

# FY 2006 Annual Report



## Office of Labor-Management Standards

Employment Standards Administration  
U.S. Department of Labor  
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## Introduction

Assuring financial integrity and accountability and safeguarding union democracy for America's union members is the mission of the Department of Labor's Office of Labor-Management Standards (OLMS). In 1959, Congress enacted the Labor-Management Reporting and Disclosure Act (LMRDA) to combat union-related corruption, and OLMS continues today to pursue this important goal through criminal and civil enforcement of the LMRDA.

The LMRDA establishes a bill of rights for union members; reporting requirements for unions, union officers, union employees, employers, and others; rules for establishing and maintaining trusteeships; standards for the election of union officers; and safeguards for protecting union funds and assets. OLMS also administers Executive Order 13201, which requires Federal contractors to notify employees of their rights concerning payment of union dues or fees.

OLMS is the front line agency responsible for enforcing the LMRDA through its investigations of violations such as embezzlement, election irregularities, and deprivation of union members' rights. OLMS also conducts audits, provides comprehensive compliance assistance, and offers information and technical support to union officers and members to further the goals of financial integrity, union democracy and transparency.

## Summary Statistics

### Safeguarding Union Assets

As part of its effort to protect and safeguard union funds and assets, OLMS investigates possible embezzlement from unions and violations of other criminal provisions of the LMRDA. Since 2001 the courts have ordered restitution of \$70,523,926 in OLMS criminal cases. OLMS also conducts audits of local, intermediate, and international unions to further ensure their compliance with the LMRDA.

<b>OLMS Enforcement Statistics – Financial Integrity</b>	<b>FY 2006</b>	<b>Change from FY 2001</b>
Criminal Cases Processed	339	-8%
Indictments	118	+20%
Convictions	129	+26%
Compliance Audits Conducted – Local + Intermediate Unions (CAP)	736	+209%
Compliance Audits Conducted – International Unions (I-CAP)	5	+400%
International Compliance Audits – Follow-up audits	7	+600%

### Financial Reporting and Recordkeeping

OLMS offers comprehensive compliance assistance for union members and officials on financial reporting and recordkeeping obligations under the LMRDA. During FY 2006, the nation's largest unions, which file Form LM-2, Labor Organization Annual Report, completed their first fiscal year under revised recordkeeping and reporting requirements. Form LM-2 must be filed electronically and OLMS provided these unions extensive compliance assistance in the filing process. This year, OLMS also conducted a special enforcement initiative to encourage employers to file Form LM-10, Employer Report. This initiative featured a grace period during which new filers who voluntarily submitted a report without

being directed to file by OLMS would not be asked to submit reports for prior years, absent extraordinary circumstances.

<b>OLMS Enforcement Statistics – Reporting and Disclosure</b>	<b>FY 2006</b>
Delinquent Reports Cases Processed	1,946
Deficient Reports Cases Processed	671

### **Union Democracy**

When a union member files a timely complaint protesting a regularly scheduled election of union officers, OLMS initiates an investigation. If the investigation determines that the union violated the requirements of the LMRDA, the union may agree to allow OLMS to supervise a new election. If the union refuses to agree to remedy the violation, OLMS may take legal action seeking a new election supervised by OLMS.

The agency also conducts investigations to determine the validity of the imposition or continuation of trusteeships imposed by national unions on subordinate bodies. Trusteeship investigations are generally conducted upon receipt of a complaint from a member or subordinate body.

<b>OLMS Enforcement Statistics – Union Democracy</b>	<b>FY 2006</b>
Election Investigations Conducted	133
Lawsuits Filed	8
Voluntary Compliance Agreements Obtained	24
Supervised Elections Conducted	33
Trusteeship Investigations Conducted	13

## **Program Activities**

### **Safeguarding Union Assets**

Union officers have a duty to manage the funds and property of the union solely for the benefit of the union in accordance with its constitution and bylaws. A union officer or employee who embezzles or misappropriates union funds or assets commits a Federal crime punishable by a fine and/or imprisonment, and OLMS vigorously pursues investigations of these crimes. Following are some of the most significant cases brought by OLMS during FY 2006.

#### **Elevator Constructors Case Produces 14 More Convictions**

The multi-year investigation of a no-show jobs scheme in New York involving officials of Elevator Constructors Local 1, Operating Engineers Local 14, and Laborers Local 79, which has already resulted in 35 convictions, approached completion in fiscal 2006, with 14 more convictions. The individuals convicted in FY 2006 were sentenced to make restitution totaling more than \$1.6 million and to forfeit assets totaling more than \$1.0 million. The investigative team included OLMS, the FBI and the DOL Employee Benefits Security Administration. Based on a settlement agreement between the U.S. Attorney's Office and Local 1, OLMS has regular contact with the local's monitor, appointed under the terms of the settlement, and investigates matters

the local is involved with that may be criminal or civil violations or refers them to other agencies.

#### **Three Indictments in Market Recovery Fund Case**

An OLMS investigation of IBEW Local 212 in Ohio resulted in three indictments in March 2006. Based on a tip from a union member, OLMS examined payments made by the local to union contractors from its Market Recovery Fund (MRF), which was established by the union to make payments to union contractors so they could compete against non-union contractors bidding for jobs. The OLMS investigation established that Electrical Mechanics, Inc. owner Michael Griffie, a union contractor, filed fraudulent payroll forms with the local, inflating the number of hours on the forms to obtain MRF money. Griffie received approximately \$220,166 in unauthorized payments

## Safeguarding Union Assets (cont.)

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from the union's MRF. He was indicted and charged with aggravated theft of property or services, and tampering with and forging market recovery funds forms for the purpose of defrauding the union.

In a similar scheme, union contractors Charlene Monroe and Rachetta Johnson, owners of Electrical Innovations, also filed fraudulent payroll forms with the local and received approximately \$30,000 in unauthorized monies from the MRF. They were convicted of theft by deception and were sentenced on September 22, 2006 to 5 years of probation, 500 hours community service, and were ordered to pay restitution to the union.

### **Prison Terms Handed Down in the Washington Teachers' Union Case**

On May 22, 2006, and June 5, 2006, in the U.S. District Court for the District of Columbia, James Baxter, former treasurer of the Washington Teachers' Union (WTU), and Gwedolyn Hemphill, former assistant to previously-convicted president Barbara Bullock, were sentenced following their jury trial conviction for conspiracy, embezzlement, mail fraud, wire fraud, money laundering, false statements on LM reports, and falsification of union records. Baxter was sentenced to 10 years in prison and was ordered to pay restitution in the amount of \$4.2 million and perform 900 hours of community service. Hemphill was sentenced to 11 years in prison and ordered to pay \$4.2 million in restitution. These cases were the result of a joint investigation by OLMS and the FBI.

### **NALC Branch 599 President Sentenced in Kickback Scheme**

On May 19, 2006, Lenny V. Perez, former president of the National Association of Letter Carriers (NALC), Branch 599 in Florida was sentenced to 21 months in prison, 31 months supervised probation, and a special assessment. On September 19, 2005, Perez pled guilty to receiving cash kickbacks of \$384,000 in union funds in return for referring postal employees to certain medical specialists under the Workers' Compensation Program. The indictment and plea resulted from a joint investigation involving OLMS, the FBI, Postal Inspection Service, DOL-OIG, the Florida Department of Law Enforcement, and the Manatee County Sheriff's Office.

### **Six Enter Guilty Pleas in Multi-Million Dollar Scheme**

Thirteen indictments have been obtained in the OLMS investigation of International Longshoremen's Association (ILA) Local 1740, and its health benefit plan in Puerto Rico. To date, five individuals and one corporation involved in the \$10 million embezzlement scheme have entered guilty pleas, and a second corporation is expected to enter a guilty plea soon. Six additional individuals and one corporation are expected to go to trial in January 2007.

On March 23, 2006, businessmen Fernando Sanchez-Bencon and Francisco Consuegra-Lastayo entered guilty pleas to one count of embezzlement. Consuegra-Lastayo entered a similar plea on behalf of his company, Consuegra, Inc. Consuegra-Lastayo pled guilty to laundering more than \$500,000 in union dues checks through his jewelry business, Consuegra, Inc., which Sanchez-Bencon funneled to him in exchange for a 2 percent commission on the total amount of the checks. Under the terms of the plea agreement, Consuegra is expected to serve four months under house arrest, two years probation, and pay a \$10,000 fine, while his company is expected to pay a \$25,000 fine.

Sanchez-Bencon pled guilty to cashing union dues checks totaling \$900,000. Under his plea agreement, Sanchez-Bencon will cooperate with Federal authorities in other cases and is expected to serve 30 to 37 months in prison, as well as make restitution of \$90,000.

On April 21, 2006, Rafael Garcia-Perez, businessman and former Comptroller for Ramallo Bros, Inc., pled guilty to six counts of embezzlement and laundering funds in excess of \$8 million from the local's health benefit plan. Garcia-Perez initially laundered the money through Ramallo Bros., Inc., for Angel Ramallo, President and CEO of Ramallo Bros., Inc. Garcia-Perez later set up three shell companies (Caribbean Services, Metropolitan Group, & SS Community) that were used to launder additional money. Under the terms of his plea agreement, Garcia-Perez will cooperate with Federal authorities in other cases. Garcia-Perez faces a sentence of 14 to 17 ½ years in prison and the forfeiture of \$1.5 million. These cases are the result of joint investigations by OLMS and the FBI.

## **Safeguarding Union Assets (cont.)**

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### **LA County Federation of Labor Official Convicted of Conspiracy**

On March 28, 2006, Martin Ludlow, former executive secretary-treasurer of the Los Angeles County Federation of Labor and former member of the Los Angeles City Council, pled guilty to conspiracy with embezzlement of union funds as the underlying crime pursuant to a plea agreement covering federal, state, and local charges for his role in the use of funds embezzled from Service Employees International Union (SEIU) Local 99 by its former president, Janett Humphries. Ludlow admitted using the embezzled union funds in his 2003 campaign for Los Angeles City Council. Six people were put on the union payroll but actually worked on Ludlow's campaign. Ludlow also used union funds to pay for a cell phone used in his campaign. On June 5, 2006, he was sentenced to 5 years probation, 2,000 hours of community service and was ordered to make restitution of \$36,400 to Local 99.

Ludlow's co-conspirator, former SEIU Local 99 President Janett Humphries, was indicted on one count of conspiracy and twelve counts of embezzling union funds. Humphries was charged with providing misappropriated funds and union "ghost employees" as workers for Martin Ludlow's campaign for City Council. Humphries was also charged with five counts of embezzling union funds for other unauthorized expenses not related to the Ludlow campaign. Her jury trial in state court ended with a conviction on two counts of conspiracy and two counts of perjury on October 27, 2006. Sentencing is pending. Humphries still faces federal charges. These investigations were conducted jointly by OLMS, the Department of Labor's Office of the Inspector General (DOL-OIG), and local law enforcement.

### **Local President's Wife Steals from Union**

A joint investigation by OLMS and the DOL-OIG established that Leslie Bell, former bookkeeper for Laborers Local 1184 and ex-wife of its former president, embezzled \$178,452 over a three-year period by stealing members' cash dues and initiation fees and forging union checks to pay personal expenses. After pleading guilty, Bell was sentenced to 18 months of incarceration, 3 years of

supervised probation, and was ordered to pay restitution to the union's bonding company.

### **Guilty Plea in \$100,000 Embezzlement from UFCW Local**

Donald Hutchinson, the former financial-secretary of United Food and Commercial Workers Local 763-C in Joliet, IL, pled guilty to embezzling more than \$103,000 in union funds after serving 10 years as financial secretary for the local. Hutchinson wrote over 250 unauthorized union checks to himself under the guise of lost time, mileage, and hotel expenses. He attempted to conceal his embezzlement by falsifying monthly financial reports and the local's annual financial reports submitted to OLMS. In March 2006, Hutchinson was sentenced to three years of probation including eight months in community confinement and four months in home detention. He also was ordered to pay restitution of \$103,248.

### **Two Former Presidents Charged in 33-Count Indictment**

In March 2006, Debra Timko and Danny Iverson, former presidents of Service Employees Local 150 in Milwaukee, Wisconsin, were charged in a 33-count indictment involving mail and wire fraud and failure to maintain union records as part of a scheme to defraud the union of over \$90,000. The indictment details a scheme wherein Iverson and Timko eliminated any audit or review of the expense vouchers they submitted for reimbursement and used their positions to authorize fraudulent payments to themselves for unused vacation time and personal or other expenses that were not reimbursable. The indictment also alleges that upon Iverson's resignation as president, Timko became president, and in exchange she authorized payments to Iverson totaling \$50,000. Trials are pending.

### **Former Director of Police Association Sentenced**

On March 31, 2006, in the United States District Court for the Western District of Wisconsin, Stanley James Kluss, former executive director of the Wisconsin Professional Police Association (WPPA), was sentenced after pleading guilty to one count of embezzlement. The 32-count indictment, returned in October 2005, charged

## Safeguarding Union Assets (cont.)

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Kluss with 14 counts of embezzling union funds and 18 counts of mail fraud. The indictment charged that Kluss caused the WPPA to pay for unauthorized personal expenses. When Kluss submitted expense vouchers to the WPPA, he altered the receipts deleting the detail portion of the receipts that identified the items purchased, or deleting the date or place of purchase. At sentencing the embezzlement amount was established as \$95,048. The court sentenced Kluss to 15 months in prison with no eligibility for early release or community confinement. Kluss was also ordered to make full restitution.

### **Former AFSCME Officers Sentenced**

Gary Gourley, former president, and Jackie Sikorski, former secretary-treasurer, of AFSCME Local 1522 in Bridgeport, CT, were sentenced on December 16, 2005, and March 3, 2006, for embezzling union funds. These cases were discovered during a compliance audit conducted by OLMS. Gourley pled guilty to embezzling \$63,084 from the local by writing unauthorized checks to himself. He was sentenced to five months in jail and five months of home confinement as well as being required to make full restitution. Sikorski pled guilty to embezzling \$26,256 by writing unauthorized checks to herself and was sentenced to six months home confinement and ordered to make full restitution.

### **Officer Stole from Local and State Conferences**

On July 26, 2006, Mark Jones, former president and secretary-treasurer of Musicians Local 92 in Buffalo, NY, pled guilty to one count of embezzlement. Jones admitted to stealing \$40,738 between 2002 and 2005 from the local. He also admitted to stealing \$34,672 during the same period from the New York State Conference of Musicians where he served as secretary-treasurer. The criminal investigation resulted from a

compliance audit conducted by OLMS, which showed that Jones wrote unauthorized checks to himself from both unions, charged unauthorized expenses on the local's credit card, and failed to deposit all union money he collected. Jones is scheduled to be sentenced in November 2006. Jones also served as president of the Buffalo AFL-CIO labor council and was a member of the international union's executive board.

### **Unity House Corruption Investigation Ends with Convictions of Founder's Son and Grandson**

A lengthy investigation into corruption at Unity House, a non-profit Hawaiian labor organization founded by labor pioneer Arthur Rutledge to provide benefits and services to more than 20,000 members and retirees of Hotel and Restaurant Employees (HERE) Local 5 and Teamsters Local 996, ended in the convictions of his son and grandson.

In February 2006, Anthony Rutledge, the former financial secretary-treasurer of HERE Local 5 and former president of Unity House, pled guilty to one count of knowingly falsifying a tax return. Under terms of the plea agreement, Rutledge must permanently disassociate himself from Unity House, which his father founded in 1951. He was sentenced to 3 years of probation. Anthony Rutledge's son, Aaron, pled guilty to one count of witness harassment and was sentenced to 1 year of probation. Under terms of his plea agreement, Aaron Rutledge was required to resign immediately as executive vice president of Unity House and disassociate himself from the organization and its assets while on probation. The investigation was conducted jointly by a task force that included OLMS, the IRS, the FBI, the DOL-OIG, and the Employee Benefits Security Administration.

## Financial Reporting and Recordkeeping

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### Division of International Union Audits

The Division of International Union Audits (DIUA), established by OLMS in 2004, has completed its second full year conducting the International Compliance Audit Program (I-CAP).

During FY 2006, unions completed their first fiscal year under the Department's revised recordkeeping and reporting requirements and for the first time submitted their Form LM-2s using electronic filing software. Of the five audits and seven follow-up audits DIUA conducted in FY 2006, three were of unions that had submitted their Form LM-2 electronically. DIUA also began work on four additional audits that will be completed in FY 2007. All initial audits conducted by DIUA in FY 2007 will be of the revised electronic Form LM-2.

Audits scheduled for FY 2007 include four medium-sized unions and one large union, as well as five follow-up audits. DIUA continues to focus on international unions with no prior audit history.

A summary of audit findings is provided to the unions in closing letters, which are posted on the OLMS Web site. For serious deficiencies and violations that have not been corrected by the union at the time of the exit interview, DIUA conducts follow-up audits to review LMRDA compliance, discuss the corrective actions the union has taken to resolve deficiencies, and continue cooperative efforts to assist the union in coming into compliance.

During the audits and follow-up reviews, DIUA identified a total of 81 violations of the LMRDA:

- 40 involved reporting deficiencies.
- 13 concerned inadequate recordkeeping.
- 25 related to inadequate internal controls.
- 3 involved fiduciary responsibility and office-holding prohibitions.

### Form LM-10 Grace Period Successful

The Form LM-10 filing grace period established by OLMS ended on May 15, 2006, and resulted in more than 1,800 reports being filed by employers. The reporting requirements for employers are designed to disclose certain payments to unions and union officials, among other things. In addition to the Form LM-10 reports, during FY 2006 OLMS received 4,382 Form LM-30 reports from union officers and employees.

### Change to Win Files Initial Labor Organization Information Report

On August 14, 2006, Change to Win filed with OLMS its initial labor organization information report, Form LM-1, and a copy of its constitution, as required by the LMRDA. Change to Win is the newly-formed federation of labor unions that withdrew from the AFL-CIO. Change to Win initially concluded that it was not a labor organization within the meaning of the LMRDA but after discussions with OLMS personnel, filed Form LM-1. As Change to Win's fiscal year ends September 30, 2006, its first Form LM-2 annual financial report will be due by the end of December 2006.

### Compliance Assistance

Compliance assistance is an essential component of the Agency's broad enforcement strategy of advising labor organization officials and members concerning their rights and responsibilities under the LMRDA and promoting compliance. OLMS continued to provide comprehensive compliance assistance to labor organizations and received a "green" rating on the DOL Compliance Assistance Scorecard.

Following are highlights of the goals achieved by OLMS during FY 2006:

- Provided an opportunity for the officers of every labor organization covered by the LMRDA or CSRA to attend a compliance assistance seminar.
- Promoted use of the "list serve" system to send e-mail messages to unions, accountants, union members and other interested individuals.

## Financial Reporting and Recordkeeping (cont.)

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- Provided web-based tools regarding CSRA, enforcement actions, compliance assistance events, and new regulatory initiatives.
- Provided a phone line dedicated to helping union officers file their LM reports electronically.
- Responded to phone and e-mail inquiries requesting assistance with preparing and completing the electronic reporting forms and navigation of the OLMS Public Disclosure Room.
- Conducted a public demonstration of the Public Disclosure Web Site.
- Posted closing letters in OLMS audits of labor organizations under the International Compliance Audit Program (I-CAP).
- Enhanced web-based resources to help officers and members of small labor organizations understand and comply with LMRDA requirements.
- Updated e-tools for LM-10 and LM-30 reporting.

## Union Democracy

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The LMRDA establishes democratic standards for conducting union officer elections, such as the frequency and method of election, the right of members in good standing to be candidates, rights of candidates, and voting rights of members. An investigation will be conducted if OLMS receives a timely filed complaint from a union member alleging that the LMRDA has been violated. If the investigation determines that the election provisions have been violated, OLMS may negotiate a voluntary agreement to have the union rerun the election under OLMS supervision or OLMS may take legal action seeking a new election. Criminal violations associated with election cases including ballot fraud, false statements and deprivation of rights under the act by violence also may be investigated by OLMS and prosecuted. The following are highlights of some of the most significant OLMS election cases during FY 2006.

### **OLMS Supervises Election of Amalgamated Industrial Workers Union**

On July 28, 2005, the Department filed a lawsuit that resulted in a court-approved voluntary settlement agreement to supervise a new election for the offices of president, vice-president, secretary-treasurer, sergeant-at-arms, three trustees, and three executive board members-at-large of the Amalgamated Industrial Workers Union. The union failed to mail notices of election to its members, allowed delegates not elected by secret ballot to vote in its 2004 election, and allowed persons who were not elected delegates to the convention to be nominated for office. OLMS determined that the AIWU was actually a local union, and the AIWU rewrote its constitution and bylaws accordingly. The remedial election was conducted by direct balloting of the membership and concluded with the newly elected officers taking the oath of office on June 22, 2006.

### **Department Sues to Supervise New Election in the Washington Teachers' Union**

On February 15, 2006, in the United States District Court for the District of Columbia, the Department filed a complaint against the Washington Teachers' Union (WTU). The complaint seeks to set aside the December 28, 2004 original election and the January 26, 2005 run-off election, and to conduct a new election for the positions of President, General Vice-President, Recording Secretary, Treasurer, Vice-President Senior High, Vice-President Junior High, Vice-President Elementary, Vice-President Special Education, Vice-President Special Services, Vice-President Career Development, Member-At-Large Senior High (2), Member-At-Large Junior High (2), Member-At-Large Elementary (4) and Member-At-Large Special Services (3). The complaint alleges that WTU failed to mail an election notice to every member at the member's last known home address; that WTU failed to mail a ballot to each member in good standing, thus depriving those members of the right to vote; and that WTU permitted ineligible voters to vote.

## Union Democracy (cont.)

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### **OLMS Supervises Election of Statewide Nurses Local**

OLMS supervised a new election of officers for the Hawaii Nurses Association (HNA) in May 2006 under a voluntary compliance agreement reached in October 2005. The agreement included new nominations and a new election for the offices of president, vice-president, secretary, treasurer, 29 bargaining unit directors, and 14 district directors. HNA represents about 4,000 registered nurses and other healthcare professionals throughout the state of Hawaii.

The supervised election remedied violations disclosed during an extensive investigation of the HNA's March 28, 2005, election of officers. The most serious violations included the union's failure to provide adequate safeguards to ensure a fair election by using a poorly-designed ballot and failing to provide members with proper instructions for casting their ballots for district director. The union failed to mail a combined election notice/ballot package to each member, denying members in good standing the right to vote and permitting a member who was not in good standing to run as a candidate for office.

## Regulatory Activities

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### **Notification of Union Member Rights**

On June 2, 2006, OLMS issued a final rule that requires Federal sector labor organizations to inform their members of their democratic rights as union members. These labor organizations were required to inform members of their rights by October 2, 2006, and every three years thereafter. New members must be informed of their rights within 90 days of joining the labor organization. Written notice may be given by hand delivery, U.S. mail, e-mail, or any combination as long as the method is reasonably calculated to reach all members. If a labor organization has a website, the website must also contain a notice.

### **Form T-1, Trust Annual Report, Issued**

On September 29, 2006, OLMS issued a final rule implementing Form T-1, Trust Annual Report.

### **Criminal Indictment in Ballot Fraud Case**

An investigation of Teamsters Local 988 in Houston, Texas, resulted in the June 8, 2006, indictment of former president, Charles "Chuck" Crawley. The indictment accuses Crawley of devising a scheme to defraud the local union members of their right to honest services by using the mail during the local's October 2002 election of officers. Crawley is alleged to have placed 362 phony ballots marked in his favor for union president into false return envelopes representing members of Local 988 that Crawley believed would not be voting. He is also accused in two counts of the indictment of embezzling union assets through the use of the union's computer system to generate the fraudulent ballots and by arranging and accepting a \$20,000 kickback from the installer of a telephone system in the union's hall. Additionally, Crawley has been charged with causing false entries in official union records regarding the telephone installation. This case was jointly investigated by OLMS, the FBI, and the DOL-OIG.

Form T-1 originally had been issued in a 2003 rule, but a 2005 court decision vacated the portion of the rule relating to Form T-1. In order to conform to the court decision, the new rule revises the types of trusts that are subject to the reporting requirement. Form T-1 is effective on January 1, 2007, and will apply only to trust fiscal years beginning on or after that date.

### **Form LM-30 Notice of Proposed Rulemaking**

On January 26, 2006, the public comment period ended for a Notice of Proposed Rulemaking to revise Form LM-30, Labor Organization Officer and Employee Report. OLMS received 1,002 comments. OLMS and the Office of the Solicitor have reviewed those comments. Final action is expected in early 2007.