 1999 and held the same post at Local 99 from 1992 until his resignation.

"We won't feel it's complete until he pays the penalty--doing the time--and pays us back the money he owes us," said Local 99 president Gregory Frieders. Stiles agreed in April 2001 to pay $275,000 to the two groups in a civil suit they filed. He agreed to turn over about $64,000 in retirement funds. The groups have received about $31,000 from his pension , but await payment from a deferred compensation fund. Stiles has made no further payments. Though a lien has been place on his home, unions officials said they doubt he has equity in that home.

Stiles allegedly made out union checks to pay for personal expenses, including $16,800 to credit cards, $8,839 for telephone bills, $3,250 for computer equipment and $8,000 for payments to a non-union bank account. The Relief Association alleged that Stiles wrote $15,092 in checks to himself, $12,000 credit cards, $1,941 to his mechanic and $4,420 to firefighters to work on his house.

When the allegations surfaced, only one signature was required to sign Relief Association checks. Union checks required two signatures, but checks that only had Stiles' signature still were cashed, Frieders said. Since then, both organizations have reportedly revamped their accounting procedures. [UCU 5.6, 4.22]

13. $289,000 Allegedly Stolen from New York Fund

Barbara Monfre, pension fund administrator for the International Brotherhood of Electrical Workers Local 3 in New York City was arraigned March 22, 2002, in U.S. District Court in Manhattan on charges of embezzling approximately $289,000 from the local's Elevator Division Retirement Plans. [UCU 5.7]

14. Buffalo Boss-Widow Pleads Guilty, Repays $144,400

Anna M. Ervolino, ex-vice president of Hotel Employees & Restaurant Employees International Union Local 4 in Buffalo, pled guilty March 22, 2002, to one count of willful and unlawful failing to disclose for a benefit plan annual report a payment to a party in interest. She and her husband, the late Frank Ervolino, ex-local president, were indicted on May 16, 2000, on multiple charges of embezzlement and conspiracy relating to the local, an associated union, and their benefit plans. The indictments alleged that some $235,000 was stolen.

The indictments came a year after HERE's court-appointed monitor found that the couple embezzled some $491,472 from Local 4 and two other unions by allegedly working half-days, at most, and took a four-month annual vacation in Florida as well as by other bogus salary, bonus, and loan scams. Frank was also the longtime head of the now defunct AFL-CIO Hospital & Nursing Home Council in Buffalo and the Intonational Laundry Workers, based in Pittsburgh. Anna has reportedly paid $144,470.79 in restitution to the plans. Frank died November 2, 2001, without ever pleading guilty or facing trial. [UCU 5.7]

15. Ohio Boss Stole $130,500 to Cover Gambling Debts

Robert D. King, Jr., admitted December 11, 2001, that a gambling habit led him to embezzle $130,507 from the United Union of Roofers, Waterproofers & Allied Workers Local 86 in Columbus, Ohio. Specifically, he embezzled $88,757 from the local and $41,750 from local's employee benefit funds. During his arraignment before U.S. District Judge George C. Smith (S.D. Ohio), King pled guilty to two embezzlement-related charges. King stole the money from August 1999 to January 2001 by writing himself checks from Local 86's general and apprentice-training funds. King told the *Columbus Dispatch*, "I got hooked on gambling and got in over my head. I got deeper and deeper." He bet at casinos on the Ohio River and in Las Vegas and placed sports bets with bookmakers.

King served as the local's business manager and financial secretary for six years until the international removed him in January 2001. Local 86 officers became suspicious of King because his sloppy record-keeping. The international union audited the local's books and confronted King with numerous discrepancies. King admitted stealing the funds, and the case was turned over to the Department of Labor. [UCU 4.26]

16. Georgia Boss Sentenced to Six Months for $90,000 Thefts

On April 11, 2002, in Steven Jones, ex-business manager and ex-secretary-treasurer of International Association of Bridge, Structural, Ornamental & Reinforcing Iron Workers Local 387 in Atlanta, was sentenced to six months imprisonment and three years probation and was ordered to make restitution of $90,000--$29,724.73 in union funds and $39,949.42 in apprenticeship funds. He pled guilty on October 11, 2001 in U.S. District Court in Atlanta. [UCU 5.9]

17. New Jersey Boss Accused of Stealing $75,000

A Hackensack policeman was charged Mar. 8 with stealing more than $75,000 from police union funds, including money for the widows and orphans of slain officers. Allegedly, Kevin Schneider, who oversaw the several union funds as treasurer for seven years, used the money during the past four years to finance his gambling forays at the Meadowlands Racetrack and casinos in Atlantic City and Las Vegas. Much of the money allegedly came out of the Policemen's Benevolent Association Local 9's death-benefits fund, which helps families after officers die. Reportedly, Schneider has almost totally depleted the fund. He also allegedly ravaged Local 9's general-operating fund, contract negotiating fund, golf-outing fund, and a fund to build an in-line skating park for city youngsters.

"I'm devastated," said Local 9 president Philip Carroll, who discovered discrepancies in the local's books only a week before the charges were brought. Schneider started stealing from the local in 1998 and took an increasing amount of money every year since to fund his gambling habit, said Police Chief Ken Zisa. "[This was] a total shock to us. He was hiding it very well," Zisa said. Investigators said the boss operated alone. Carroll confessed that he wasn't sure why the dwindling accounts weren't discovered sooner.

The alleged crimes began to unravel after Carroll, who took over as president six months ago, started looking at the local's books as his new administration prepared for an internal audit. Carroll talked with Schneider about the accounts and "didn't like the answers he got," Zisa said. Carroll asked Schneider to show him the local's books, but for a couple of days, Schneider avoided him. Carroll told Zisa, and Zisa subsequently told the Bergen County Prosecutor's Office. When Schneider finally brought the local's books to the police station March 5, he was joined by his attorney.

Investigators reportedly discovered a mounting list of withdrawals that Schneider either made out to cash or directly to himself. Police photographed, fingerprinted, and released Schneider on his own recognizance. His charge of theft of more than $75,000 is a second-degree crime punishable by up to 10 years in prison and fines of up to $100,000. Zisa suspended him with pay on Mar. 5 and then suspended him without pay after he was charged on Mar. 8. Zisa said an administrative hearing will be scheduled at which Zisa will seek to remove Schneider from the force. Carroll said the local is working to find out exactly what's left of its accounts and then will start to rebuild with fundraisers. [UCU 5.6]

18. Boston Boss Faces Embezzlement and Bribery Charges

George W. Cashman, president of International Brotherhood of Teamsters Local 25 in Charlestown, Massachusetts, along with four other individuals and three firms were indicted January 16, 2002 on 179 counts of embezzlement and bribery. Allegedly, 19 non-employees were ordered or placed on the firms' payrolls in order to allow the non-employees to receive health benefits from Local 25's Health Services & Insurance Plan to which they were not entitled. Assistant U.S. Attorney Fred Wyshak said the defendants robbed the fund of benefits belonging to qualified members: "The loss is to the fund that has to pay benefits it normally would not have to pay."

Disilva Transportation, Inc., Hutchinson Industries, Inc., and Manfi Leasing Corp., run by brothers Thomas A. and James P. Disilva and their brother-in-law William P. Belanger, filed false documents for the bogus employees from 1992-2001 thereby costing Local 25's HSIP $72,000 in wrongful health benefits. Also, two non-employees were allegedly placed on the firms' payrolls in order to be eligible for pension benefits from the New England Teamsters & Trucking Indus. Pension Fund, which covers several IBT locals.

Cashman and Local 25 vice-president William Carnes allegedly participated in the scheme and directed benefits from the firms to the bogus employees in violation of the Taft-Hartley Act. Cashman and Carnes have run Local 26 since 1992. Additionally, both are trustees of Local 25's HSIP, and Cashman is a trustee of NETTIPF as well as the head of IBT Joint Council 10. All five pled not guilty and were released on $25,000 bond. U.S. Magistrate Judge Joyce L. Alexander rejected arguments that the case against Cashman and Carnes was not serious enough to warrant bail but reduced the prosecutors' demand for $50,000 bail. [UCU 5.2]

19. Five Allegedly Stole $71,000 from Atlantic City Local

New Jersey Police announced January 2, 2002 that they have charged five people with conspiring to steal from Atlantic City's largest union, in an embezzlement scheme that allegedly drained at least $71,000 from the severance fund of Local 54 of the Hotel Employees & Restaurant Employees International Union. Mariana Candelaria, who works for Garden State Benefit

Services, Inc., the company that administers the local's severance and pension funds from desks inside Local 54's office, was arrested on December 21. Candelaria allegedly conspired with an ex-colleague and three outsiders by falsifying claims for severance payouts and then issuing and cashing the checks. Police charged Candelaria with embezzling more than $50,000, along with conspiracy, forgery, and theft by deception after an investigation by Detectives Edward Riegel and Brian Paige.

Local 54 vice president Al Cohen attempted to distance himself and other bosses from the thefts. He claimed that union members were the victims of a crime committed by a third party working inside the union office.

Also charged were Rhonda Jones, who reportedly left her job working for GSBS inside Local 54's office last year; and Jaymes Browne, a friend of Candelaria who allegedly cashed more than $6,800 in fraudulent union checks and forged documents. Jaime Cambrelen, an acquaintance of Candelaria, also faces charges of forgery and fraudulent check-cashing. Another suspect, identified as Sinclair Caesar remains at large. He is wanted on charges of theft by deception in excess of $50,000, fraud and forgery. All five suspects have been charged with conspiracy. The probe is continuing in cooperation with the Atlantic County Prosecutor's Office and the U.S. Department of Labor.

The timing of the arrests of Jones, Browne, and Cambrelen was unclear. News of Candelaria's arrest was kept private for several days because of concerns that releasing the information would jeopardize the investigation. The investigation began as a minor fraud case, when authorities began looking into a severance check issued by GSBS to a union member who supposedly had worked for Tropicana Casino and Resort. But when the probe reportedly showed that the union member never had worked at Tropicana, detectives began following a trail of financial documents, allegedly finding many other fraudulent checks that were issued from Local 54's severance fund starting in March 2001. "Two detectives followed through with it and it blossomed into a major conspiracy," Police Sgt. Michael Tullio said.

The arrests come as more bad news for Local 54 bosses, just weeks after an audit was released to union members that showed that Local 54's net assets dropped by $742,000 to $412,256 in 2000, and two weeks before a court-ordered special officer election. In October, a federal judge in threw out the results of a June 1999 election, ruling that the union failed to mail notices of the election to 1,975 members and failed to send ballots to 1,596 members. [UCU 5.3]

20. Philadelphia Boss Accused of $50,000 Theft; $2,500 from Widow

A federal grand jury in Philadelphia returned a 21-count indictment February 13 charging Kendall Williams with theft of union funds, theft from a union health and welfare fund, failure to keep required records, and failure to file required reports with the Department of Labor. The alleged thefts totaled $50,983.84. Williams is the president of the independent PNI Security Union, which represents the security officers at the facilities of the Philadelphia Inquirer and Daily News.

Between 1997-99, Williams allegedly embezzled approximately $29,683.84 from the PNI Security Union Health & Welfare Fund by falsely claiming that another union member, L. Zane, would join him in traveling to benefit plan administration conferences put on by the International Foundation of Employee Benefit Plans. After obtaining funds for the bogus expenses (conference fees, preconference fees, air transportation, lodging, lost wages, and per diem expenses), he deposited the Fund's checks into the union's checking account and then withdrew that money for his own personal use.

Also, he sought and received refunds from IFEBP for preconference programs that he did not attend. He did the same for Zane's unused conference and preconference fees. However, he did not return the refund checks to Fund. He deposited them into the union's checking account and withdrew that money for his personal use. Six conferences were involved: Las Vegas, Stateline, Pa. (2), Vancouver (2), and Washington, D.C.

Even more outrageous, Williams allegedly obtained a $2,500 check from the Fund in

February 2000 that was meant to be paid to the widow of a recently deceased union member. According to the indictment, he never gave that check to the widow. Instead, he deposited the check in the union's checking account on June 8, 2000, and on June 9, he withdrew the money for his personal use.

Further, Williams allegedly embezzled union monies by taking an unauthorized salary between 1997-2000, totaling about $18,800. Finally, Williams allegedly failed to keep proper records of union finances between 1997-99 and failed to timely file required financial reports with DOL for the years 1996-99. If convicted on all counts, he faces a maximum possible sentence of 77 years imprisonment, 3 years supervised release, a $4,200,000 fine, a $2,100 special assessment, and restitution. [UCU 5.4]

21. Virginia Bosses Indicted for Stealing From Disaster Fund

Five union bosses of United Steelworkers of America Local 9336 in Radford, Virginia, were indicted February 19, 2002, with embezzling more than $10,000 that was paid the Local 9336 Disaster Relief Fund established after a fatal explosion at the Intermet New River Foundry in March 2000. The fund was earmarked for workers affected by the explosion, in which three workers were killed. About $22,500 was raised. Some workers were facing foreclosure, repossession, and eviction as a result of the subsequent plant shutdown.

The five are charged with making payments to themselves totaling $11,856 from the Fund, while denying payments to workers in greater need. Allegedly, they did not publicize the fund and made payments to themselves after they had gone back to work or on paid sick leave. William E. Fricker, ex-local president, is charged with stealing $3,154; Edward A. Ramsey, ex-president and vice president, $1,101; Joseph W. Burress, ex-financial secretary, $1,276; Rhonda L. Creed, ex-grievance committee chairwoman, $1,239; and Elizabeth J. George, an unidentified officer, $4,186. George, who never returned to the foundry, is also charged with approving $900 in unauthorized payments to Robert E. "Robbie" Martin, with whom she had a "relationship." Martin was not charged.

All but George were also charged in a second scheme which secured about $10,809 from false or excessive claims for "lost time"--they allegedly double-billed the local for lost time for which they were also paid by the foundry. Further, some submitted claims at excessive pay rates. Fricker is charged with stealing $3,217; Ramsey, $3,964; Burress, $1,745, and Creed, $1,883. The 19-count indictment included charges of conspiracy to embezzle, conspiracy to make false entries in union records, embezzlement, and false entries. If convicted, the four face up to 17 years in prison and a $950,000 fine. George faces 11 years in prison and a $600,000 fine. The union reported the schemes to the Deportment of Labor. The five surrendered to federal authorities on February 21 in Roanoke.

"We are saddened that there may have been people who tried to profit from the tragedy of others," said Mike Kelly, communications manager at Intermet's headquarters in Troy, Mich. "These things happen. . . . It's strictly a matter between the Department of Labor and certain former officials of the union." [UCU 5.5]

22. Hawaiian Boss, Daughter, Accused of Fraud and Other Crimes

A federal grand jury in Honolulu returned an indictment December 19 against United Public Workers boss Gary Rodrigues and his daughter Robin H. Sabatini adding to an existing union corruption indictment that was brought in March 2001. The new indictment alleges that Rodrigues accepted more than $100,000 in kickbacks from a life insurance agent in connection with an employee benefit plan. In March, he was indicted for allegedly embezzling from the union's medical and dental plans through overcharging.

Currently, both are charged with 50 counts of mail fraud, one count of conspiracy to defraud a health care benefit program, two counts of conspiracy to commit money laundering, and 42 counts of money laundering. Also, Rodrigues is charged with five counts of embezzling union assets and one count of accepting kickbacks in connection with an employee benefit plan. Their trial was set to begin in January, but the new charges are expected to cause a several month delay.

Rodrigues allegedly negotiated agreements with Hawaiian Dental Services and Pacific Group Medical Association, under which some of the money paid by union members for monthly premiums was later used to pay consultants reviewing the health plans. He allegedly instructed the health care firms to issue checks for consultant services to firms owned by Sabatini. Also, he allegedly never told UPW that he had included consulting fees as part of the contract and set up his daughter and her firms to primarily receive those fees. [UCU 5.1]

23. Union Fund Manager Admits to Kickbacks

A New York union pension fund consultant admitted February 6, 2002, that he paid kickbacks to a fund trustee. George W. Philipps, ex-president and owner of Pension Fund Evaluations, Inc., a consulting firm in Centerreach, N.Y., pled guilty before U.S. District Judge Nancy Gertner (D. Mass.) in Boston to a charge of paying kickbacks to William V. Close, who was then a trustee of the pension funds of International Brotherhood of Teamsters Local 710 and International Association of Machinists Local 701 (a.k.a., Auto Mechanics Union Local 701), both of which are in Chicago.

At the plea hearing, Assistant U.S. Attorney Jeanne M. Kempthorne told Gertner that Philipps caused three cash payments totaling $55,000 to be paid to Close between September and November 1997, in return for Close's using his influence to cause Fiduciary Management Associates, Inc., an investment manager to the union pension funds, to direct trades for the benefit of Philipps' firm. Clearing brokers with commission-splitting arrangements with Pension Fund Evaluations, paid the firm a portion of the commission earned on trades. Philipps, in turn, paid Close the kickbacks. As a result of the deal, Philipps' firm received hundreds of thousands of dollars in commissions without providing any services to the union pension funds, a practice known as "free business." Philipps, while admitting to the essential elements of the crime charged, denied that the payments were a bribe he agreed to pay as a condition of his receiving the union pension fund business.

Gertner scheduled sentencing for May 23. Philipps faces a maximum sentence of three years in prison and a $250,000 fine. Close, of Chicago, pled guilty on June 2, 2000 to receiving kickbacks and to money laundering. He is scheduled to be sentenced in U.S. District Court in Chicago on March 12. [UCU 5.4]

24. New York Bosses Sentenced for Mob Leaks in Stock Scam Case

U.S. District Judge William H. Pauley III (S.D.N.Y.) sentenced ex-treasurer of the NYPD's Detectives Endowment Association Stephen E. Gardell March 18, 2002, to a year and a day in prison on a federal wire fraud charge. He allegedly leaked law enforcement secrets to the mob and in exchange his mob friends built an $8,000 swimming pool at his home, comped him at a casino, and gave him a fur coat for his wife, according to prosecutors.

Gardell quietly pled guilty in November 2001 to the fraud charge after being linked to a sweeping case of mob stock ripoffs and crooked brokers. Federal prosecutors in Manhattan had first charged Gardell with conspiring to move pension investments into a crooked mob-backed financial firm in exchange for a big payoff. The scheme was caught before any pension money was touched. Gardell was arrested in June 2000 along with 119 others as part of the FBI's "Operation Uptick," which targeted mob influence on Wall Street. Weeks before his arrest, he put in for retirement and left with an $80,000-a-year pension.

Gardell asked that he be sentenced to home confinement so he could care for his ailing 87-year-old mother. In turning him down, Pauley said, "You violated the most sacred trust, a trust that is reposed in you by the community [and] by all law enforcement personnel." [UCU 5.7]

On March 26, 2002, Pauley also denied motions for acquittal by a stock promoter and hedge fund manager who were found guilty of participating in a union pension fund fraud and kickback conspiracy by a Manhattan jury. The indictment alleged that John M. Black Jr., a stock promoter, and Glenn B. Laken, a hedge fund manager, along with their co-conspirators, some of whom were members of organized crime, devised fraudulent investment products such as a venture fund and preferred stock.

The proposed scheme targeted the pension funds of three unions: Production Workers Local 400 in New York City, the Annuity Fund of the Detectives' Endowment Association, and International Union of Operating Eng'rs Local 137 of Briarcliff Manor, New York.Black and Laken were charged with violating RICO by participating in a conspiracy involving wire fraud and bribery schemes. They also were charged with the illegal acts themselves, such as using interstate wires to defraud the pension funds, and promising to pay illegal kickbacks to union officials. Black and Laken were convicted by a jury of all the charges against them. Black and Laken moved for a judgment of acquittal, asserting that the government's proof of a corrupt agreement with one union does not amount to a pattern of racketeering activity essential to conviction under RICO or support convictions for some of the other offenses. Pauley found that the government's proof, which principally consisted of taped conversations obtained by court-ordered electronic surveillance and consensual recording, was sufficient to sustain all counts of conviction against Black and Laken. [UCU 5.8]

The two were indicted in June 2000 along Gardell . So far, 92 defendants have been convicted of various fraud schemes and another 17 cases are pending. The federal jury in Manhattan also acquitted three other men who were on trial with Black and Laken: Dallas-based real estate developers Gene Phillips and A. Cal Rossi as well as San Francisco-based investment strategist William M. Stephens. Of the 120 defendants charged, 11 have had the charges against them dismissed or were acquitted at trial. Black and Laken face up to 20 years in prison at their sentencing scheduled for May 31.

No bribes were ever paid, and the union money was never diverted to the other investments. Arrests were made before any union pension funds were squandered. Most of the evidence at trial against Stephens arose from 30 to 35 hours of taped conversations between the various defendants and Jeffrey Pokross, a government informant who ran a corrupt investment bank that had been infiltrated by the Gambino and Bonanno crime families, DMN Capital On the tapes played in court, Pokross made reference to bribing pension fund managers in conversations with Stephens. But Stephens, the only defendant to take the witness stand in his own defense, testified that he did not believe Pokross was serious and was merely going along with him to meet potential new clients. [UCU 5.4]

25. $77.5 Million Suit Against Union Wins Class Action Status

U.S. District Judge Sidney H. Stein (S.D.N.Y.) granted class certification January 8, 2002, to a suit brought by participants in the International Ladies Garment Workers' Union death benefit fund who allege that the fund violated its fiduciary duties when it transferred $77.5 million of fund assets to the union, which is now part of the Union of Needletrades Industrial & Textile Employees. The fund was established in 1937 and included language prohibiting any withdrawals except for payment of benefits and administrative costs. In 1976, an amendment was added to ILGWU's constitution that permitted termination of the fund by the union's board. In 1997, the board terminated the fund and transferred the bulk of the fund's assets to a new death benefit fund. However, it also transferred $77.5 million of assets to the union itself, and $12.5 million of which was routed to a nonprofit corporation, 21st Century ILGWU Heritage Fund.

Stein granted the participants' and beneficiaries' motion for class certification, finding that the requirements for a class action were met. There were common questions such as whether the transfer to ILGWU violated ERISA; whether the documents governing the fund permitted the transfer; and whether the original fund was "terminated" within the meaning of ERISA. Reportedly, 100,000 to 132,000 participants and beneficiaries who could be included in the class. [UCU 5.3]