

The Evolution of Organized Crime and Labor Racketeering Corruption

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Background

Labor racketeering is the infiltration and/or control of a union or employee benefit plan for personal benefit through illegal, violent, or fraudulent means. Organized crime groups often engage in labor racketeering. However, the types of organized crime groups that engage in labor racketeering and the methods they employ have evolved over time.

Although the government has made strides in the fight against traditional organized crime, new nontraditional organized crime groups have emerged alongside enduring forms of racketeering such as bribery and extortion. The field of organized crime groups has expanded to include new nontraditional, transnational groups from Asia and Eastern Europe among others, in addition to traditional groups like La Cosa Nostra (LCN), known also as the "Mafia."

What remains unchanged is labor racketeering's impact on American workers, employers, and the public through reduced wages and benefits, diminished competitive business opportunities, and increased costs for goods and services.

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The Unique Role of the Department of Labor's Office of Inspector General

In addition to the normal investigative activities carried out by all Offices of Inspector General (OIGs), the OIG at the Department of Labor (DOL) has a unique programmatic responsibility for investigating labor racketeering and organized crime influence or control in unions, employee benefit plans, and the workplace.

This statutory mandate is undertaken as part of the Department of Justice's overall attack on organized crime and racketeering activities. Following U.S. Senate hearings in 1978 on DOL's ineffective commitment to the Department of Justice Organized Crime Strike Force's attack on labor racketeering, the Secretary of Labor reassigned the enforcement program to an independent Office of Special Investigations. Later that year, when Congress passed the Inspector General Act, Congress recognized the need to safeguard the independence of DOL's labor racketeering program and placed the enforcement program in the independent Labor OIG.

Within its jurisdiction the OIG identifies and investigates labor racketeering and corruption in employee benefit plans, labor-management relations, and internal union affairs. Among our successes are the conviction of high-ranking members of the Gambino, Genovese, and Colombo LCN families as well as members of nontraditional organized crime groups.

From October 2003 through September 2004, the OIG's labor racketeering program had 130 open cases involving organized crime groups. In addition, during this time frame, our racketeering investigations resulted in over \$36.5 million in monetary accomplishments, including restitutions and forfeitures, plus 260 indictments and 143 convictions.

Traditional Organized Crime Groups and Racketeering Enterprises

Crime in the three traditional core areas of labor racketeering-pensions and employee benefit plans, improper labor-management relations, and internal union corruption-persists. The OIG has 359 pending labor racketeering investigations, of which over one-third involve organized crime.

Schemes involving bribery, extortion, deprivation of union rights by violence, and embezzlement used by early racketeers are still employed to abuse the power of unions. This activity is commonly seen in industries with a history of organized crime influence. Internal union affairs cases involving the "big four" international unions, namely the International Brotherhood of Teamsters, Hotel Employees and Restaurant Employees International Union, Laborers International Union of North America, and International Longshoremen's Association (ILA), still make up a significant portion of the OIG's racketeering investigations.

Despite major gains in the fight against organized crime, the influence of LCN continues with strong influence in the northeastern United States, Florida, the northern Midwest, and to a lesser extent other southern and western states. The OIG continues to monitor the efforts of such traditional organized crime groups to reassert control over the big four international unions, which have undergone anticorruption reforms.

Pensions and Employee Benefit Plans

Of the total OIG labor racketeering investigations, nearly 50% involve pensions and employee welfare benefit plans. The vast sums of money involved in this industry make it inherently vulnerable to corruption. According to DOL's Employee Benefits Security Administration, the total of all assets in ERISA-covered pension plans at the end of 1999 was over \$4.4 trillion. Pension assets in multi-employer, union-sponsored plans have continued to increase in the past decade, going from approximately \$220 billion in 1993 to nearly \$400 billion in 1999. These amounts represent the latest figures available.

In 1998, the OIG began targeting pension plan service providers who are controlled or influenced by organized crime or who are retained by pension plans whose sponsors have historically been associated with organized crime or union racketeers. As of September 2004, the OIG's inventory of 94 pension cases included 19 service provider investment activity investigations with plan assets exceeding \$1 billion potentially at risk.

OIG investigations have shown that abuses by service providers are particularly egregious because they have the potential for substantial dollar losses, by affecting more than one plan at a time; and because service providers have the opportunity and sophistication to conceal their illegal activity through complex financial schemes. The OIG's work in this area has yielded excellent results, for example:

- An attorney for the Indiana Regional Council of Carpenters and a real estate broker pled guilty to charges of conspiracy and making \$65,000 in bribe payments to the secretary treasurer of the Regional Council who was also a former trustee of the Northwest District Council of Carpenters Pension Fund to influence the operation of an ERISA employee benefit plan. The attorney admitted to accepting \$200,000 in illegal kickbacks, which were made in conjunction with the fund's \$10 million purchase of 55 acres of land. The union official also has pled guilty.
- In October 2003, the former president of Teamsters Local 25, who was also a benefit plan trustee, was sentenced to 34 months' incarceration and three years' probation and was ordered to pay a \$30,000 fine after pleading guilty to Hobbs Act extortion, conspiracy to embezzle from a benefit program and filing false documents under ERISA. An OIG investigation found that he and another individual conspired to launder the proceeds of a \$100,000 extortion payment from representatives of an Ohio-based pharmaceutical corporation. This payment was made in connection with the settlement of a pension fund liability.

Labor-Management Investigations

Labor-management relations cases involve corrupt relationships between management and union officials. Typical labor-management cases range from collusion between representatives of management and corrupt union officials to the use of the threat of "labor problems" to extort money or benefits from employers. Racketeering and the influence of organized crime groups persist in those industries that have traditionally been most vulnerable to organized crime, including the maritime, construction, surface transportation, garment-manufacturing, motion picture production, and gambling and hotel services industries. The OIG employs industry probes to examine labor and management components of such industries to expose corrupt relationships. OIG cases related to the maritime industry, for example, include 21 pending investigations involving the ILA. Significant investigations in this area include the following:

- An investigation of the New York and New Jersey waterfront that resulted in the conviction of the Gambino Crime Family boss and six associates of conspiracy, extortion, money laundering, and gambling.
- An investigation that led to the guilty plea by the acting boss of the Luchese Organized Crime Family. He was found to have extorted money from New York City garment center businesses from the early 1980s through April 1998. He directed the extortion through threatened and actual use of physical injury and economic harm, the disruption of labor peace, and his control over labor unions.
- An investigation that resulted in the sentencing of eight individuals for violations of the RICO statute, extortion in violation of the Hobbs Act, and unlawful labor payments in violation of the Taft-Hartley Act. Those sentenced include members and officials of the International Union of Operating Engineers Locals 14 and 15, as well as members of the Genovese and Colombo Crime Families. The investigation found that the union officials allowed contractors to violate collective bargaining agreements in exchange for kickbacks that they shared with the crime families. The crime families involved also used their influence to obtain membership in the locals for friends and family, as well as preferential job assignments.

Internal Union Affairs

Despite successes in diminishing organized crime influence in the big four international unions, criminal abuse of power involving union finances or property and damage to democratic practices still occur. Indeed, the OIG has seen a three-fold increase in the number of convictions in internal union cases since FY 1998.

The OIG continues to receive specific allegations and intelligence of possible criminal activity involving high-ranking national and local union officials. We continue to identify criminal activity involving kickbacks, unauthorized perks and compensation, no-show jobs, and embezzlement from pension and welfare plans. Three of the big four have been subject to a court-supervised civil RICO monitorship or voluntary internal reform mechanisms, and thus oversight remains necessary. The following are highlights of recent work in this area.

- In July 2004, the international president of the United Transportation Union was sentenced to two years' imprisonment and three years' probation and was ordered to forfeit to the United States \$100,000. He pled guilty to labor racketeering conspiracy charges in a scheme to extort bribes from attorneys in exchange for becoming or remaining designated legal counsel for the union, a highly coveted position for attorneys.
- In June 2004, the president of the National Federation of Public and Private Employees and his sister, a former administrative assistant to the union, were convicted on charges including RICO violations and embezzlement of union assets. The investigation found that from 1994 to 2003, the president received almost \$500,000 from various employers while simultaneously representing the interests of the federation and a maritime labor union. Additionally, the former administrative assistant embezzled more than \$116,000 from the Federation by issuing unauthorized payroll checks. The two also falsified travel and entertainment expense reports, thereby causing the Federation to pay thousands of dollars in personal expenses on their behalf.

Nontraditional Organized Crime Groups and Racketeering Enterprises

According to the Department of Justice, there has been a rapid rise of transnational organized crime groups that are engaging in new criminal enterprises. These nontraditional groups from Asia, Russian, Eastern Europe, and West Africa have engaged in racketeering and other crimes against workers in both union and nonunion environments.

Nontraditional, transnational groups engage in abuses traditionally associated with organized crime including extortion, money laundering, and insurance fraud. They also engage in complex financial schemes, immigration fraud and exploitation of undocumented aliens, and fraud against government benefit programs.

Specifically, OIG investigations have found that nontraditional organized criminal groups are exploiting the Department of Labor's foreign labor certification and Unemployment Insurance (UI) programs.

Fraud Against DOL Foreign Labor Certification Programs

The OIG is concerned that transnational organized crime groups are able to file false labor certifications with possible national security implications. We are seeing labor certification, visa, and related schemes by nontraditional groups. Labor certification fraud cases involve fraudulent applications that are filed with DOL on behalf of fictitious companies or applications using the names of legitimate companies without their knowledge. Immigration attorneys and labor brokers then collect fees up to \$30,000 from foreign workers for the fraudulent applications. From October 1, 2003, to September 30, 2004, OIG alien certification cases resulted in 86 indictments and 66 convictions.

Unemployment Insurance Fraud by Organized Crime Groups

Based on recent casework, the OIG is concerned about nontraditional organized crime exploitation of the UI program through the use of identity theft. In one such case, 13 members of a Mexican nontraditional organized crime group were indicted for conspiracy, mail fraud, identity theft, and money laundering in connection with millions of dollars in fraudulent UI claims. The group defrauded four states' UI programs using at least 10,000 stolen identities. From September 1, 2003, through September 30, 2004, OIG UI investigations resulted in \$67.6 million in monetary results, 55 indictments, and 43 convictions. Increasingly, our cases involve high-dollar criminal enterprises, as opposed to fraud by individual claimants.

Combating Organized Crime Today

Identifying and combating new forms of racketeering crime and criminals while holding the line against more traditional forms of racketeering is a continuing challenge. For more than two decades, the OIG has worked toward this end in cooperation with the Department of Justice and other entities. With the Federal Bureau of Investigation shifting its focus toward counterterrorism activities, the OIG will play a more critical role than ever in enforcing antiracketeering laws and combating the influence of organized crime in the workplace. In this regard, the OIG coordinates closely with the Justice Department to ensure that OIG investigators have a presence in localities where the need is greatest.

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