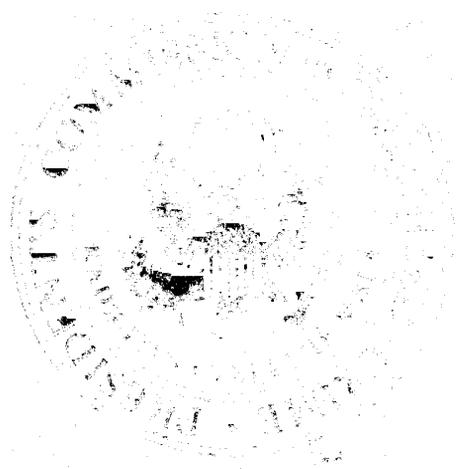


Record of Hearings VII  
June 24-26, 1985  
New York, New York

ORGANIZED CRIME  
and  
Gambling

108890



June 1985

U.S. Department of Justice  
National Institute of Justice

108890

This document has been reproduced exactly as received from the person or organization originating it. Points of view or opinions stated in this document are those of the authors and do not necessarily represent the official position or policies of the National Institute of Justice.

Permission to reproduce this copyrighted material has been granted by

President's Commission on Organized  
Crime

to the National Criminal Justice Reference Service (NCJRS).

Further reproduction outside of the NCJRS system requires permission of the copyright owner.

108890

President's Commission on Organized Crime

---

Record of Hearing VII  
June 24-26, 1985  
New York, New York

---

**ORGANIZED CRIME**  
and  
**Gambling**

NCJRS

FEB 2 1988



CONSTITUTIONS

*PRESIDENT'S COMMISSION ON ORGANIZED CRIME*

HONORABLE IRVING R. KAUFMAN, CHAIRMAN

Jesse A. Brewer, Jr.

Manuel J. Reyes

Carol Corrigan

Honorable Peter W. Rodino, Jr.

Justin J. Dintino

Charles H. Rogovin

William J. Guste

Barbara A. Rowan

Judith R. Hope

Frances A. Sclafani

Philip R. Manuel

Samuel K. Skinner

Thomas F. McBride

Honorable Potter Stewart

Eugene H. Methvin

Honorable Strom Thurmond

Edwin L. Miller

Phyllis T. Wunsche

James D. Harmon, Jr.

Executive Director and Chief Counsel

TABLE OF CONTENTS

INTRODUCTION.....v

JUNE 24.....1

OPENING REMARKS

Chairman Judge Irving R. Kaufman.....3

Commission Investigator Raymond Mollenhoff...6

Jerome H. Skolnick.....10

Frank Storey, Joseph DePierro,  
Robert Gaugler.....52

Commission Investigator Anthony Lombardi,  
Joseph Pellicone, James Leggett.....101

Unidentified witness.....128

Donald Herion, Mark Vogel, Judy Dobkin.....146

Michael A. DeFeo.....184

JUNE 25.....199

OPENING REMARKS

Chairman Judge Irving R. Kaufman.....201

WITNESSES

Daryl Gates.....203

Clinton Pagano.(joins Mr. Gates).....210

Ronald C. Chance.....241

Peter Bennett, James Bannister.....259

Richard Kuhn, Edward McDonald, Commission  
Investigator Edmundo Guevara.....280

John Davis, Lou Carnesecca, Vincent Doria..331

Howard Cosell.....365

James J. Morley.....389

JUNE 26.....415

OPENING REMARKS

Acting Chairmark Judith R. Hope.....417

WITNESSES

Ryan Corrigan.....418

William Kisby, Gregory Seitz.....449

Charlie Parsons, Richard Wassenaar.....469

Frank Cullotta.....515

Commission Investigator Thomas Sheehan....525

Stephen Wynn.....535

Commission Investigator Thomas Sheehan....585

Martin Molod.....590

Jeffrey Silver, Thomas R. O'Brien.....596

CONCLUSION.....637

APPENDIX.....	639
STATEMENTS*	
Chairman Judge Irving R. Kaufman.....	641
Commission Investigator Raymond Mollenhoff.....	645
Jerome H. Skolnick.....	649
Commission Investigator Anthony Lombardi.....	661
Mark Vogel.....	687
Judith F. Dobkin.....	697
Michael DeFeo.....	707
Clinton L. Pagano.....	713
Ronald C. Chance.....	725
Richard Kuhn.....	737
John R. Davis.....	743
Vince Doria.....	753
James J. Morley.....	757
Ryan T. Corrigan.....	773
William Kisby and Gregory Seitz.....	789
Richard C. Wassenaar.....	799
Commission Investigator Thomas Sheehan.....	805
Stephan A. Wynn.....	817
PHOTOS and ILLUSTRATIONS.....	825

\*Not all witnesses submit prepared statements.

## INTRODUCTION

In its review of gambling and its connection with organized crime, it was necessary for the President's Commission on Organized Crime to confront two basic problems: first, the previous governmental inquiries into this connection, which resulted in contradictory facts and conclusions; and second, the vast expansion of the legal gaming industry in recent years.

Created by Executive Order 12435 of July 28, 1983, the President's Commission on Organized Crime is mandated to

make a full and complete national and region-by-region analysis of organized crime; define the nature of traditional organized crime as well as emerging organized crime groups, the sources and amounts of organized crime's income, and the uses to which organized crime puts its income; develop indepth information on the participants in organized crime networks, and evaluate Federal laws pertinent to the effort to combat organized crime. The Commission shall advise the President and the Attorney General with respect to its findings and actions which can be undertaken to improve law enforcement efforts directed against organized crime, and make recommendations concerning appropriate administrative and legislative improvements in the administration of justice.

Hundreds of billions of dollars are wagered each year by Americans, legally and illegally, and a substantial part of this money ultimately becomes profit earned by traditional and other organized crime groups. Thus, the Commission was required, in a lengthy investigation culminating in a public hearing, to determine the extent to which organized crime is able to infiltrate and profit from legal gambling, and how law enforcement policies should be changed to accommodate the widespread acceptance of gambling while more effectively denying

organized crime groups the profits they have traditionally earned from illegal gambling.

Gambling is as old as our nation's history, and the incestuous relationship between illegal activities and gambling has existed for almost as long. Periodically every form of commercial gambling has been infected by corruption, attesting to the unique attraction between organized crime groups and gambling's financial promise. Horse racing, casino operations, professional sports, state run lotteries - legal gambling of all kinds has been infiltrated in some form, at some time or other, by organized crime. Not only the traditional organized crime groups, but also numerous emerging groups, participate in the lucrative illegal gambling market.

During a three-day public hearing, the Commission called thirty-six witnesses and presented numerous exhibits. On the first day, the Commission heard testimony on illegal gambling prosecutions in Chicago, and on Federal gambling law enforcement policy.

On the second day of the hearing, the Commission heard testimony from two senior police officers regarding their anti-gambling enforcement operations in large jurisdictions. The Commission also heard testimony on various forms of organized criminal involvement or corruption in such areas as casino licensing, college basketball, and boxing.

The final day of the hearing focused on the attraction of traditional organized crime groups to licensed casinos. Topics and case histories on "skimming," junkets, organized crime in Las Vegas casinos, and money laundering were presented, as were the important roles of New Jersey and Nevada state regulatory systems in "hardening" the casino targets against infiltration by organized crime.

The following is a presentation of facts, theories and opinions presented at these hearings in an effort to cover every aspect of organized crime and gambling. It is offered as a comprehensive review of the complex and frequently harmful relationship of gambling and organized crime.

PRESIDENT'S COMMISSION ON ORGANIZED CRIME

GAMBLING HEARING

New York, N. Y.  
Monday, June 24, 1985

The hearing in the above-entitled matter  
convened, pursuant to notice, at 9:40 a.m.

BEFORE:

Irving R. Kaufman, Chairman

MEMBERS OF THE COMMISSION:

Jesse A. Brewer, Jr.  
Justin J. Dintino  
William J. Guste, Jr.  
Judith Richards Hope  
Philip R. Manuel  
Thomas McBride  
Edwin L. Miller, Jr.  
Barbara Ann Rowan  
Frances A. Sclafani  
Justice Potter Stewart  
Phyllis Teresa Wunsche

CHAIRMAN KAUFMAN: I would like to welcome you to this hearing of the President's Commission on Organized Crime. Our previous hearings and interim reports have examined the ways in which organized crime has evolved in recent years. If there is one common theme that emerged from our work so far, it is that money is the life-blood of organized crime. As we discussed in our report on money laundering, criminal syndicates use their income to obtain influence and control over businesses and political institutions. A significant part of organized crime's income is derived from gambling, the subject of this week's hearing.

The importance of gambling as a continuing source of revenue for organized crime cannot be underestimated. Studies indicate that in the tristate New York area alone, 1.5 billion dollars is spent each year on numbers games, sports bookmakers, and other forms of illegal wagering controlled by organized crime. Moreover, organized crime's involvement in gambling is not limited to these illicit operations. As this week's hearing will demonstrate, criminal cartels continue to exert influence over casinos and other forms of legal wagering, through labor racketeering, and sophisticated casino money laundering and skimming operations.

The Commission has been conducting an extensive survey of state and local law enforcement authorities. A preliminary review of this research indicates that in the view of state and local officials, gambling is a principal source of income for organized crime. Indeed, the data reveal that gambling is the largest single source of income for organized crime in the northeastern United States. In other parts of the country, gambling is second only to drug smuggling as a source of income. These statistics must be considered estimates and viewed critically, because it is difficult to determine precisely the total amount of money wagered nationally.

It is clear, however, that gambling provides organized crime with the money it needs to flourish. Moreover, criminal involvement in wagering has other pernicious effects. There can be no more dramatic example of the corrupting and debilitating effect of organized crime's influence over gambling than the "fixing" of sporting events. As we will hear in testimony later today and tomorrow, organized crime continues to infiltrate college and other sports. The toll exacted by organized crime's involvement in gambling should be measured not in terms of dollars alone, but in the loss

all society feels when sports, which many of us look to for inspiration, relaxation, and joy, are perverted by criminal cartels.

Today's testimony will explore the scope of gambling in the United States; the extent of organized crime involvement in this activity today; and the changing nature of criminal syndicates' illegal gambling operations in different regions of the country.

We will also hear from law enforcement experts who will discuss current strategy and assist the Commission in devising new approaches to combat organized crime.

In recent years, jurisdictions throughout the country have expanded the availability of various forms of legalized gambling. This has, of course, occurred in the New York area with the establishment of legalized lotteries and with proposals for instituting other forms of legalized wagering in New York. The Commission will be concerned at this hearing and in its recommendations in alerting local governments to the ways in which organized crime is able to infiltrate, exploit, and profit from legalized gambling. Our goal must be to devise ways to prevent the criminals from sharing in the profits from gambling--legal or illegal.

I will now ask the staff to proceed.

MR. HUNTERTON: Thank you, Mr. Chairman.

Commission Investigator Mollenhoff will provide a brief staff overview of the issues which the witnesses will address during this hearing.

Just before Investigator Mollenhoff is sworn in, I would like to echo the Chair's concern about the reliability of gambling-related data over the past several decades and, in doing so, bring the attention of the Commission to the pie charts, if you will, located to our left.

The authors of those charts and the publisher of the magazine in which they originally appeared have been kind enough to give us permission to use their work, but asked that we echo the Chair's sentiment and wish it made clear that their estimates regarding the size of the illegal gambling market are, indeed, just that -- estimates -- and that neither the authors nor, they believe, anyone else actually knows how large this market is, which is one of the problems we will be addressing now and as we move towards the final report.

Investigator Mollenhoff, would you be sworn, please.

RAY MOLLENHOFF

was called as a witness and, having been first duly sworn, testified as follows:

MR. MOLLENHOFF: Mr. Chairman and members of the Commission:

Before calling the first witness I would like to briefly explain the nature of today's testimony. As you have previously observed, Mr. Chairman, the Commission's mandate from the President is to propose policy recommendations for consideration by federal and state governments as well as the private sector. In the course of developing the information for this hearing, we have learned that producing these recommendations in the area of gambling will be particularly difficult.

During the next three days, the staff will present a series of specific case studies which illustrate how organized crime infiltrates, influences, or controls gambling in America. We will focus on both the legal and illegal gambling, because criminal organizations have exercised significant influence in both areas, since the days of Lucky Luciano in New York, and Bugsy Siegel in Las Vegas.

Historically, illegal gambling's largest

revenue producers have been: sports bookmaking, the daily numbers lottery, and the clandestine casino. Just as the allure of illegal wagering reaches across all ethnic and regional boundaries, so does its attraction as an organized criminal enterprise. Our nationwide survey which you discussed, Mr. Chairman, demonstrates, and these hearings will confirm, that illegal wagering networks remain a significant mainstay of organized crime revenue - revenue which supports and complements other criminal enterprise. For example, this survey of over 500 law enforcement agencies has so far established illegal gambling as the fourth most frequent identified activity of organized crime, behind the three major drug categories. Combine those drug categories and illegal gambling jumps to number two. It should be noted that among the illegal gambling revenues, sports betting is number one.

Our initial witness today will review the state of gambling in America. We will then move on to close-up examinations of a clandestine casino operation, a sports bookmaking operation and a large-scale numbers racket.

Ironically, these examples, at first glance, represent and resemble some old, worn snapshots from

the days of Elliot Ness and speakeasies. They are, however, as we sit here this morning, accepting bets, paying off wins, and of course profiting from the losses.

The resources needed to police and regulate legal gambling activity reflect the unyielding, and sometimes successful, attempts by organized crime "families to control, influence, extort, and flourish within these wagering oases.

All of the elaborate enforcement mechanisms, licensing requirements, and intended statutory protections erected as barricades have not precluded footholds by organized crime in these industries nor certainly the ancillary businesses, service companies, and trade unions surrounding them.

In the case histories we will present tomorrow and Wednesday for this segment, we will discuss the vulnerabilities of two casino regulatory models: Las Vegas, where we'll review the modern history of LCN involvement with casinos; and Atlantic City, where we'll hear firsthand about an undercover sting operation that discovered the existence of direct municipal corruption and manipulation by an organized crime family in attempts to acquire direct control and

then benefit through a "hidden interest" in a proposed casino.

In conclusion, it should be noted that organized crime's role in gambling, legal or illegal, is unlike most other criminal ventures in one very specific regard: the public's perception of gambling conjures up a benevolent image, unlike narcotics trafficking, extortion, prostitution, public corruption, and the many other faces of the mob. Unlike these enterprises, gambling generates "high profits," but with "low risk" of apprehension, conviction, or incarceration.

Some of our survey information fits the measure of the traditional law enforcement view; some of it does not. With that in mind, we begin this hearing and our evaluation of those views to better assess what we really know about contemporary organized crime and gambling.

Thank you.

CHAIRMAN KAUFMAN: Thank you.

MR. HUNTERTON: Thank you, Mr. Mollenhoff.

Professor Skolnick. Please.

Would you stand and be sworn in, Professor.

JEROME H. SKOLNICK

was called as a witness and, having been first duly sworn, was examined and testified as follows:

MR. HUNTERTON: Mr. Chairman, Jerome Skolnick is Professor of Law (Jurisprudence and Social Policy) at the University of California, Berkeley. He has been a student of gambling and public policy, among many other issues, for several years, and has a distinguished record of publications, including an authoritative 1978 work on Las Vegas entitled "House of Cards: Legalization and Control of Casino Gambling." Somewhat less formally, Professor Skolnick's study of the phenomenon of gambling in America began at about age 9, when his father took him to Belmont and taught him how to read a racing form.

Professor Skolnick, please.

THE WITNESS: Not very well, I might add.  
Thank you.

Distinguished Commissioners, you are here to consider the relationship between gambling, organized crime, and public policy. Some policy issues cut across all gambling forms. Other issues address particular forms -- lottery, casinos, sports betting. I want to raise with you today issues that cut across all forms of gambling, and issues relating to individual forms

that I hope will clarify your deliberations in this important area. My problem is going to be how to tell you everything you always wanted to know about gambling but were afraid to ask -- in what Stan Hunterton tells me is only twenty minutes.

The first cross-cutting issue is the popularity of gambling. A reformed gambler named Jonathan Green wrote in 1857 that "the sin of gambling against which my present efforts are directed, is as great and widely spread as any which at this time exist among us. Scarcely any class of our people are totally exempt from the effects of this deplorable evil." By anyone's observations, the popularity of gambling can scarcely be said to have diminished since 1857. The National Commission on Gambling found that Americans wagered more than 17 billion dollars in 1974 on lotteries, horseracing, Bingo, legalized numbers, and casino games in more than 40 states that then permitted one form or another of legal gambling. And we don't know how many billions are illegally wagered on sporting events, horseraces, numbers, floating crap games, and casinos.

Why is gambling so popular? Well, that's very hard to pin down. The late Erving Goffman, a

distinguished sociologist, studied casino gambling himself and wrote an essay called "Where the Action Is." Gamblers call making a bet getting down some action. Gambling seems, above all, then, to offer self-interested recreational involvement. A \$10 bet is what keeps a Chicago fan from turning off a televised football game between Miami and San Francisco. That's why the networks hired Jimmy the Greek to be a football commentator, to explain odds, to facilitate betting, illegal betting -- to keep the TV sets turned on, and the Nielsen ratings turned up.

Gambling has become even more popular during the past decade -- since the National Gambling Commission's report. The lottery has been legalized in a number of major states, including most recently, my own, California. In that state Governor Deukmejian opposed the lottery and so did most of the law enforcement authorities within the state. Usually, Governor Deukmejian and the law enforcement authorities are persuasive with the voters. In this instance, they were not. Clearly, gambling is not perceived as a deplorable evil by an overwhelming majority of Americans.

The morality of gambling is a very complex

topic. Many churches -- usually Protestant sectarian ones -- still continue to forbid gambling by their parishioners. At the same time Catholic churches run Bingo games to raise funds for useful activities. The Protestant attitude toward gambling is part of a Puritan tradition which flowered in this country in the 19th century. In this tradition it is wrong to earn a reward without hard work, thrift and productivity. Even the lottery is perceived as morally wrong. But the lottery is a form of what I call shallow play -- as opposed to deep play -- a term originally used by Jeremy Bentham and which I will explain momentarily. Shallow play is simply the mirror image of insurance. In insurance everybody kicks in a certain amount to benefit somebody who sustains a loss they couldn't afford to handle themselves. In a lottery, everybody kicks in a small amount and then a winner is selected by chance as a beneficiary. The lottery is simply a legal form of reverse insurance, and sometimes it is called the policy racket and often called the numbers racket.

Let me contrast the lottery to other forms of gambling. First, in a lottery people bet relatively small amounts. Their chances of winning, true, are

very remote, but they seem to enjoy the excitement of the dream and the drawing. There is no way your everyday working stiff is ever going to be a multimillionaire. A lottery offers a form of instant social mobility otherwise unobtainable in this society.

Secondly, the lottery provides an alternative to taxation for useful public works such as schools and roads. Taxes are by definition not voluntary, while the lottery is.

Third, the lottery appears to have only remote connections to organized crime. In theory, legal lotteries can replace numbers, which have been a traditional source of gambling income for organized crime. The replacement effect is a complex topic requiring a combination of economic and socio-cultural research, and I won't dwell on it today.

To my knowledge, numbers are culturally influenced. Numbers, for example, were never important in California. The complaint has been made in California, however, that the company which will produce the machines for the lottery had organized crime roots in the production of gaming equipment when gambling was illegal. The public in California, however, wasn't very impressed by that argument against

introducing a lottery. The reason, I think, is that the connection between organized crime and the lottery seems remote.

Let me turn to some areas where it does not seem so remote in that connection: casino gambling, horseracing, and sports betting.

Let's look at casino gambling and horseracing first. These perhaps enjoy somewhat less public acceptability than the lottery, but these are nevertheless by now widely accepted activities, legalized casino gambling in a couple of states, horseracing I think now in 16 states.

One concern widely expressed about casinos and horseracing is that they permit, even encourage, heavy wagering. A person ordinarily bets a dollar or \$5 on a lottery; but some bettors bet their bottom dollars, their house and car and kid's savings at casinos or racetracks. Some borrow from loansharks to pay off gambling debts -- and in the process support a major and important traditional organized crime activity.

Heavy betting -- and this is what I mean by deep play: heavy betting -- was considered immoral by 19th century legal philosopher Jeremy Bentham because,

Bentham argued, the pain of losing your last thousand pounds was more than the pleasure of adding a thousand pounds to the one you already had. Why was deep play a concern of Bentham's? Because deep play was part of an aristocratic tradition dating back to the 16th century. Aristocrats characteristically gambled for large sums. It was as important for an English nobleman to know how to play cards or handle dice as it was to dance or ride a horse. The capacity to gamble heavily, both in traditional English society and in parts of American society today, may be a mark of social status. Indeed, in England the Gambling Act of 1710, which made gambling debts unenforceable, was intended to protect the great estates of England from the ravages of gambling. People like Crockford, who was a fishmonger, were taking estates away from the aristocracy through gambling, and Queen Anne herself was a heavy gambler.

What about this notion of heavy gambling? Well, that is a second kind of moral issue: heavy gambling or compulsive gambling. It is an especially interesting issue regarding gambling, because, unlike alcohol and other drugs, the compulsion with respect to gambling does not come from a change induced by an external chemical or an internally ingested chemical.

I have been studying deviant behavior for many years, and I have come to believe that addictions derive at least as much from personality predispositions of people as from the activity itself. Most of you, most of us in this room, won't become compulsive gamblers or compulsive drinkers, even though we all enjoy that opportunity. Why don't we? It's a good question. An important issue, then, for this Commission is -- where legalization of alcohol, which we already have, gambling, perhaps other drugs occurs -- how can we facilitate moderate or non-use rather than compulsive or addictive activity?

Another policy issue affecting gambling and organized crime is the inconsistency of public policy regarding gambling. You have already learned that it is hard to caution young people not to use marijuana when their elders drink alcohol. A similar problem is encountered regarding gambling. It is difficult to control illegal sports betting, for example, in an environment and a society that permits casino gambling, horseracing, and lotteries. One evident price is the creation of structural support for organized crime. Where sports betting is illegal, organized crime has to flourish, with accompanying side effects such as the

corruption of police and other authorities.

Another issue that I think this Commission should address, really has to address, is the proper role of government and public policy with respect to gambling. Again I should stress that each gambling form may involve special policy issues. Still, regarding each gambling form, we should ask the following questions: What is the goal of government policy? What are we trying to achieve by our three main governmental options -- prohibition, permission, and promotion? Do we approve the situation we've created? And, finally, what can be done about it if we don't approve?

Let me use the lottery to illustrate. The lottery is usually established for the purpose of raising revenues that would otherwise be collected through taxation. As a result, the government becomes involved not only in permitting an activity but in promoting it, in creating a demand for that activity. Justice Louis Brandeis once wrote: "Our government is the potent, omnipresent teacher. For good or ill, it teaches the whole people by its example." I think you have to ask yourselves: Is it consistent for the same government that is supposed to promote

literacy, the environment, and public health and safety also to endorse and promote gambling?

If it is argued that the government is using the revenue produced by gambling to promote salutary activities, for example, education, the question remains whether the revenue is produced fairly. A lottery has to be regressive in the following sense: Poorer people are likely to bet proportionately more of their income than richer people, largely motivated by the dreams of riches.

Let me say again that when you think about gambling, organized crime, and what the government should do about it, you must first consider the goals of legalization. In Nevada, for example, casino gambling was legalized to raise general revenue. Nevada began seriously to control casino gambling only after the federal government during the 1960s forced control with the first Strike Forces during the Kennedy Administration. As a result of federal pressure, Nevada forced its more infamous gangsters out of the casino business. But that wasn't easy. Somebody needed to buy the casinos. In good part, Howard Hughes performed that function for the state. And whatever his other flaws might have been, Howard Hughes wasn't

organized crime. In the 1960s other respectable corporate leaders did not want to touch casino gambling. The problem for the State of Nevada at that time was to transform this stigmatized industry into something that would attract legitimate entrepreneurs and maybe, more importantly, legitimate lenders. That was very difficult.

When I first started studying legal casino gambling in Nevada in 1974, I was told that organized crime was out of it. Indeed, the head of the Los Angeles Strike Force so testified before the National Commission on Gambling. But I learned that organized crime was not out of Nevada at that time. During the next few years scandals were to emerge about the relationship between organized crime interests in several casinos. And you, I understand, will hear a revealing conversation between crime bosses Nick Civella, Carl Civella and Carl De Luna and casino executive Carl Thomas, where he teaches his LCN bosses how to skim casinos.

Casinos that were infiltrated by organized crime were financed by the Teamsters Central States Pension Funds. When I came into Nevada ten years ago the Teamsters Pension Funds held a quarter of a billion

dollars worth of mortgages on Las Vegas casinos. These casinos were vulnerable to LCN infiltration. As the casino industry has expanded, and particularly as financing has been able to be obtained from conventional legitimate lenders, the threat of organized crime control has diminished considerably. Moreover, as the casino industry has expanded and become more legitimate, more people have learned how to run these complex gambling palaces. In the beginning, the only people who knew how to run casinos virtually were those who were organized crime connected. But, as I suggest, that is now changing.

When New Jersey legalized casinos it did two things that were different from Nevada. First, it tightened up controls; and secondly, it changed goals. It did not institute the casinos for the purpose of raising general revenue. Its purpose was to rejuvenate the economy of a failing resort area. I don't think that any other state in the United States can or should consider the Nevada model. I don't even think Nevada would consider the Nevada model today. Nevadans aren't too happy, I think, about their dependence upon casinos for general revenues.

The New Jersey model is more tenable, but it

has its own problems. One of those is the relation between politics and the adequacy of casino licensing as a regulatory device. When New Jersey legalized casinos, the voters were promised that they would have casino gambling on the Boardwalk in the summer of 1978. It became clear in early 1978, however, that the major active applicant, Resorts International, a company whose affiliation with gambling in the Bahamas had in the past attracted federal scrutiny, could never be licensed in time for gambling to begin in the summer of 1978. The New Jersey authorities were caught on the horns of a major dilemma: how do you reconcile the political imperative to bring casino gambling to the Boardwalk quickly with the assurance of a lengthy, detailed investigation of an applicant? The problem was solved by offering Resorts a temporary license. But it was clear to outside observers, clear to me, it was clear to anybody who knew anything about the business, that the temporary license virtually guaranteed a permanent one. Thus, it didn't matter later on that the Division of Gaming Enforcement in New Jersey recommended against giving Resorts a license. They got it anyway. The power of the industry within the state, particularly within the legislature, is one

of the limits of the regulatory process. In Nevada, the Gaming Control Board is always caught between two cross-purposes: One is to control the industry; the other is to protect the industry because the state depends upon it for its revenues.

Other states are now considering legalization of casinos, or for that matter other forms of gambling. My advice to them and to you, very briefly, is this: It's very important, first of all, to decide upon and to know what your goals are. What do you want to get out of this legalization? If we are talking about casinos, I would say decide via a blue ribbon commission how many casinos are desirable for the state and where it is desirable to have them. Stick to that plan. If I were testifying, I would tell any such Commission: Don't have casinos in big cities. I am opposed to a casino in New York City. Gambling and lunch do not work well. I don't think most working people can really handle slot machines for lunch. I also think it is important that when people gamble they should have the opportunity to make a conscious decision that they want to do it. A trip to where the gambling is requires a conscious decision, and I think we should at least give the gambler that break.

Second, legalization should maximize, in my opinion, control both as a goal and as a reality. In my opinion, both Nevada and New Jersey employ a fundamentally inadequate licensing procedure. If the state really wants to control, it should assert something like this: We want to license two casinos in Resort Area A. Saratoga, OK. We will accept applications detailing what these casinos will look like, who will run them, and what their impact will be on the local environment. The state should be in the position of selecting the outstanding applicant. It would not have to show, as it does in Nevada and New Jersey, that the applicant is somehow unqualified. In both of these places, in effect, a burden is placed upon the state, although not in theory, but in effect a burden is placed upon the state to prove the applicant is unqualified. It will be better for control purposes if the applicant had the burden of proving why it is best, from among a number of applicants.

Perhaps our most difficult question today is one which has been raised earlier: What is the relation between organized crime and sports betting? We know that billions of dollars are spent annually on sports betting. We don't know how many billions. But

we do know that bookmakers must be thriving in every city of the United States. We also know from prior experience that if bookmakers thrive illegally, we are promoting an underground economy. That economy doesn't pay its fair share of taxes; and it has to corrupt police and public officials. I have so far discussed, with regard to casino gambling, two reasons for legalization. One is revenue raising and the other is resort renewal. But there is a third reason for legalizing gambling, and I think it is the most important and the most legitimate that a government has for legalizing gambling, and that is to control those who are the purveyors of gambling. That is, given the frank recognition that the activity is socially acceptable -- enough to be widespread and to encourage organized crime -- the government should legalize primarily to control. If we were to legalize sports betting, in my opinion revenue raising should be a distant consideration. England legalizes casinos not to raise revenue, not to renew resorts, but to keep organized crime out of the casino business. It legalizes bookmaking for the same reason. Sports bookmaking could be legalized in this country -- if done properly. It would have to be able to compete

with illegal bookkeeping via phone betting credit arrangements and perhaps no tax on winnings. But it could be done if done for control purposes.

One problem that has been raised with respect to legalization of sports betting is its impact on sports corruption. Frankly, I don't see how legalization could make it any worse. If it were legal, you would at least know who the big legal bettors were and you would know who were taking the bets. Amateur sports corruption has been around here for a long time. Although I am a professor at the University of California, I am a graduate of the City College of New York. I graduated in 1952. My sophomore classmates won the NCAA and NIT basketball titles in 1950. In 1951, several of them were caught shaving points and even dumping games. I was managing editor and editorial writer for the City College newspaper at that time. It was apparent to the 19-year-old me that the hyped-up atmosphere of big-time Madison Square Garden basketball could not contribute to the moral development of 19-year-olds from New York City streets even if they were terrific basketball players. I am sure I felt that these players were responsible for their crimes, these 19-year-olds, 20-year-olds, but I

also felt the college administration bore a heavy share of the responsibility. I still do. Putting these youngsters from inner-city playgrounds in that situation was like sitting them down in a bar after the game and telling them that they were under age and had to turn down any free beer that might be offered.

In conclusion, then, my own prescription for legalization of gambling -- and really of vice in general -- is that we too often address the wrong question. The question we want to address, I respectfully suggest, is not whether we should legalize, but, rather, if we do, what should be our goals, what should we try to achieve? In my opinion, our highest goals should be the suppression of the substantial benefits organized crime receives from prohibited activity. I would look to legalization as a way of undercutting these benefits -- and I would certainly oppose advertising or promotion by government. I would always distinguish between nonprohibition as a policy for control versus promotion to enhance revenue. As a student of gambling and government, I would strongly recommend, then, favoring legalization only for control and just as strongly oppose legalization primarily for revenue enhancement. Thank you.

CHAIRMAN KAUFMAN: Thank you.

MR. HUNTERTON: Thank you, Professor.

CHAIRMAN KAUFMAN: I would like to ask the professor a question or two.

I am confused over your conclusion, because during the course of your statement you seem to agree that legalization does not ipso facto eliminate organized crime. And I think activities of organized crime have borne that out. We see commissions of the various states struggling with ownership of these casinos, and they find a member of organized crime lurking somewhere behind. Moreover -- maybe you could take this as a package and then answer it -- moreover, even where legalized, for example in New York we have legalized the numbers game, and yet there is a big, thriving, illegal activity in the numbers game simply because there is a bigger take, there are no taxes to be paid, there are any number of other reasons. So that legalization, I have observed, does not ordinarily control the forces that we are concerned with here, and that is organized crime.

That goes for drugs. It has been suggested it be legalized. We know in England, for example, it is legalized, and yet there is a big drug market on the

outside.

I am sure you have thought of this problem. I am very much concerned about whether legalizing wouldn't put the imprimatur of the state and government upon it. And I don't pretend to be a moralist; people have always enjoyed gambling, and in the early 1850s in New York it was quite a thriving industry. But I don't quite share your view that legalizing will be the answer to the problem.

MR. SKOLNICK: Your Honor, I agree with you that legalizing is not the answer to the problem, but I don't think that is what I suggested, sir. I am suggesting that legalizing is part of an answer for a very large problem. It is not a panacea. The question really is what the conditions of legalization are going to be when you legalize. And they vary for the different forms of gambling.

With casinos, I think that considerable strides have been made in dealing with organized crime and legal casino gambling. As I indicated in my talk, I don't think the controls are strong enough. I think they could be stronger.

CHAIRMAN KAUFMAN: Did you mention in your statement that there was going to be a tape here

indicating instructions on how to skim money?

MR. SKOLNICK: That's right.

CHAIRMAN KAUFMAN: With organized crime in a legalized casino?

MR. SKOLNICK: That's right.

CHAIRMAN KAUFMAN: It is used for skimming operations, it is used for laundering operations. So doesn't it really become a screen?

MR. SKOLNICK: No, I think that is an overstatement, sir, with all due respect. First of all, what I suggested was a different model for legalization. I think you miss my point, unless I stress that again: The question is not whether you legalize per se; the question is how you legalize, what kind of goals you pursue when you legalize, what kind of controls you institute. The legalization model that exists in Nevada is, in my opinion, inadequate. I stated that in my testimony. But I can think of an alternative legalization model that would be far more adequate.

CHAIRMAN KAUFMAN: Can you state it briefly?

MR. SKOLNICK: Yes. It is a model that would be a resort bidding model. It would go something like this: You first of all decide -- or I call it a zoning merit model. Let's call it that. Zoning merit.

You decide where you want casinos. You decide what number you want and why you want them there. And there may be good reason for renewing failing resorts. You want a certain number, a limited number of casinos.

Secondly, you ask for bids on them. Now, in Nevada you don't get bids. Anybody who wants to build a casino can build one, come in and apply for a license. In effect the the burden is on the state then to prove that they had organized crime connections in the past. That is often very difficult to prove. There may be deep suspicion. Here you would have applicants. You would not have to say that you are stigmatizing a particular applicant. You could say, well, we have a number of qualified applicants. We are accepting the most qualified. You could use that kind of model for legalizing bookmaking. You could ask people to submit applications.

I teach at a law school. We have many more applications than we have room for qualified people. So do we have on the federal judiciary. I mean, if you say that somebody wasn't appointed a federal judge it doesn't mean that you have stigmatized that person.

CHAIRMAN KAUFMAN: I am not so sure, sometimes. (Laughter)

On the other hand, what you are saying, on the surface, has great appeal, but once you would select the operator, how would you control organized crime from moving in, which they have? They control the unions, they do the supplying of the help, and so forth. That is basically the problem. They are fine at the beginning. The legitimate operator goes along and he does his job. But how do you keep organized crime from moving in around the periphery?

MR. SKOLNICK: That is very difficult. But, you know, it is also difficult to keep organized crime from around the periphery of a number of industries --

CHAIRMAN KAUFMAN: Of course.

MR. SKOLNICK: -- as you well know.

Where you have a legalized, highly controlled industry, in some way you have a better handle for keeping them out, or away from the center. Now it is the center that they are used to have. If you move them out to the periphery, that might be considered an accomplishment.

In this society there are no panaceas for getting rid of organized crime overnight. The question is what kinds of policies, what kinds of controls, can we institute that will diminish the influence and

respectability of organized crime?

CHAIRMAN KAUFMAN: All right, Professor.

COMMISSIONER DINTINO: Professor Skolnick, I read your book, "House of Cards," and found it to be very knowledgeable, and I think your presentation today was outstanding, it offered some new, innovative and creative ideas. But to pick up on the Chairman's position, I think the other point that hasn't been addressed here today -- and I being from New Jersey, we have done research in this area and I don't see where you mention in your statement where you have done any research, and we will use Atlantic City casinos as an example -- I think you would have to admit that with the advent of Atlantic City casinos, probably about 95 percent of their customers never went to a casino before. What we say is gambling begets gamblers, new gamblers, it creates new gamblers. Now, of that whole group of new gamblers, wouldn't you concede that a certain percentage of them would become compulsive gamblers, and wouldn't you concede that a certain percentage of them would revert to illegal gambling; that once they get bitten by the bug, that they turn to illegal sports bookmaking, illegal bookmaking, illegal lottery?

Then another point I would like to make is: You seem to believe that if you legalize something that you can control it. We had illegal casinos in the state before casino gambling and we still have illegal casinos in the state. How would you respond to any or all of those?

MR. SKOLNICK: Again, let's start with your first question. First of all, if I were legalizing casinos anywhere else, I would not use Atlantic City as a model. I think Atlantic City in many ways is a kind of disastrous model to use. I would never put that kind of concentration of casinos in one place, to begin with. I would never depend in any one state in any one place in any one city in any one resort on casinos for my continued economic health. So Atlantic City is very bad as a model in that sense.

Secondly, I agree that when you have a situation where it is the only place on the East Coast where you have this kind of casino industry thriving, it becomes a tremendous glamor form and you are going to attract a lot of people there who want to see it who never saw it before. If it were a more normalized kind of activity, I think if you had a couple of casinos here, a couple of casinos there, as you have in the

European model, for example, away from the cities, people would be more used to it and I don't think that they would run to the casinos quite as much as they run to Atlantic City. They might.

I am not for legalizing. I am really responding to the thrust toward expansion of gambling that I see in this society. We have got gambling. The question is, what are we going to do about it.

You made a very good point. You say that, well, with legalization people can gamble who didn't gamble before. I think that is a problem with respect to casino gambling. I think that is less of a problem with respect to sports betting. That is, I think there is a tremendous amount of sports betting in this society. I think the reason you have "Monday Night Football" being so successful is because there is an enormous amount of betting on Monday Night Football. Gambling is part of our national pastime at this point. And I don't think you are going to introduce a lot more people into sports betting if you were to legalize it than you have now, because anybody who wants to bet on the Super Bowl, who can't find a bookmaker in this society, has to be regarded as mentally deficient.

(Laughter)

COMMISSIONER DINTINO: I am sorry to say I fit that category, sir.

MR. SKOLNICK: Did you look for one, sir? Did you look for one? You didn't look for one.

COMMISSIONER DINTINO: I looked for him to arrest him, not to bet with him.

CHAIRMAN KAUFMAN: I want you to understand that we are not holding this hearing for the purpose of suggesting that gambling should be eliminated from the United States. It is impossible. It has been with us as long as we have been a nation. What we are looking for, however, is to prevent the infiltration by organized crime into gambling. And it seems to be a very fertile field.

MR. SKOLNICK: Judge Kaufman, I agree with you, with everything you have just said. Think of the implications of that. We have gambling with us. So the question is not, are my proposals going to create an interest in gambling. The interest in gambling is there. The sports betting is there. Whether we approve of it or deplore it is irrelevant for the moment. It is there. The question is: How can we keep organized crime out of it as much as possible? Not entirely; that would be a panacea. How

do we keep them out of it as much as possible?

I suggest to you, sir, that with respect to that tape you are going to hear, even in Nevada, a low minority of the casinos now are organized crime-infiltrated, as compared to what they were earlier.

Legalization gives authority a handle on control. It is imperfect. You can corrupt controllers. You can corrupt police. You know, you can corrupt officials. That is always possible. But at least there is a possibility of control at a different level where one didn't exist before.

COMMISSIONER ROWAN: Professor Skolnick, you make a curious statement in the written statement that we have and you repeated it in your oral statement. I just would like some explanation and some background on how you think this happened. It says casinos that were infiltrated by organized crime were financed by the Teamsters Central States Pension Fund. Explain this chicken-and-egg phenomenon for us. Which came first and how do they interrelate?

MR. SKOLNICK: Right. Casinos are a stigmatized industry, certainly in the 1960s. Conventional lenders don't want to lend to casinos: banks, insurance companies and so forth. Like any

other industry, the casino industry needs to expand. Where does it get funds? Well, it looks around for them. One of the sources of funds are union pension funds. The Teamsters Central States Pension Fund was a very large union pension fund. It was controlled by Jimmy Hoffa, and later by others. But in general the pattern went as follows: Organized crime families infiltrated local unions in Detroit, Cleveland, and so forth. These unions nominated trustees to the pension fund. These trustees were organized crime associates. The trustees in turn were happy to lend to casinos -- the investments didn't always turn out to be bad, by the way -- but they were happy to lend to casinos, and part of the cost was, or the price was, illegal skimming. They would put in, as a bank might, for example -- a bank, if it were on the board of directors of a legitimate corporation, might want to have a trustee sitting there, or might want to have some say in who was going to manage a railroad. Well, they had some say in who was going to manage the casino. They put Carl Thomas into the casino, and Carl Thomas then reported back to them and gave them what they wanted -- one of the things that they wanted, which was skimmed money.

COMMISSIONER ROWAN: The skim did not go back to the trustees from the pension funds; the skim went back to friends, relatives, and other organized crime people?

MR. SKOLNICK: Well, that is what we assume. I mean, I don't know of anybody who has actually followed where a skim went, but we know that it is nontaxable income.

COMMISSIONER ROWAN: The Central States Pension Fund investment is related somehow? Can you relate that somehow to the reduction in organized crime control of the Las Vegas casinos?

MR. SKOLNICK: Oh, yes. You see, as the casinos became more respectable and as more respectable entrepreneurs came into the business, some banks, insurance companies, financial organizations, were willing to raise money to invest in casinos. Now, if you have money invested by Paine Webber, you know, some major Wall Street investor, if you raise your money that way through debentures, publicly traded debentures, then you don't have that kind of control. The investment banker may have an interest in the casino, but we would assume that that is not an organized crime interest.

COMMISSIONER ROWAN: However, organized crime, once in the casinos, should not be shy about receiving money from so-called legitimate sources and continuing the skimming.

MR. SKOLNICK: But they won't get it. You see, the difference is that investment bankers know a little bit about organized crime also.

COMMISSIONER ROWAN: I won't follow up on that.

MR. SKOLNICK: Well, I assume that. As you know, having gone through many hearings before this, the question of what is organized crime is a very complicated one. I am talking about kind of -- let's for the moment talk about notorious organized crime, La Cosa Nostra, the Civellas of the world, the Frattianos of the world, the Meyer Lanskys --

COMMISSIONER ROWAN: What I am looking for is, what difference does it make where the money comes from to support the casinos to the corruption of the casino?

MR. SKOLNICK: Oh, if the money comes from somebody who is primarily interested -- is making an investment in order to get the skim, then you are going to have corruption in the casino, that is, you are

going to have skimming. Is that fair?

COMMISSIONER ROWAN: Yes. And if somebody is investing to make money, there will be less skimming but there will still be skimming?

MR. SKOLNICK: No, there won't be. There should not be skimming. Look, if somebody has a major interest in a casino, and it is a public interest, the skimming might mean very little to them, I mean, compared to the multiple on the stock market. You see, you get into a different business. The skimming involved, say, millions, but, you know, not that many millions. Five, six, seven million dollars. If you have a successful casino in Atlantic City today and you happen to have 20 percent of the stock in that casino, you are much better off with increasing your multiple on the stock market than you are with skimming. You wouldn't want to jeopardize yourself particularly. I mean, there is no reason for it.

I am assuming that people who run casinos are rationally self-interested now, not moral.

COMMISSIONER ROWAN: I just think we are looking at two separate worlds. I think we are looking at the people who invest in casinos, one world; and the people who run casinos, second world. And while the

people who run casinos may, to some extent, appear to be passing all the money back to the people who invest in casinos, there is still a large slopover which doesn't get back to the investors.

MR. SKOLNICK: Well, not necessarily.

COMMISSIONER ROWAN: You don't think so?

MR. SKOLNICK: You are assuming that every casino is skimmed.

COMMISSIONER ROWAN: No, I am assuming that there are lots of things going on in casinos, some of which is skim, some of which is payoffs to junketeers, some of which is payoffs to people who wash their money through the casinos -- all sorts of things. That has nothing to do with the legitimate people who invest, allegedly.

MR. SKOLNICK: Well, that's right. I mean, there are many, you know, there are many things that can go on in casinos. The question is, what are the conditions under which skimming will occur most likely? The question is, what are the conditions under which various kinds of payoffs will occur? Nevada and New Jersey have in the past relied upon licensing in order to control these activities. They have investigated who owns the casino, who are key officials in the

casino, and so forth.

COMMISSIONER ROWAN: I understand that, I understand that, but the thing that you said in your statement, it seems to me, is not entirely correct. No matter who invests money in the casino, whether it is the Teamsters or somebody else, there is still a possibility in the casino world, too, for illegitimate activities; it could be organized crime control.

MR. SKOLNICK: Look, there is a possibility -- you should understand this, I think, that there is a possibility in every high cash flow business, including a bank, for organized crime activity.

COMMISSIONER ROWAN: That's right.

MR. SKOLNICK: If I were to take this distinguished group of Commissioners and have them as the board of directors of a casino selecting all of the casino personnel, you still might get some activities that we wouldn't approve of going on, but the probability of those activities occurring, I suggest to you, would be considerably diminished.

COMMISSIONER ROWAN: Thank you.

CHAIRMAN KAUFMAN: I think you will agree that that hasn't operated that way with legalized casinos?

MR. SKOLNICK: I am sorry, sir, but I disagree. It has operated that way. We don't see skimming scandals in certain casinos. If you look at the skimming scandals in Nevada, you will see that most of the casinos that were involved, the Aladdin, the Stardust, all of these casinos were financed by Teamster Central States Pension Fund moneys.

CHAIRMAN KAUFMAN: Do you attach any significance at all that organized crime controls the supplies to the casinos? Is that of any importance whatsoever to us?

MR. SKOLNICK: Well, it is not clear to me that organized crime does supply all of -- what does organized crime supposedly supply? You see, one of the problems is, again, where we are with what we consider to be organized crime. Do we consider --

CHAIRMAN KAUFMAN: It would be useless to start going into that. We have been talking about it, defining it and so forth, and I assumed that you knew the answer to that. But the fact is, I understand it is pretty much established that -- again we talk about periphery -- we are talking about the supplies of food, we are talking about the supplies of linen, we are talking about all the supplies that go into running --

MR. SKOLNICK: Oh, I see. Those supplies. Well, there is organized crime infiltration of a number of labor unions and a number of traditional kinds of supplies. The question for me would be: Is there more organized crime control of supplies of linen, let's say, to casinos than to other hotels? I don't know. I don't know the answer to that. It may well be that organized crime is involved in certain kinds of --

CHAIRMAN KAUFMAN: Yes, but the point that you made and the point that I want to get clear is that the attachment and the emphasis of the word "legalized" doesn't necessarily mean legalized, because there are these activities going on around the periphery; that that emphasis is not put -- for example, you utilized the banking industry. We accept the banking industry. We don't talk of it as being legalized. You are talking of gambling as being legalized. The assumption is, therefore, everything is pure and innocent.

MR. SKOLNICK: Well, I think that would not be my assumption; that in any legalized activity, including the banking industry or including --

CHAIRMAN KAUFMAN: I am particularly interested in gambling.

MR. SKOLNICK: What is that?

CHAIRMAN KAUFMAN: I am particularly interested in gambling.

MR. SKOLNICK: Well, look, there is a history of organized crime interest in gambling. Where gambling is not legal, we may assume that organized crime is in control. Where gambling is legal, organized crime is at the periphery. I regard that as something of an accomplishment.

CHAIRMAN KAUFMAN: All right. I have taken too much time. Are there any other Commissioners who have questions?

MR. HARMON: May I ask one question, Mr. Chairman.

CHAIRMAN KAUFMAN: Go ahead.

MR. HARMON: Professor Skolnick, the Commission staff has taken a deposition from Bob Knight, the basketball coach of the University of Indiana, who was asked this question:

"Do you think gambling on college athletics should be legalized?"

Bob Knight answered this way: "I don't think gambling should be legalized on anything. I have just never been one to feel that we should have legalized gambling on sporting events. The history of

gambling on sporting events involves all kinds of bribes and fixes. Any time there is a situation where odds are being published somebody is trying to figure out a way to beat those odds, and that obviously has resulted in the sports scandals that we have had involving betting and gambling."

Do you, Professor Skolnick, if I could ask you this question, advocate the legalization of sports betting on college athletics under any set of controls as a means of controlling organized crime?

MR. SKOLNICK: Well, what I am suggesting is that you investigate -- I have not done a study of legalization of sports betting. I am saying that it is one of the things that you ought to consider. My feeling is that there is a great deal of betting anyway. I mean, there is a certain problem I have with the reality of a statement like that. You say legalized gambling. When there is legalized gambling you are going to have odds released publicly, as if we don't have odds released publicly now. I can pick up any newspaper on the day of the Super Bowl and I can tell you what the odds are. The odds are announced on the airwaves. Everybody knows what the point spread is. I just don't see how legalization would change publicity.

It would seem to me it would be very difficult for somebody who wanted to learn about the odds on a sporting event not to find out about them in this society.

MR. HARMON: Do you draw any distinction between college and professional athletics insofar as the legalization of sports betting?

MR. SKOLNICK: One of the things I made here by implication, I will make it a little more strongly now, is that I think that college athletics are terribly exploited. I am opposed to big-time college athletics. I think it is inevitable that when you have in effect professionals playing for college athletic teams, you are going to have a lot of gambling on the events. You no longer have the notion of amateur athletics that we had.

If you ask me what kind of world I would like to have, I think we would share our visions. I am giving testimony in terms of the world that already exists.

COMMISSIONER SCLAFANI: Professor, if I could interject something here. You certainly came across, at least to me and a number of others, as not necessarily proposing but in favor of legalization of

sports betting, and there have been a number of coaches of college athletics who are the closest people to that situation who are vehemently opposed.

MR. SKOLNICK: Sure.

COMMISSIONER SCLAFANI: And one of the things that you mentioned was the publishing of point spreads and the publishing of odds, and several coaches have come out against the publishing of odds and the publishing of point spreads, which is somewhat of a solution to that problem.

MR. SKOLNICK: Well, there are many roads to solutions.

COMMISSIONER SCLAFANI: Exactly. And it is not just hitting it at one end. It could be hitting from another, which is not legalization.

MR. SKOLNICK: Yes. I am not a great proponent of legalization of sports betting. I am saying, given the situation that exists, I would like to see something done about it. Now, let me say something about --

COMMISSIONER SCLAFANI: And we are making a distinction here now between professional sports and college athletics?

MR. SKOLNICK: That's right. But I think

that the college athletic coaches have a kind of self-interest in this. They want you to think and the public to think and all of us to think that these really are amateur games that are going on. And they are not. I mean, that's --

COMMISSIONER SCLAFANI: I really think that that isn't the issue here. The issue is organized crime's involvement in sports betting. I was just zeroing you in on the distinction between the professional and college athletics. And I think you have answered it. Thank you.

CHAIRMAN KAUFMAN: Professor Skolnick, I just want to tell you that we are very grateful to you for coming here today. Your statement is, I would say, very elucidating and helpful. We may agree or we may not agree with certain conclusions you draw. We will probably disagree with those conclusions which stem from your years at City College (laughter); your years at Berkeley perhaps gave you a better education in this respect. But, at any rate, it was very nice of you to come, we are very grateful to you.

We will ask Mr. Hunterton to call the next witness.

MR. SKOLNICK: Thank you for hearing me.

MR. HUNTERTON: Thank you.

(The witness was excused.)

MR. HUNTERTON: Will Frank Storey, Joseph DePierro, and Robert Gaugler please come forward.

Gentlemen, before you are seated, would you all stand and be sworn.

FRANK STOREY, JOSEPH DePIERRO, and ROBERT GAUGLER were called as witnesses and, having been first duly sworn, were examined and testified as follows:

MR. HUNTERTON: Mr. Chairman, anchoring our next panel, if you will, in the middle chair is Frank J. Storey, Jr., currently Assistant Special Agent in Charge of the Organized Crime Branch, Criminal Division, of the New York Office of the FBI. He has recently been named to move down to Washington and become the Section Chief of the Organized Crime Section at Bureau Headquarters.

I would ask Mr. Harmon to introduce the members of the panel to Mr. Storey's left and right.

MR. HARMON: Mr. Chairman, the questioning of these witnesses will be shared by myself and Mr. Hunterton. Joseph DiPierro, to Mr. Storey's right, is a Deputy Inspector of the New York City Police Department assigned to the Public Morals Division, which comes

under the supervision of the Organized Crime Control Bureau. He has been a member of the New York City Police Department for 29 years.

Seated to Mr. Storey's right is Lieutenant Robert Gaugler, a Lieutenant in the New Jersey State Police, currently assigned to the Organized Crime Bureau. He has been a member of the New Jersey State Police for 23 years.

MR. HUNTERTON: Thank you.

Mr. Storey, we will ask you to go first, please.

MR. STOREY: Good morning, Mr. Chairman and members of the Commission. I will briefly read you my statement here. I will condense it a little bit because of the time problem.

I would like to provide you with an overview of the FBI's investigative jurisdiction concerning illegal gambling, the involvement of La Cosa Nostra in illegal gambling, the involvement of nontraditional organized crime groups, and information concerning the FBI's policy on the conduct of illegal gambling investigations.

The FBI's organized crime program has three investigative priorities. They are traditional

organized crime -- the La Cosa Nostra, if you will; nontraditional organized crime groups; and narcotics matters.

Since 1978, the FBI has achieved successes in the fight against our number one priority, La Cosa Nostra. As a result of the highly successful and selective utilization of three major investigative techniques -- namely informants, undercover operations and Title III electronic surveillances -- the majority of the bosses in La Cosa Nostra families across the United States have been indicted and/or convicted.

While these accomplishments present a very vivid picture of the successes achieved to date, they by no means represent the whole spectrum of what has been achieved in the organized crime program. Numerous indictments and convictions of lower-level LCN members and associates have also been obtained.

FBI investigations concerning illegal gambling operations have been significant in developing evidentiary information regarding illegal gambling activities as well as additional crimes as extortion, loansharking, infiltration of legitimate businesses, and narcotics.

It is conservatively estimated that more

than one-half of organized crime revenues come from illegal gambling activities. From this monetary power base, members of the LCN are able to control certain public officials at various levels of government, continue their lucrative business, and finance other racketeering activities. The impact on society caused by these numerous criminal operations has had a profound, adverse effect in many areas of the United States.

The FBI investigates illegal gambling based on guidelines derived from the Department of Justice. These guidelines prioritize our illegal gambling investigations into those areas in which there is direct or indirect control of the illegal gambling operation by traditional organized crime, namely the LCN; police or public corruption; or the gambling operation realizes an income which is extraordinary for that particular region.

In investigations involving organized criminal enterprises engaging in a variety of substantial illegal activities, gambling violations are pursued by the FBI as predicate offenses in Racketeer Influenced and Corrupt Organization investigations, namely RICO. This fact is particularly true in matters

involving a combination of illegal gambling and loansharking violations, especially when the loansharking is the direct result of the gambling activity, which it often is.

The FBI has been most successful in using gambling and the collection of unlawful debts as excellent predicate offenses in obtaining significant RICO prosecutions. Through this approach, the bookmakers, the LCN, and corrupt officials are faced with stronger sentences and property or monetary losses through criminal forfeiture which is a remedy available through successful RICO prosecutions.

The FBI's continued responsibility in gambling investigations of major organized crime groups is essential due to the fact that gambling and violence go hand in glove. LCN figures operating bookmaking rings generally protect their monopolies by savage acts of violence against those opposing them. Furthermore, this brutality stems from the underworld's all-consuming greed and desire to eliminate competition.

Illegal gambling saps the financial resources of the nation to deal with social problems by concealing vast sums of money from taxation. It also drains the family budget of those least able to afford

anything beyond the bare necessities of life, especially in the case of the compulsive gambler.

Illegal gambling spawns a whole generation of other crimes. Not only does it drive hard-pressed victims to loansharks, who regularly use threats and violence as tools of their trade, but also leads to other crimes committed by victims indebted to the organized crime operatives.

FBI investigations have demonstrated that illegal gambling can have a corruptive influence on law enforcement and public officials. This type of corruption fosters other illegal activities whose victims are honest citizens.

Gambling joins narcotics and labor racketeering as the most lucrative ventures of organized crime.

The FBI does not gather statistical information to estimate the revenue generated by organized crime in gambling operations, and, as Mr. Skolnick pointed out, this is next to impossible. But some gambling experts have estimated that organized crime derives approximately \$26 to \$30 billion annually from illegal gambling operations.

In illegal gambling, sports bookmaking is

the number one money producer for organized crime's gambling activities, due primarily to the immense popularity of professional and collegiate sports. Sports gambling is followed by parimutuel gambling mostly on horseraces, illegal lotteries, and illegal casino gambling, in that order.

MR. HUNTERTON: Agent Storey, at this point I would like to interrupt your testimony.

Mr. Chairman, we have a videotape of an illegal sports bookmaking operation in progress. Mr. Storey will narrate as the tape comes up. Two of the monitors are pointed toward the Commission, one towards the audience.

Would you go ahead, Mr. Storey?

MR. STOREY: The videotape depicts an illegal sports operation in the Northeast with organized crime connections. There are a total of six telephones in use, five of which are visible. The sixth one is at the end of the table at the bottom of the screen. The main phone in the center contains a 32-number speed dial memory, facilitating easy access to other bookmakers and associates throughout the country. The five remaining phones are connected to a main number in a rollover system, where the next

available individual takes the incoming call. The individuals seated take the bets, fill out a form in duplicate, and place them on the other side of the table in front of them. Another individual puts the orders under the timeclock to record the time and the date. The orders are separated into two stacks and subsequently used for accounting purposes. In addition, the telephone calls are tape-recorded by the bookmakers in case of disagreements.

There is reason to believe this particular operation was taking in approximately one million dollars and laying off one million dollars per week. It is customary for the bookie to receive a percentage of the action, perhaps 10 percent. So in this case the bookmaker might well earn \$100,000 per week plus any winnings on the games themselves. The individuals seated follow certain guidelines or betting lines which are posted on the wall in front of them. The person in charge monitors the action taken so as not to take too many bets in one game on the same team.

MR. HUNTERTON: Mr. Chairman, because this tape is from a case that is not yet concluded, we have blacked out the faces of the sports writers there.

Agent Storey, would you call this typical of

LCN gambling-related activity in the Northeastern United States?

MR. STOREY: Yes. This could be considered a typical example of the problem we are faced with on a day-to-day basis.

MR. HUNTERTON: Would you continue now, please.

MR. STOREY: Addressing the sports betting problem as it relates to collegiate and professional athletics: To interdict the influence organized crime figures and bookmakers have on professional and collegiate sports, the Director of the FBI and the Administrator of the Drug Enforcement Administration authorized a program in November 1982 whereby teams of specially trained FBI and DEA agents would make awareness presentations to professional sports teams.

The FBI's BIXBE sports bribery investigation involved point shaving of three games in the 1978-1979 basketball season of Boston College. Investigation determined that two players were involved and had received \$2,000 plus cocaine for their involvement to fix the games. This investigation has resulted in the conviction of one player who was sentenced to ten years in custody of the Attorney General. Three additional

subjects in this investigation were also convicted and received substantial sentences.

Investigation was initiated concerning a National Football League quarterback who was involved in an extensive gambling habit and being extorted by gamblers. The athlete came to the FBI as a direct result of presentations provided to his team while he was in college and admitted his involvement. This investigation resulted in the conviction of three subjects who were sentenced to probation and fines. The player was suspended by the National Football League for illegal gambling.

These investigations are cited as having impacted greatly on professional sports and have served to demonstrate the significant problems addressed in the FBI/DEA presentations.

Regarding Atlantic City, the legalization of casino gambling in Atlantic City required the FBI to increase our agent resources in that area.

Prior to the expansion of Atlantic City, the FBI had determined that within the State of New Jersey, eight LCN families were represented. They are the Bonanno,

Bruno, Bufalino, Colombo, DeCavalcante, Gambino, Genovese, and Luchese families. With the exception of the DeCavalcante and Bruno families, the leadership of the other families is situated outside of New Jersey. With the legalization of casino gambling, the FBI has determined that LCN activities in the Atlantic City area are of a multistate and multifamily nature. In addition to the presence of the eight LCN families presently mentioned, some involvement from the families in Chicago and Kansas City has been identified. The strength of the individual families' influence varies considerably, with the New York Genovese Family appearing dominant.

The LCN's influence extends to the construction of casinos, hotel service businesses, which the Chairman had mentioned earlier, junket operations, restaurant employees, dealers, maids, and other ancillary services. The common thread in controlling these businesses is the LCN's influence in the service-related industries and unions.

Finally, the principal objectives of the FBI's organized crime program is to reach beyond the streets to those who exercise power and control within the LCN organization.

In the last two years we have convicted 1,200 individuals in organized crime investigations. Of that number, there have been significant convictions in gambling and other illegal operations relating to gambling.

Consistent with the priorities established by the Department of Justice and FBI manpower and resources, selective use of various techniques such as Title III and undercover operations have been utilized by the FBI to penetrate the LCN-controlled gambling operations. Numerous significant gambling investigations have been worked by several of our field offices within the past year which have uncovered LCN involvement.

The FBI will continue to execute its responsibilities in gambling investigations consistent with priorities established by the Department of Justice while maintaining the momentum achieved to date in our continued attack on organized crime.

I thank you, Mr. Chairman and members of the Commission, for allowing me the opportunity to address the subject of illegal gambling. I hope I have been able to provide investigation which may be of some assistance to the Commission.

CHAIRMAN KAUFMAN: Thank you, Mr. Storey.

MR. HUNTERTON: Agent Storey, two follow-up questions on the tape excerpt. You identified that as a sports wagering operation, correct?

MR. STOREY: Yes, sir.

MR. HUNTERTON: Were they taking action, if you know, on all sports, pro, amateur, football, basketball?

MR. STOREY: I believe it was all sports, yes.

MR. HUNTERTON: And you also mentioned that it was necessary for this operation to lay off, if you will, not to get caught one-sided in any given game. Again, without identifying the investigation or the city, can you give us some idea of the geographical spread of the cities involved in this layoff?

MR. STOREY: It was nationwide. They were laying off across the country.

MR. HUNTERTON: You worked cases like this before you became a supervisor, didn't you?

MR. STOREY: That's correct.

MR. HUNTERTON: If you could, could you summarize for this Commission what you learned from the bricks and now supervising and trying to wrestle with

budget and manpower priorities about what are the frustrations and rewards of working illegal gambling cases in the organized crime field?

MR. STOREY: Well, one of the problems we faced institutionally and also as an individual in working these cases was that when we would get a conviction in court, the sentences were very minimal. We would conduct an electronic surveillance, for example, of a particular bookmaker for a two- or three-month period and identify his entire operation, both intrastate and interstate. We would then execute search warrants, seize evidence, evaluate the evidence, do follow-up investigation, go to a grand jury, the case would be tried, and a period of maybe eighteen months would have been expended. Normally the individual would receive a very minimal sentence, a year or two, three years in jail at the most, and in a lot of cases probation. So we saw a diminishing returns problem. We were expending X number of dollars of resources and we weren't getting our bang for the buck. We weren't putting the top people in jail and we weren't accomplishing anything. We had a lot of numbers which looked good on paper but it doesn't solve the problem.

Upon the advent of the RICO statute in 1970 we then decided to focus our attention on the criminal enterprise using the gambling violations as a predicate offense to support the RICO indictment. By doing this, when the person is convicted of RICO, the sentences are much more substantial, because included in those charges a lot of time is extortion and labor racketeering, things along those lines.

So we have had to change our focus in the direction and the way we operate because we weren't really accomplishing what we set out to do.

CHAIRMAN KAUFMAN: May I ask a question, Mr. Hunterton.

MR. HUNTERTON: Certainly, Mr. Chairman.

CHAIRMAN KAUFMAN: Do you have a manpower problem in your unit?

MR. STOREY: Absolutely.

CHAIRMAN KAUFMAN: And would you say a good deal of that is caused by the emphasis on the drive against drugs in the United States?

MR. STOREY: No, I don't -- not totally, no. To some degree, but not totally.

CHAIRMAN KAUFMAN: Haven't you found from your experience -- perhaps the other two gentlemen

might have a response to it -- that the public is more willing to tolerate gambling than it is the sale or dealing in drugs?

MR. STOREY: I agree, Mr. Chairman, that is correct.

CHAIRMAN KAUFMAN: And it is rather difficult to get the public excited so that it understands that it is their dollar that is being siphoned away in connection with gambling because it doesn't come back as revenue to the United States frequently?

MR. STOREY: Well, it is not only the public. It is the entire society. It is, to some degree, the law enforcement side, the community; it is the judiciary. The sentences were never really that severe. It is the probation, the parole system. It is the entire system. This problem can be neutralized if we make the commitment to neutralize it. I don't know if we have made that commitment.

CHAIRMAN KAUFMAN: Shall we hear from the next witness, Mr. Hunteerton?

MR. HUNTERTON: One more question, your Honor, which I think will be important later in the day.

Agent Storey, in our next sequence of

witnesses we are going to look at a Cuban organized crime group involved in numbers or policy wagering as opposed to sports bookmaking. In connection with that and before we go to the next two witnesses, the Commission would appreciate your observations on any linkage or relationship between the LCN in New York and Cuban organized crime groups.

MR. STOREY: Well, we have established through recent investigations that there is a direct linkage and an accommodation has been made by the LCN relating to the Cuban organizations.

MR. HUNTERTON: Thank you. Mr. Harmon?

MR. HARMON: Yes, if we could narrow the focus on the problem, Inspector DePierro, if you can ever talk about New York City as a narrower focus. What types of gambling does organized crime control in New York City?

MR. DePIERRO: Illegal bookmaking, policy, and illegal casinos.

MR. HARMON: Now drawing your attention to the last one, casinos, and using the photograph, perhaps, Exhibit Number 11, could you explain for the Commission a typical operation of a casino run by La Cosa Nostra?

MR. DePIERRO: Yes, it is very similar to the casinos in Atlantic City. You will find the same type of equipment on a smaller scale. You will find the roulette wheels, baccarat tables, blackjack tables, crap tables, and it will be the same type gambling as in Las Vegas and Atlantic City on a smaller scale.

MR. HARMON: In these casinos does La Cosa Nostra provide other services to its gamblers aside from merely taking their money, so to speak, in these gambling games?

MR. DePIERRO: Yes. They have food and drink, and they also have access to money from a loanshark if you need it.

MR. HARMON: So your gambling may be financed by the friendly loanshark who is either in the room or in the next room?

MR. DePIERRO: Very often, yes.

MR. HARMON: Would you say that in the past in New York City traditional organized crime, La Cosa Nostra, had an exclusive hold on illegal policy operations in New York City?

MR. DePIERRO: They did, yes.

MR. HARMON: And how about as of today, has that evolved over time?

MR. DePIERRO: Yes, it has. We have found that in the last years other ethnic groups have taken a greater interest in the illegal policy, and particularly the Cubans.

MR. HARMON: So over the years you have seen a gradual increase in the involvement of Cuban organized crime in policy operations, is that correct, sir?

MR. DePIERRO: Yes, we have.

MR. HARMON: For how many years have you personally worked in the field of organized crime control insofar as gambling is concerned?

MR. DePIERRO: On and off since 1973.

MR. HARMON: Do you agree with Mr. Storey, who is sitting right next to you, that there is a current relationship between Cuban organized crime elements and La Cosa Nostra when it comes to illegal policy operation?

MR. DePIERRO: That is my feeling and other people's, yes.

MR. HARMON: Could you describe your understanding of the nature of that relationship?

MR. DePIERRO: Well, I don't believe that the other ethnic groups could come into traditional

organized crime areas without some kind of a monetary agreement being reached. It's too lucrative. There would have to be some kind of a problem resolved by the traditional organized crime and the other ethnic groups.

MR. HARMON: Turning to the scope of illegal and open policy operations in New York City, has the Police Department recently conducted a survey, the idea being to estimate how many policy operations are operating in New York City?

MR. DePIERRO: Yes. We took a survey recently, and this survey covered the openly blatant OTB parlor-type gambling spots, those are storefronts where illegal gambling is conducted and nothing else is conducted therein. And we came up with 4,355 spots.

MR. HARMON: When you say OTB parlor-type operations, do you mean to say that these gambling locations do not operate behind a front of any kind?

MR. DePIERRO: Not in the least. They have Plexiglas put there to guard themselves against theft and problems. They have slots to pass money and numbers back and forth. And they have odds posted all over the building. It is nothing but gambling. There is no doubt in anyone's mind what it is there for.

MR. HARMON: Is the New York City Police

Department currently engaged in a crackdown on openly operating policy locations?

MR. DePIERRO: Yes, we are.

MR. HARMON: What is the theory behind that, Inspector DePierro?

MR. DePIERRO: The Police Commissioner's theory was that these quality-of-life crimes, which are gambling and narcotics, increase crime in the area overall, and by going at a higher level we were not affecting the lower level, the quality of life. So we are directing our activities very much on the street level to try to put these out of sight as much as possible.

MR. HARMON: So is it correct that your approach might complement what the FBI is doing?

MR. DePIERRO: I think, yes, I think it is very close to what they are doing.

MR. HARMON: How many arrests in how many locations have occurred as a result of this crackdown?

MR. DePIERRO: In the first quarter of 1985 we made 1,626 arrests, in 1,072 locations.

MR. HARMON: The New York City Police Department does not have the advantage of this racketeering statute that Mr. Storey spoke about where

cases can be brought on a gambling basis as well as other crimes, is that correct?

MR. DePIERRO: That's correct.

MR. HARMON: So that the New York City Police Department must bring pure gambling cases, so to speak?

MR. DePIERRO: That's correct.

MR. HARMON: To your knowledge, how many of those people arrested have actually been incarcerated as a result of these arrests?

MR. DePIERRO: I don't know of any. There may be one or two, but very, very few have gone to jail.

MR. HARMON: Could you explain the operation of New York City's padlock law as another way maybe to indirectly get at illegal policy operations?

MR. DePIERRO: Yes. In July of 1984 the City Council of New York enacted a law which was directed at gambling, narcotics, ABC -- that is liquor violations -- and other quality-of-life violations, which would enable us to padlock a location that is being used for these illegal activities. And the theory is that if we make two arrests and get two convictions within a year, followed up by one other arrest to show that the violation is still continuing,

they would have a hearing by the New York City Police Department and we could and would padlock the premises so they couldn't be rented out to anyone else.

MR. HARMON: So that the building owner would lose the use of his premises for maybe a year?

MR. DePIERRO: That has been the effect. We found that many of the people who are renting these illegal storefronts are evicting the people rather than stand to lose a year's rent.

MR. HARMON: Have you found that bookmaking and policy operators now resort to the use of advanced communications technology as a necessary part of their business?

MR. DePIERRO: Yes, we have.

MR. HARMON: Could you describe that in general terms, please?

MR. DePIERRO: Yes. Particularly the Cuban policy operation. We find that they record most of their bets on cassettes, and they don't rely on the old traditional written records which we used to look for. They call over the phone to another location and these are recorded on cassettes. It makes it very difficult to follow the pickup man which they don't use at this time.

MR. HARMON: Have you found computers being used to record bets?

MR. DePIERRO: In a wire room. Not a policy operation, but a wire room, we have found computers, yes.

MR. HARMON: Before I leave that, has that posed any particular problem to law enforcement? Do you use computers to record bets?

MR. DePIERRO: Yes, it is a problem. It is very difficult to get into a computer without the code, and it causes a problem for us, yes.

MR. HARMON: Drawing your attention to one final issue before we turn to Lieutenant Gaugler, I would like to direct your attention to the use of video machines for illegal gaming purposes. Has the New York City Police Department had any experience with these illegal video machines used for gambling purposes?

MR. DePIERRO: Yes, we do make arrests for these machines.

MR. HARMON: Was there a seizure made within the last two months or so of a number of these machines?

MR. DePIERRO: Yes, in March of '85 we were in an operation with New Jersey and we confiscated approximately 142.

MR. HARMON: Approximately 142 machines were seized from what type of a gambling operation?

MR. DePIERRO: Most of them were taken from policy spots, Cuban policy spots.

MR. HARMON: Were any of those machines manufactured by a company known as the SMS Corporation from New Jersey?

MR. DePIERRO: Many of them were.

MR. HARMON: I would like to turn to you, if I could, Lieutenant Gaugler, and ask you for the New Jersey State Police experience with regard to video machines used for illegal gaming purposes.

MR. GAUGLER: Yes, sir. Mr. Harmon, Mr. Chairman, Commissioners --

MR. HARMON: If I may just interrupt you before you get to say anything, Lieutenant Gaugler.

During the course of this testimony, Mr. Chairman, there is an example of a seized machine to the Commission's left, which will be used during the course of Lieutenant Gaugler's testimony by way of demonstration.

Please feel free, Lieutenant Gaugler, to demonstrate this machine when you think it appropriate.

MR. GAUGLER: All right, sir.

In 1983, the New Jersey State Police and the Essex County Prosecutor's Office initiated an investigation into the sale and use of illegal video gambling devices that were proliferating in the State of New Jersey.

Intelligence information that has been developed as a result of previous raids on video machines has revealed a potential from the use of such devices for enormous illegal profit.

The original version of these illegal electronic video gambling machines we commonly know as "Joker-Poker." These video machines were banned for placement in liquor license premises in the State of New Jersey in March 1983 by the State Alcoholic Beverage Control. The ABC deemed such machines, per se gambling devices, as they were within the definition of an illegal slot machine. Such devices may be used for the purpose of playing for money or other valuable consideration and, further, such devices lack entertainment value as winning is determined by chance other than skill. Notably, these machines allow the insertion of multiple amounts of quarters; had an accounting system utilizing meters; and were equipped with a "knockoff" switch to clear winning credits.

As the electronic state of the art developed, these original "Joker-Poker" machines, which are manufactured by various companies throughout the country, began to be replaced by video card games incorporating an amusement mode, in addition to the illegal gambling mode. Certain of these dual mode machines were approved for use only as an amusement device in liquor licensed premises. Approval of these devices was premised upon factors such as the incapability of the acceptance of multiple coins, the accumulation of points rather than credits, and the machine's lack of a means of retaining or erasing credits without playing off the games.

The New Jersey State Police confiscated examples of these illegal video poker machines in an investigation which terminated in mid-1984. The illegal machines that were seized had been approved for use as an amusement device only.

These machines were examined by experts and found to have a second mode, which by pressing certain buttons on the machine enabled the operator to change the machine from the legal amusement mode into an illegal gambling mode. The devices also had a concealed bookkeeping system which was visually

displayed after the insertion of a code, known only to the vendor and sometimes the operator. This latter feature allowed the owner of the machine to determine how many winning hands the machine recorded as well as how many credits were "knocked off." Thus, the owner could verify how much was paid out to winning players.

Credits were erased through the use of either a code or on occasion by the use of a remote controlled electronic device item similar in size and shape to an electronic garage door opener, which when pointed at the machine would erase the accumulated credits after the winner was paid off.

Winning players were usually paid 25 cents per "knocked-off" credit.

In 1984, a New Jersey State Police undercover detective opened a video machine vending business and began competing for locations in which to place video machines, including video poker machines. This investigation specifically focused on the proliferation of video devices capable of being utilized for illegal gambling. Investigators have determined that these video gambling machines are capable of having dual modes, one for entertainment and one for illegal gambling, which can be converted by the

insertion of a secret code.

On March 25, 1985, the New Jersey State Police and the Essex County Prosecutor's Office conducted a large-scale raid which culminated an eighteen-month undercover investigation, which employed the use of various covert investigative techniques. As a result of these raids, seventy persons were arrested on a variety of charges: promoting gambling, theft by extortion, criminal usury, official misconduct, possession of illegal gambling devices, and conspiracy.

In addition to these arrests, over \$90,000 in cash, 10 vehicles, and over 400 illegal video gambling machines were confiscated.

MR. HARMON: Now, Lieutenant Gaugler, among those arrested, were there two persons by the name of Ralph "Blackie" Napoli and Joseph Sodano?

MR. GAUGLER: Yes, there were, sir.

MR. HARMON: Mr. Chairman, on February 16, 1983, in hearings before the Senate Judiciary Committee, on the subject of organized crime in America, Ralph Napoli and Joseph Sodano were identified this way:

Ralph Napoli is a caporegime in the Bruno Crime Family and an associate of Nicodemo Scarfo. In 1971, Napoli was ordered incarcerated along with

Nicodemo Scarfo and the late Anthony Russo for refusing to answer questions before the New Jersey State Commission of Investigation. He was released several years later when it became apparent that he would not testify. Napoli has arrests for bookmaking, maintaining a gambling resort and assault.

Joseph Sodano, a soldier in the Bruno Crime Family, has a criminal record for bookmaking, lottery and robbery. Moreover, he has been involved in narcotics trafficking and was considered an enforcer for Anthony Accetturo, a caporegime in the Luchese Crime Family. Sodano was also a suspect in two murders. He was arrested during June 1977 by the FBI for theft from interstate shipment. Over a period of time Sodano aligned himself with the Bruno family, whereupon he conducted gambling activities in New York City. Currently Sodano is subordinate to caporegime Ralph "Blackie" Napoli.

Lieutenant Gaugler, are there uniform laws prevailing among the various states concerning these video gambling devices?

MR. GAUGLER: To my knowledge, sir, the major law which controls the definition of a gambling device has no uniformity from state to state. Most

states have no ability to keep up with the ever-changing electronic state-of-the-art video game. The dual mode concept wherein a machine has a legal and an illegal disguised mode further complicates legal definition of such devices.

MR. HARMON: Before I ask you the final question, would it be possible at this point to demonstrate these several modes of the video gaming machine?

MR. GAUGLER: Yes, sir. I am going to turn the machine on and put it into the legal mode. The legal mode, as it was approved, is supposed to give you 10,000 points, which would be reflected in the top left-hand corner of the screen. Now, by inserting a code, by the operator, it will change it to an illegal gambling mode where in the top left-hand corner you will see 1 point. Now, that is the insertion of multiple quarters. Every time a player would place a quarter in, he would get an additional point on the top left-hand corner, which increases his odds should he get a winning hand.

He has previously selected the game of what they would call "Joker-Poker." It is like five-card draw. This machine has the capability of having three

types of games, something they call "blackjack" and "sure shot." This particular game will be poker with a wild joker should it pop up on the screen, where a player can elect to, if at some point in the game he can even play what they call high-low "Joker-Poker" , where he can play something similar to a game of acey deucey, where you try to pick a card between the ace and the deuce. He's got a pair of 5's so he will draw to the pair of 5's and the ace -- and he lost.

He can pick four cards in this game. We will try to get a winning game up so you can see what happens when the cards are up.

MR. HUNTERTON: That is why they call it gambling.

MR. GAUGLER: By the way, we have this machine set at 100 percent payout. As you can see, we are not getting 100 percent return on our money.

COMMISSIONER GUSTE: By 100 percent payout, do you mean it is calculated to win every time?

MR. GAUGLER: We can adjust the machine. It depends on the operator. It is from 50 percent to 100 percent, depending on the amount of games he wants someone to win when he first places his machine to get the interest up, and then he will cut that figure back.

COMMISSIONER GUSTE: Assuming that a player does acquire a certain number of points, is he paid by the machine itself as a matter of routine?

MR. GAUGLER: The machine has the capability of replacement of a hopper, but the ones that we confiscated in New Jersey didn't have hoppers. He would be paid off by the person who was in control of the machine, such as the bartender or the store owner.

MR. HARMON: Just how lucrative is illegal gambling on video gaming machines?

MR. GAUGLER: The amount of moneys generated from these type of illegal video gambling machines is enormous. In a recently completed New Jersey State Police investigation, in five machines alone, over \$500,000 in net profit was generated for the owner/possessor in a 15-month period. If these machines could not offer a winning cash payoff for accumulated credits, the profit margin would never approach these dimensions. Removal of the illegal gambling feature results in the machine being a simple amusement device, not any more attractive to the public than any other video or pinball machine. The potential for cash profit to the player clearly motivates more machine usage and therefore a greater profit return for the

machine possessor.

Available information suggests that illegal video gambling devices are generating gambling activity and profits which were formerly gained by the criminal element from street-level illegal lottery, policy, and bookmaking activity.

MR. HUNTERTON: We have a winner.

MR. GAUGLER: Now he is going to elect to go what they call high-low. He's got the 7 in the middle. He can push a button to the left or a button to the right. If he goes left and he gets a card that is lower -- or is that higher?

THE OPERATOR: It has to be lower than the 7.

MR. GAUGLER: It has to be lower than the 7. He will double his bet. If he loses, he loses all of his credit. He won that bet.

He is going to stand now, he is going to convert the credits to the machine, and the points should go up. Now he's got 11. If he was playing at a location, they would pay him 25 cents a credit. They would then come over to the machine and they would clear it, as opposed to playing the games off by the insertion of a code. I don't know if you heard those numbers rattle, but it was registering on a counter

that they have inside. Now the machine is back and ready for a new player.

They have an accounting system in this machine whereby when the vendor comes on his weekly route, he can determine how much was paid out by the machine possessor, whether it be the bartender or whatever, by inserting his code, which is again a code of his own making, into the machine, and it will register an accounting system up on the screen. It is very difficult to see, but there are various categories there for how many hands were won and the machine is all registered to show how much was paid out.

MR. HARMON: So if you assume that in some cases organized crime is behind the placement of these machines, this accounting feature would provide a way, for example, for organized crime to keep honest the storekeeper or the bar owner in which one of these machines might be found; is that fair enough?

MR. GAUGLER: The only person who knows the code is the person who owns the machine. Therefore, he will know exactly how much was paid out. He has an accounting record built into the system.

CHAIRMAN KAUFMAN: This may be naive. Would it be appropriate for the player to ask those in charge

what the odds are that are being paid out?

MR. GAUGLER: If they told them, it would probably not be the truth, Mr. Chairman.

CHAIRMAN KAUFMAN: Are they asked ever?

MR. GAUGLER: I am not aware of it being asked, but it probably would be somewhere along the line.

MR. HUNTERTON: Agent Storey, could we end the video game segment, if you will, with the Federal perspective, the Bureau's perspective, on the extent to which this is an up-and-coming problem?

MR. STOREY: I did not read that orally but that is part of my statement. I didn't address it. It is an up-and-coming problem. We have had similar problems in Philadelphia. We looked at it in our interstate transportation gambling device statute. We also looked at it in the ITAR gambling statute. But under the federal statutes it is not clearly defined that it is a gambling device in transport an interstate device. But we were looking at it from other aspects. In Philadelphia we had the gambling going on with some police protection, and as you are aware we conducted those investigations accordingly. So we are looking into it.

MR. HUNTERTON: But would you agree that, as Lieutenant Gaugler said, the actual status of the device at the time it crosses over state lines and comes in some federal jurisdiction is a pretty slippery thing for enforcement agents and prosecutors to get a handle on?

MR. STOREY: That is why it is set up that way, to circumvent the federal statutes.

MR. HUNTERTON: Mr. Chairman, these witnesses are prepared to answer further questions from the Commission.

COMMISSIONER GUSTE: I don't address this to any particular member of the panel, but if one would care to answer, I would be pleased to have an answer. How is it in New York City that so many people are using the illegal lottery when you have a legal lottery? What is the advantage of the illegal lottery?

MR. DePIERRO: It is a difficult problem to answer. Actually it is my opinion one reason is that there are no taxes involved. I think if you win the New York's lottery you are liable to pay taxes. Also, it is very convenient to run to. These stores are up and down the street. You just walk out of your house and you run in and out. And they have single action in

bolitas, which I don't think -- I am not sure if the legal lottery has yet, where they can play one number at a time. They will play a number, they will run out, they will come back. They will play the second number. So they get a lot more action than they would in the legal lottery.

MR. HUNTERTON: Inspector DePierro, if I might follow up on Commissioner Guste's question, do you know the relative size of the payoff between the New York State lottery and the Cuban number runs?

MR. DePIERRO: I can tell you the illegal numbers; I don't know the legal numbers. It runs anywhere between 500 and 600 to 1 on the straight action. And the odds really are about 900 to 1, so there is a good edge for them.

MR. HUNTERTON: I believe, Commissioner, that in most states, I am not sure about New York, but one of the problems is that in most states the legalized lottery pays off at a lower rate than the illegal one.

COMMISSIONER MILLER: Mr. Storey, you commented earlier with respect to what I take it is a change in policy by the FBI in its intensity or its activity in investigating gambling. Do I take it that

that change in policy was because of the lack of response by the federal judiciary in the sentencing area?

MR. STOREY: Not totally. The change in policy -- it is not really a change in policy. It was a change in the way we incorporated our gambling investigations into our overall thrust. Up until 1970 we did not have a RICO statute. Prior to that time we had the ITAR gambling statutes and the interstate transmission of wagering information, et cetera. So we worked a gambling case in its purest sense. We just went after the bookmaker.

We did not find that the sentences they were receiving were commensurate with the type of individual we were trying to bring into court. There were other problems as well. We did not really break up the operation. We would take a bookmaker out, and the next day he was replaced by somebody else. Within hours they were back on the street. The entire network itself was not disrupted enough. So from a monetary standpoint we did not hurt them in the pocketbook.

COMMISSIONER MILLER: But wasn't this due in part to the lenient sentences, in your view?

MR. STOREY: To some degree, in our view,

the sentences could have been more severe, and I think it may have been because of the fact that we were only charging them with gambling and not other crimes as well and not bringing out their total criminal activity.

COMMISSIONER MILLER: Was recognition given in the sentencing process as to the organized crime connection?

MR. STOREY: I can't speak for every case. I can only speak about cases I was personally involved in. We did conduct surveys and found that across-the-board we were not really receiving the sentences we had hoped for. But also I have to state that some of the people we were bringing into court were not the leaders of organized crime. They were the bookmakers, the people that actually ran the operation, similar to the wire room you saw here. We felt that that was not what we should be doing. We should not be bringing in the bookmakers but rather the people that controlled them. And by using the RICO statute we were able to do that.

So it is not entirely the lenient sentences; it was the type of people that were in court.

COMMISSIONER MILLER: On the other hand, a stiff sentence to those bookmakers would have increased

the likelihood of cooperation with the federal government in investigating organized crime figures; would that be correct?

MR. STOREY: Absolutely. We did not develop many informant or cooperative witnesses through arrest and conviction. Most of our informants came from competitors rather than from people who were convicted.

COMMISSIONER MILLER: If the federal judiciary should change its view or its philosophy and its sentencing policy in this area, would that have an effect upon perhaps a change in FBI policy?

MR. STOREY: I do not think so. Our thrust will continue to be to go after the criminal enterprises rather than individuals. We find that by taking down a criminal enterprise we are much more effective rather than taking them out one by one. That is what we were doing before.

COMMISSIONER MILLER: But if you got stiffer sentences in that area, you would be able to put together those continuing criminal enterprises in RICO cases in a much better fashion, wouldn't that be true?

MR. STOREY: Well, certainly stiffer sentences would help, but we are getting stiffer sentences now utilizing the RICO statute. We could do

both.

COMMISSIONER MILLER: And your policies today fairly well limit your activities in the gambling area except in those very large investigations, RICO-type cases.

MR. STOREY: RICO-type cases and those involving significant organized crime figures where the gross receipts are very high for a particular area, or when you have police or public corruption. We limit ourselves to those three areas and stay away from the individual bookmaker per se.

COMMISSIONER MILLER: Thank you.

CHAIRMAN KAUFMAN: Anybody else?

COMMISSIONER McBRIDE: This question is to any of the three panelists. I take it you heard Professor Skolnick's testimony earlier. Building on that, I think basically what he is saying is: Accept the social reality that there is going to be gambling, that people are going to play the numbers illegally or the lottery legally or are going to go to legal casinos in Atlantic City or illegal casinos like the one on the chart. Recognizing that, the best thing perhaps is to conduct these experiments with proper controls, make them competitive. Take, for example, the New York

State lottery. If you have the ease of convenient location, freedom from income tax, comparable odds -- in other words, make it competitive.

If you look at it from the perspective that your objective is to dry up the sources of income from organized crime, organized crime presence, the allied corruption, do you think it makes any sense to do that? Take any form of gambling, the lottery or the casinos, say. Mr. Storey, would you like to try that?

MR. STOREY: No, I don't personally agree with Mr. Skolnick in that area. I think this problem can be neutralized. We have to make it more difficult for organized crime to penetrate the casino industry, to control sports bookmaking, make a more diligent law enforcement effort by applying additional resources to the problem. We know how to solve a lot of these problems. What we need are more people to do it.

COMMISSIONER McBRIDE: He is, I think, suggesting that proper controls are necessary, but I think here in New York City, for example -- I don't know where that casino was or how recent it was -- but let's say there were casino operations in Long Island, Staten Island, and Yonkers, legal; under the kind of controls that minimize mob presence, minimize the

opportunities for skimming and allied corruption, do you think that that is a rational policy response to the problem of illegal casinos?

MR. DePIERRO: Commissioner, if I may answer, we do have legal horse betting in New York, we do have OTB parlors which are legal, and we have made quite a few arrests of bookmakers right in OTB parlors where the betting is legal.

COMMISSIONER McBRIDE: Why is that, do you think?

MR. DePIERRO: I couldn't answer that question.

COMMISSIONER McBRIDE: The odds are the same. Is it the tax question, the taxability?

MR. DePIERRO: I couldn't answer that question.

MR. STOREY: And there is credit involved also in a lot of cases, where the bettor has a line of credit rather than putting the money on the table.

Mr. Skolnick made some excellent points about the lack of organized crime influence in some casinos today as compared to twenty years ago. We have made an awful lot of positive improvements in that area. However, when we have continued to expand the casinos

and legalize gambling operations, it gives, in our opinion, organized crime that many more opportunities to expand as well. And the problem keeps expanding rather than controlling it.

COMMISSIONER McBRIDE: Thank you very much, Mr. Storey, Inspector DePierro.

COMMISSIONER DINTINO: Inspector DePierro, you earlier made mention that you had 1,600 arrests, I believe, so far this year, or whatever, and you stated that there was something like one or two people that were sentenced to jail, you believed, out of that group?

MR. DePIERRO: If there were that many. I am not sure.

COMMISSIONER DINTINO: In the past ten or fifteen years, we in New Jersey have found that a number of our bookmakers have relocated to New York City.

MR. DePIERRO: We have noticed that, Commissioner. (Laughter)

COMMISSIONER DINTINO: Still utilizing a Jersey telephone so that they don't have to pay a toll call. In your opinion, is the reason being that they received lighter or no sentences in New York City versus New Jersey?

MR. DePIERRO: Yes, it is my opinion.

COMMISSIONER DINTINO: Then one question to Agent Storey. In your statement, I notice that you say it is conservatively estimated that more than one-half of organized crime revenues come from illegal gambling activities, and then you go on to say that because of this they control public officials, various levels of government, and they use it in their other lucrative enterprises, labor racketeering and this, that and the other. Also, going through your statement and your statistics, it is obvious to me that the FBI has assigned a low priority to gambling investigations.

I just wondered, if the FBI is to be effective in combating organized crime and half of their revenues are coming from illegal gambling, it would seem to me there should be a more concentrated effort towards their gambling enterprises. Do you agree or disagree with that?

MR. STOREY: Well, let me just clarify it for you, Commissioner. We are approaching the problem differently. Yes, organized crime is -- half of their income is through illegal gambling operations. Take one particular LCN family in New York. They may control sports betting in the Bronx. Rather than us

going after the bookmaker in the Bronx, we are going after the entire family. We are not taking out a bookmaker, we are taking out that entire LCN family. And one of the predicate offenses in that RICO statute, the violation that we will charge that family with, is gambling.

We find that approach is much more effective in neutralizing that LCN family rather than taking out the individual bookmaker the way we did fifteen years ago. When we took out a bookmaker on 115th Street that worked for the Genovese Family, the head of the Genovese Family was not arrested. Today he is being arrested. That is the difference.

CHAIRMAN KAUFMAN: May I add to what Commissioner Dintino asked you, Inspector. Is one of the reasons for the inundation of these gambling cases in New York the condition of the criminal courts in New York?

MR. DePIERRO: I wouldn't put the blame all on the courts. I think if we did get more time for these people, it would help a lot, but I wouldn't put the blame on the courts.

CHAIRMAN KAUFMAN: Where would you put it? Have you got jails?

MR. DePIERRO: Excuse me?

CHAIRMAN KAUFMAN: Have you got jails?

MR. DePIERRO: Yes, but I understand they are overcrowded, too. I think it is a large problem.

CHAIRMAN KAUFMAN: Then the answer is, you don't have jails.

How many arrests are there made during the course of a year, have you any idea?

MR. DePIERRO: I don't have the figures with me, but it is staggering.

CHAIRMAN KAUFMAN: Well, about four or five years ago we made a study, and there were approximately 300,000 arrests in felony cases in the City of New York serviced by, in the first instance, the criminal court: fixing of bail, et cetera. We have a vicious cycle here. We have an inundation of the court system simply because the system is on the verge of being devastated by the inundation of cases. So these people from New Jersey realize that the problem works to their benefit and come to New York.

Do you have any solution to that? How can we ship them back to where they came from? (Laughter)

MR. DePIERRO: Commissioner, if I had the solution, I wouldn't be sitting here.

CHAIRMAN KAUFMAN: Well, would you talk to your Commissioner and tell him that an important official from New Jersey raised the question, who is on the Commission, and I think he ought to give some thought as to how we can send our customers back to where they came from.

MR. DePIERRO: Perhaps giving them more time would help somewhat, yes.

CHAIRMAN KAUFMAN: All right. Will you go right ahead with your next witnesses? Thank you very much, gentlemen.

(The witnesses were excused.)

MR. HARMON: Mr. Chairman, the Commission's mandate from the President requires the Commission to define the nature of emerging organized crime groups as well as traditional organized crime known as La Cosa Nostra. The Commission is also required to develop in-depth information on the sources and amounts of organized crime's income and to develop in-depth information on the participants in those organized crime networks.

In furtherance of that mandate, and to further narrow the focus of the issue, the staff has developed a profile of a Cuban organized crime group

known as "The Corporation," the criminal activities of which include arson and murder in support of their gambling operations.

With that in mind, Mr. Chairman, I would ask Commission Investigator Anthony Lombardi to present to the Commission a profile of The Corporation.

Prior to joining the staff of the Commission, Investigator Lombardi was a senior special agent with the Internal Revenue Service, for whom he has worked for a period of over fifteen years.

You may proceed, Investigator Lombardi.

Mr. Marshal, would you please swear all of the witnesses jointly.

JOSEPH PELLICONE, JAMES LEGGETT, and ANTHONY

LOMBARDI

called as witnesses and, having been first duly sworn, were examined and testified as follows:

MR. LOMBARDI: Mr. Chairman, Commissioners, members of the Commission, I am about to present a profile of Jose Miguel Battle, Sr.

A comprehensive review of the files of various federal, international, state, and local law enforcement agencies, and independent investigation by the staff of the Commission, clearly reveals the

existence of a tightly knit, well financed, armed, and powerful group of Cuban racketeers known as "The Corporation." These individuals are sometimes CIA trained and anti-Castro sympathizers that had taken part in the Bay of Pigs invasion.

As has been the case with other criminal groups, including the Mafia, the Japanese Yakuza, the Chinese Triad Societies, and Vietnamese gangs, The Corporation traces its roots to violent, political upheaval in other countries. When these counter-government movements were no longer able to influence decisively political events in their countries, some of their members turned to crime as a way of life, capitalizing on longstanding organizational ties and methods of operation. Many continue to fly the "false flag" of liberation as a means to mask their purely criminal activities and to attract new recruits. The Mafia no longer uses this pretext upon which to operate, having become so completely assimilated as to be considered the preeminent "All-American" crime group.

The emergence of Cuban organized crime with its power centered in the areas of gambling and narcotics began shortly after the unsuccessful Bay of Pigs attempt to wrestle back their country from Fidel

Castro's control.

Mr. Chairman, members of the Commission, the evidence which you are about to hear represents the first effort to develop a national picture of the Cuban organized crime group known as The Corporation.

As you will hear, the gambling operations of The Corporation begin with storefront policy spots run by policy writers.

I refer you to our chart of the Battle organization so you can get an idea of the extensiveness of The Corporation.

As you see, the daily take is transported by pickup men to super-pickup men who, in turn, deliver to corporate headquarters in New York City. From an average weekly take of \$7,000, each spot generates \$3,000 to \$5,000 in profits. Seized records reflect a weekly gross take of over \$2 million for The Corporation. From this information, which will be presented in more detail, we extrapolate that The Corporation earns a minimum annual net profit of \$45 million from New York City gambling operations alone. This net profit has been estimated as high as \$100 million.

The Corporation, as its name implies, has a

chairman of the board driving this expanding organization by means of violence, and accommodation with the Mafia to corner a large segment of the numbers market in the New York City and Northern New Jersey areas. The chairman of the board, the person who controls this nationwide Cuban organized crime operation, is Jose Miguel Battle, Sr., also known as "The Godfather."

Jose Miguel Battle, Sr., was born in Cuba on September 4, 1929, and is known also as Jose Miguel Batle -- spelled with one "t" -- Vargas, the name he used in Cuba; Miguel Blasquez, Rafael Franco Tesano, "Don Miguel," "El Gordo," and a series of other names which will not be disclosed here so as to preserve future options for law enforcement.

Battle, a former Havana vice cop, also served in Batista's army, was a member of Brigade 2506, the Bay of Pigs landing group. During Batista's reign, Cuban gambling casinos were influenced by U. S. Underworld figures, including Meyer Lansky and Santo Trafficante, who is the head of a La Cosa Nostra Family in Tampa. After the failure of the invasion force, Battle was made a lieutenant in the U.S. Army by an Act of Congress, then returned to the Miami area and became

deeply involved in the establishment of this country's first Cuban-controlled gambling operation. His organization has grown steadily with the migration of Cubans to other areas of the country. Battle is noted for his organizational genius and toughness, but his empire expanded initially, mainly through police and political corruption. Battle moved to Union City, New Jersey, in the late 1960s and established his gambling operation in the Northeast, with the help of traditional organized crime members, such as Joseph "Bayonne Joe" Zicarelli and Santo Trafficante. Battle soon became the Cuban Godfather mainly by taking over existing policy operations by means of homicides and arsons.

It is believed that in the early 1970s the Battle gambling operation established a strong foothold in the New York City area. Policy operations sprung up in almost every Cuban or Spanish bar or bodega. The success of the Cuban gambling operations did not go unnoticed by elements of La Cosa Nostra operating in Northern New Jersey. The result was a kind of mutual assistance pact between "The Corporation" and La Cosa Nostra whereby "The Corporation" paid a percentage of the action and laid off some bets with Mafia.

Zicarelli and James Napoli, identified by the New York City Police Department as a "Capo" in the Genovese Crime Family, were instrumental in negotiating this alliance.

In New York, as in New Jersey, a "marriage" had to be made with the already established organized crime faction, the Mafia. You will hear that there have been reported meetings between Battle and various members of New York organized crime families of La Cosa Nostra such as Carmine and Sonny Lombardozi, and that as in New Jersey, "The Corporation" pays tribute to the Mafia in New York City.

Major legal problems confronted Battle as early as 1970, when he was indicted by a federal grand jury for interstate and foreign travel in aid of a racketeering enterprise. Battle pled guilty and, after being sentenced to eighteen months on these charges, fled the country and resettled in Madrid, Spain, under an assumed name. While in Madrid, Battle lived in luxurious circumstances and was seen at social events in the Venezuelan embassy. Although in hiding, Battle continued to control his New York/New Jersey gambling operation by employing a secret courier service which entered the United States via Miami or Canada.

When he attempted to return to the United States in September of 1972, by way of Costa Rica, Battle was arrested by the FBI at the Miami Airport on the outstanding fugitive warrant, and eventually was to serve thirteen of the eighteen-month criminal sentence previously imposed.

In December of 1974, Battle was again arrested, this time by the Union City Police Department, for carrying a concealed weapon. At this time there were serious corruption allegations concerning this department. The Union City Mayor at that time was William Musto who was later convicted on federal extortion charges. Battle's weapons case was transferred to the federal court system.

The guns on the table are representative of the guns that Battle had in his possession when he was arrested.

The federal gun charges against Battle were put on hold several times, pending the outcome of the Florida State indictment charging Battle with first degree murder and solicitation and conspiracy to commit murder. These charges stemmed from the Miami homicide of Ernest Torres, a former trusted ally of Battle.

On December 16, 1977, Battle was found

guilty by a jury on the solicitation and conspiracy to murder charges, was sentenced to thirty years in jail, but the conviction was reversed on appeal. On June 19, 1978, after serving eighteen months, Battle was tried in federal court on the weapons charges. He was found guilty and sentenced to an additional four years, to run concurrent with the state time. Battle then pled guilty to conspiracy to commit murder, was given credit for time served and was placed on a 33-month probation.

From an analysis of records obtained from the States of Florida, New Jersey and New York, it is evident that Jose Miguel Battle has been involved in criminal activity dating back to 1969. Although these are the facts, Battle managed to escape any serious imprisonment, serving only a total of 31 months in jail; thirteen months for the 1970 gambling conviction, and approximately eighteen months on the conspiracy to murder.

The Corporation has evolved to the point that it has a firm foothold in legitimate businesses. Although Battle himself has a conservative amount of property in his own name, he controls a criminal enterprise whereby he is able to steer the course of millions of dollars in disclosed as well as hidden

assets.

The Corporation which Battle directs must be conservatively valued at an estimated several hundred million dollars, with an endless, substantial cash inflow. Among these assets are the Union Management and Mortgage Company, the Union Finance Company, the Union Financial Research Company, Inc., Union Travel and Tours; and El Zapotal Realty Incorporated, all located in South Florida. The Commission staff has obtained information that the Battle "Corporation" owns and/or controls interests in domestic and foreign financial institutions, and has large real estate holdings.

Several key members of The Corporation moved to Florida in 1982. Battle and his associate, Abraham Rydz, applied for Florida driver's licenses one day apart on April 21 and 22, 1982. During the seven-month period from August 31, 1982 through March 30, 1983, Battle, his wife, son and Rydz purchased various real estate for \$1,115,000, of which \$805,000 was paid in cash.

The charts on my right reflect these transactions and display photographs of some of these properties.

The Commission staff has also been able to develop evidence of a courier system of money transfer from New York and other areas of the country to The Corporation in South Florida. On at least two documented occasions, shipments of moneys intended for Battle in Florida were seized by enforcement authorities.

For example, you will hear a witness testify that on April 8, 1983, Jose Battle Jr., the subject's son, and Abraham Rydz, a trusted Battle associate, were detained by the New York Port Authority Police after resisting the search of carry-on baggage while boarding a domestic flight to Miami. After some resistance, both individuals submitted their luggage for inspection, wherein \$439,000 in U.S. currency was found wrapped in gift boxes. Both Battle Jr. and Rydz denied ownership in the currency, and only would indicate that they were vice presidents of Union Financial Research Inc. in Miami, Florida.

On the table before you, you will see the extent of the cash being transferred to Miami.

In another similar instance, on December 3, 1984, the British Customs authorities detained several key Corporation associates, including Humberto Davila

Torres, at London's Heathrow Airport. They were found to be in possession of \$450,000 in U.S. currency. Their itinerary included Nassau, Bahamas; Geneva, Switzerland; Malaga and Madrid, Spain; and then a return to Miami.

Personal property, businesses and cash seized from members and associates of The Corporation totaling approximately \$43 million, as reflected on that chart, give some small measure of the economic power of "The Corporation."

Money laundering.

You will also hear from witnesses that The Corporation has laundered millions of dollars in illegal revenues through financial institutions and the Puerto Rico Lottery.

MR. HARMON: Before we get to that, Agent Lombardi, and with the permission of the Chairman, Deputy Counsel Thomas McNulty will direct certain questions to Police Officer Joseph Pellicone from the New York Port Authority Police.

MR. McNULTY: Officer Pellicone, will you state your name and occupation, please?

MR. PELLICONE: Joseph Pellicone, Port Authority police officer.

MR. McNULTY: How long have you been employed with the Port Authority of New York?

MR. PELLICONE: Approximately five years.

MR. McNULTY: Were you on duty in that capacity on April 8 of 1983 at John F. Kennedy Airport?

MR. PELLICONE: Yes, sir, I was.

MR. McNULTY: On that date did you have occasion to investigate a large sum of money that passengers had attempted to carry on board a domestic Eastern Air Lines flight from New York to Miami?

MR. PELLICONE: Yes, sir, I did.

MR. McNULTY: And how large was the sum of money?

MR. PELLICONE: It was \$439,540.

MR. McNULTY: Is this what you see in front of you on the table here?

MR. PELLICONE: Yes.

MR. McNULTY: How long did it take you to count that money?

MR. PELLICONE: It took six officers approximately three hours to count.

MR. McNULTY: Is there anything particularly unusual about how the money was concealed or packaged?

MR. PELLICONE: Yes, sir. Being that it was

the month of April, I was curious about the fact that all the packages were wrapped as Christmas presents.

(Laughter)

MR. McNULTY: Officer Pellicone, did you question the passengers who attempted to carry this money aboard?

MR. PELLICONE: Yes, sir, I did.

MR. McNULTY: And what were the names of the passengers and their home addresses?

MR. PELLICONE: Jose Battle Jr. and Abraham Rydz, both from Key Biscayne, Florida.

MR. McNULTY: Did Jose Battle Jr. and Mr. Rydz indicate their ownership of the money?

MR. PELLICONE: No, sir.

MR. McNULTY: What did they tell you about the money?

MR. PELLICONE: I asked them if the money belonged to them. They said it did not. I asked them who the money belonged to. They said they did not know. I asked them what they were doing with the money. They said they were going to deliver it to a person in Miami. I asked for the name of that person, and they said they did not know, only to a person that would fit a certain description.

MR. McNULTY: Were Mr. Battle and Mr. Rydz observed doing anything suspicious after you stopped them for questioning?

MR. PELLICONE: Yes, sir. After we informed them that we were going to return them to the police building for investigation, Jose Battle Jr. discarded and tore, I believe it was, two index cards and a sheet of graph paper into an ashtray.

MR. McNULTY: Did you attempt to reconstruct the sheets that had been so torn?

MR. PELLICONE: Yes, sir, we did.

MR. McNULTY: If you look at Hearing Exhibit 17 over here, is this exhibit an accurate copy of the sheet that Mr. Battle and Mr. Rydz attempted to dispose of in JFK Airport?

MR. PELLICONE: Yes, sir, it is.

MR. HARMON: The record should reflect the witness is referring here to Hearing Exhibit No. 17.

Drawing your attention, Investigator Lombardi, to the money laundering activities of The Corporation, you may continue with your statement.

MR. LOMBARDI: You will also hear from witnesses that The Corporation has laundered millions of dollars in illegal revenues through financial

institutions and the Puerto Rican Lottery.

The Commission staff has been able to determine that the Battle group exerts a strong influence and control over several financial institutions in this country, as well as several alleged foreign-based entities. The laundering of illegal funds is facilitated by the complex web created by The Corporation's financial holdings in mortgage and lending companies and through real estate ventures.

You will hear an insider tell The Corporation's policy operation and explain how a financial institution was the recipient of huge amounts of illegal moneys of which The Corporation had to dispose.

Records of the Department of Agriculture disclosed that redemptions of food stamps from bodegas in Northern New Jersey by this financial institution, the largest redeemer of food stamps in the United States, were in excess of \$10 million in one year. In contrast, Citibank, with over 250 branches in New York City, collected \$7 million to \$8 million in food stamp redemptions in one year.

MR. HARMON: Investigator Lombardi, you have heard Professor Skolnick say something like: The

lottery appears to have only remote connections to organized crime.

Have you found evidence of a relationship between The Corporation and the Puerto Rico lottery?

MR. LOMBARDI: Yes, we have. We have found that --

MR. HARMON: Continue with your statement and describe that relationship.

MR. LOMBARDI: The Corporation used an apparently unique technique in its continued attempt to launder moneys. This technique involved the utilization of the Puerto Rican lottery. Basically, The Corporation would let it be known that they were willing to purchase winning Puerto Rican lottery tickets, for an amount greater than the amount provided by the winning ticket.

This technique surfaced in a government undercover operation relating to federal money laundering offenses called Operation Greenback - Puerto Rico. This was a cooperative effort by the Internal Revenue Service, the U.S. Customs Service, and the Drug Enforcement Administration.

On June 6, 1985, sixteen persons were arrested in Puerto Rico. Eleven of these individuals

were present or former bank officials. IRS Special Agent Manuel Ramirez, from Albuquerque, New Mexico, played a pivotal undercover role in the operation.

On May 10, 1984, at the Palace Hotel, Isla Verde, Puerto Rico, Special Agent Ramirez was introduced by another IRS undercover agent, Guillerino Rivera Guerrero, to whom I shall refer as Rivera. Agent Ramirez told Rivera, who was a branch manager of the Western Federal Savings Bank, that he was from New Mexico and was in Puerto Rico to launder drug money for various narcotics traffickers.

Rivera then described other members of the bank's money laundering clientele, one of whom was known as the "Padrino" or Godfather. Rivera told Agent Ramirez that he works with two or three numbers racketeers that are involved in illegal sports betting on horse races. According to Rivera, one of his clients is a "Padrino" in the numbers racket, who also deals in drugs and travels a lot to New York. The "Padrino" launders his money in Puerto Rico and takes it to Costa Rica.

Rivera also explained how to launder money through the Puerto Rico lottery. Rivera told Agent Ramirez that the first step in laundering through the

Puerto Rico lottery was to buy a winning ticket with the main objective being to move the money. Rivera offered to buy a winning ticket for Agent Ramirez and stated that he, Rivera, had a man named Ramon, who had several lottery agencies. On June 10, 1984, Rivera told Ramon, the insider man, that he wanted to buy a winning ticket worth over \$100,000.

From information received from various law enforcement agencies, and from a witness that you are about to hear, the staff has been able to uncover evidence of similar activities in other parts of the country. For instance, in Texas, Oregon, Illinois and Florida, there have been instances where The Corporation has been documented to have purchased winning lottery tickets for far in excess of their winning value. This technique is used to provide a legitimate source of income for The Corporation members, who in turn redeem the "purchased" ticket. These individuals who have no other means of legitimate income are happy to pay the federal tax on their winnings, simply to legitimize their expenditures.

A confidential source of a law enforcement agency, independent of Operation Greenback - Puerto Rico and the witness about to testify here, who has

personally met Jose Battle, also explained in further detail the way in which The Corporation launders money through the Puerto Rican lottery.

The source has been told that all Puerto Rican lottery tickets sold in the United States are controlled by an organized crime group known to the Cuban community as The Corporation. At one time, the lottery tickets were transported from Puerto Rico to Miami via commercial airlines. However, in recent years the tickets have been transported by special plane that leaves Puerto Rico for Miami on a weekly basis loaded with a large volume of tickets. The Corporation makes approximately \$14 million per week from the lottery sales. The lottery tickets are sold primarily in the cities of Miami, New York, and Los Angeles. However, other cities such as Houston and Tampa also have access to the tickets.

When you become a distributor for the lottery tickets for The Corporation, The Corporation gives you detailed instructions as to what to do if you have a large winner. For example, if a bettor from Tampa should win a \$125,000 prize, the Tampa distributor was to immediately notify The Corporation. The Corporation would then contact the individual and

offer the individual \$150,000 for that ticket. The winner is told that if he travels to Puerto Rico to collect the \$125,000, then reports will have to be made to the Internal Revenue Service and the individual will only get a small portion of the winning ticket. The winners always take the \$150,000 offer. The Corporation then takes the ticket to Puerto Rico, cashes the ticket and pays the IRS the full amount of tax due. The source advised that this is the way that The Corporation launders its money. The Corporation has so much money that its members are willing to pay twice as much in illegal money in order to obtain legitimate money.

The effect of The Corporation's use of the Puerto Rico lottery was to legitimize illegal gambling and narcotics proceeds as winnings from state sanctioned legalized gambling. It is interesting to note that inquiry to the Puerto Rican Lottery by PCOC investigators disclosed no systematic means of identifying lottery winners, nor did lottery officials know where to find checks issued to big winners.

MR. HARMON: Let me interrupt you here for a minute. At this point we would like to ask some questions of Detective Leggett.

Can you state your name, please?

MR. LEGGETT: James Leggett.

MR. HARMON: And your occupation?

MR. LEGGETT: I am a police officer of the Metro Dade Police Department in Miami. I am assigned to the Organized Crime Bureau Lottery Investigation Squad.

MR. HARMON: In that capacity have you had occasion to investigate the activities of the Cuban gambling ring known as The Corporation?

MR. LEGGETT: I have.

MR. HARMON: Did you have occasion to investigate the seizure made at the Miami International Airport on August 9 of 1982?

MR. LEGGETT: I did.

MR. HARMON: And who was involved in the seizure and how much property was seized?

MR. LEGGETT: There was a Puerto Rican gentlemen by the name of Jose Pabon who was functioning as courier transporting the new lottery tickets and cash back and forth between Miami and Puerto Rico. He was stopped by some border patrol people and became extremely nervous and denied possession of his luggage, etc. Gave us permission to look in. They called us and we responded, and among the items that he was

carrying in the suitcase was \$16,020 in U.S. currency, \$15,676 in winning tickets he was taking back to Puerto Rico to cash in. And there was \$7,400 in unendorsed checks from various people and in locations throughout the United States.

MR. HARMON: Do your intelligence sources indicate that this property was the gambling receipts of The Corporation?

MR. LEGGETT: Records seized along with the contraband items and statements by Mr. Pabon and intelligence also verifies that that was receipts from illegal gambling.

MR. HARMON: And did the unendorsed checks seized indicate that this is a nationwide operation?

MR. LEGGETT: It does. There were checks there from Miami, Orlando, Tampa, Houston, Denver, Chicago and Portland, Oregon, as I recall.

MR. HARMON: Do your intelligence sources indicate for whom Mr. Pabon was working at the time of his seizure?

MR. LEGGETT: I was able to determine at the time of Mr. Pabon's arrest who his immediate supervisor and contact was in Miami and later on through follow-up investigation. I linked Mr. Battle to the Pabon

supervisor.

MR. HARMON: Mr. Lombardi, you may conclude your statement.

MR. LOMBARDI: Mr. Chairman and members of the Commission, I would like to conclude with some preliminary conclusions about the conditions which permit monopolistic criminal enterprises to develop, at least insofar as The Corporation is concerned.

Competition is easily identified, as storefront gambling operations do business openly. In contrast, narcotics traffickers operate in secret and feed a large market which is available to virtually all comers.

Once identified, competition is eliminated by violence or else gambling markets allocated by agreement with the Mafia.

Lack of consistent law enforcement pressure nationwide permitted the expansion of The Corporation's business under centralized control.

Centralized, reliable and quick communication, so essential to the success of any gambling operation, created a need for centralized control.

In the view of the Commission staff, Jose M.

Battle, although known to some police authorities, has managed to slide through the net of law enforcement mainly because of his ability to operate behind the veil of The Corporation. We hope that in exposing The Corporation, law enforcement might be able to bring its chairman to justice and cause the dissolution of The Corporation. Thank you.

MR. HARMON: Mr. Chairman, these witnesses are available for questions from the Commission.

CHAIRMAN KAUFMAN: I have none.

COMMISSIONER ROWAN: Of course I have a question, two questions, and whoever wants to answer, please.

What are you talking about checks from around the country? Who pays off gambling in checks, and what are these checks you are talking about?

MR. LEGGETT: These checks were checks apparently from players or low-level writers that they had submitted back to and funneled into Mr. Pabon who was transferring them to Puerto Rico to cash there along with the winning tickets which would be cashed in, and the U.S. currency. Mr. Pabon told us that the checks, the winning tickets, and the cash were payment for the tickets that he had delivered.

COMMISSIONER ROWAN: The second question is: You have said, Mr. Lombardi, that The Corporation owns or controls interest in domestic and foreign financial institutions. Can you tell us what kind of institutions these are, whether they are publicly held, what effect The Corporation's control of these institutions has on other people, on normal civilians?

MR. LOMBARDI: The Commission staff has the identities of these institutions, but for various reasons we will not be able to disclose them at this point.

COMMISSIONER ROWAN: Are they banks?

MR. LOMBARDI: Yes, they are.

COMMISSIONER ROWAN: Are they publicly held or are these close corporations?

MR. LOMBARDI: Both.

COMMISSIONER ROWAN: And I assume that that information is going to be turned over to law enforcement?

MR. LOMBARDI: Yes, it will.

COMMISSIONER ROWAN: We've had enough trouble with our banks recently. Thank you.

CHAIRMAN KAUFMAN: There are no more questions. Thank you very much, gentlemen. We

appreciate your presence.

Does that complete the testimony for the morning?

MR. HARMON: Yes, Mr. Chairman.

CHAIRMAN KAUFMAN: Very well. We stand in recess until 1:15.

(Luncheon recess)

AFTERNOON SESSION

1:25 p.m.

CHAIRMAN KAUFMAN: The afternoon session will come to order. Proceed.

MR. HARMON: Mr. Chairman, the next witness is a person who has been inside the organization known as The Corporation over a period of several years. With your permission, Mr. Chairman, I shall place into the record an affidavit from a New York City homicide detective named Richard Califas, which concludes in part: "I know the identity of the witness who is about to testify before the President's Commission. Over a period of time he has furnished information which I have never found to be inaccurate and which I have found to be corroborated from other sources and my experience. His life would clearly be in danger if his identity were ever to be disclosed." Detective Kalafus goes on to describe certain homicide incidents in which Jose Battle played a role.

Also, immediately prior to the testimony of this witness we have a brief videotape of a gambling raid on a Cuban policy operation located in Florida.

CHAIRMAN KAUFMAN: Do you want to read that for us?

MR. HARMON: It is describing a search warrant, your Honor. I can't make out the lettering either, but the scene we are about to see are Metro Dade Department of Law Enforcement officials from Florida attempting to enter a Cuban numbers location.

COMMISSIONER ROWAN: Accompanied by the news cameras?

MR. HARMON: Yes.

(Videotape showed)

MR. HARMON: Will the next witness be brought out, please.

In view of these circumstances and background, Mr. Chairman, the identity of this witness will not be disclosed. We will need an interpreter for this witness, Mr. Chairman.

CHAIRMAN KAUFMAN: Where is the interpreter?

MR. HARMON: She is coming right out.

Would the marshal please swear the witness.

(The witness was duly sworn.)

MR. HARMON: And I would ask you to please swear the interpreter.

(The interpreter was duly sworn.)

MR. HARMON: Mr. Chairman, this interpreter has for many years been accepted as an interpreter in

the courts of the United States. In view of the special circumstances here, I have asked the interpreter, in the event that the witness should say something which could tend to identify him, to draw that to the witness' attention so that he might paraphrase his answer in some other way.

Mr. Witness, I would like to begin by directing some questions to you. I would ask that the translator speak into the microphone after the witness responds.

Mr. Witness, since 1980, for over three years, have you been a member of an organization known as The Corporation?

THE WITNESS: Yes.

MR. HARMON: How is that organization, The Corporation, known in the Cuban community?

THE WITNESS: The Cuban Mafia.

MR. HARMON: Does The Corporation have a leader?

THE WITNESS: Yes.

MR. HARMON: What is his name?

THE WITNESS: Jose Miguel Battle.

MR. HARMON: Is he also known by the name Padrino?

THE WITNESS: Godfather.

MR. HARMON: Did you begin as a policy writer in The Corporation?

THE WITNESS: Yes.

MR. HARMON: Did you move up from there?

THE WITNESS: Yes.

MR. HARMON: Have you personally met Jose Battle?

THE WITNESS: Yes.

MR. HARMON: Was he surrounded with bodyguards at that time?

THE WITNESS: Yes.

MR. HARMON: At the time you first met Jose Battle, did he give you any instructions on what to do once you began to work for The Corporation?

THE WITNESS: Yes.

MR. HARMON: Would you explain those instructions to the Commission, please?

THE WITNESS: Keep my eyes open, keep my eyes open, not steal. Keep my eyes open and keep my mouth shut.

MR. HARMON: Mr. Witness, I draw your attention to this chart entitled "The Corporation." Have you been interviewed by investigators from the

President's Commission prior to your appearance today?

THE WITNESS: Yes.

MR. HARMON: And does that chart, Hearing Exhibit 16, accurately reflect the organization of The Corporation as you know it?

THE WITNESS: Yes.

MR. HARMON: Can any non-Cuban move to the top of The Corporation?

THE WITNESS: No.

MR. HARMON: I draw your attention to the left side of the chart, Mr. Witness, at the bottom of which is a notation entitled "policy writer." From the bottom up, could you explain the method of operation of The Corporation insofar as policy operations are concerned?

THE WITNESS: You mean how does The Corporation operate?

MR. HARMON: Yes.

THE WITNESS: In the numbers?

MR. HARMON: Yes.

THE WITNESS: It's paper for money. You write down the numbers. Then the pickup man comes by and picks them up. Then the super-pickup man comes by. And then the money is taken to the head office.

MR. HARMON: Does The Corporation have a head office in New York City?

THE WITNESS: Yes.

MR. HARMON: Have you been to the head office?

THE WITNESS: Yes.

MR. HARMON: What is the role and purpose of the head office?

THE WITNESS: What is the role of the head office? When the money is taken there, it is counted.

MR. HARMON: And the money is delivered there by the super-pickup men, is that correct?

THE WITNESS: Yes.

MR. HARMON: Is the head office located at one location all of the time?

THE WITNESS: No.

MR. HARMON: Explain that, please.

THE WITNESS: Every month they change location.

MR. HARMON: How many locations do they use as a matter of practice?

THE WITNESS: Four.

MR. HARMON: And these four locations are rotated on a monthly basis, is that right, sir?

THE WITNESS: Yes.

MR. HARMON: Once the money is taken to the head office of The Corporation in New York City, who is the money then delivered to?

THE WITNESS: Annulfo delivers it to Nene.

MR. HARMON: And are these people who are identified on the chart which we have talked about already?

THE WITNESS: Yes.

MR. HARMON: At any time while you were in the head office did you also see there Abraham Rydz, known by the name of Palaco, as well as Jose Battle Jr., known by the name Miguelito?

THE WITNESS: Yes.

MR. HARMON: What was going on in the head office when you saw both Palaco and Miguelito there?

THE WITNESS: Money was being counted.

MR. HARMON: In the locations run by The Corporation in New York, are bets accepted in denominations of one, five, ten and 20 dollar bills?

THE WITNESS: Yes.

MR. HARMON: Once the money is taken to the head office, what happens with the physical cash?

THE WITNESS: Annulfo takes the money to

Nene.

MR. HARMON: And what about the one-dollar bills?

THE WITNESS: It is taken to a bank, to banks.

MR. HARMON: And whose responsibility is that to take the one-dollar bills to banks?

THE WITNESS: Lalo.

MR. HARMON: Does Lalo have another job as the enforcer within the corporation?

THE WITNESS: Uh huh. He pays the lawyers, and he is the one who takes care of everything when somebody is going to be killed.

MR. HARMON: Well, does The Corporation then have attorneys, corporate attorneys, so to speak?

THE WITNESS: Three.

MR. HARMON: If two members of The Corporation get arrested, for example, who decides which one will plead guilty so that the other one might go free?

THE WITNESS: Lalo.

MR. HARMON: Lalo makes that decision?

THE WITNESS: Uh huh.

MR. HARMON: And then who tells the attorney

who will plead guilty so that another member of The Corporation might go free?

THE WITNESS: Lalo.

MR. HARMON: What if a member of The Corporation got his own attorney and did not use one that Lalo designated?

THE WITNESS: He cannot get his own.

MR. HARMON: Who puts up money for attorneys' fees for members of The Corporation who are arrested?

THE WITNESS: Annulfo.

MR. HARMON: Are the attorneys paid in cash?

THE WITNESS: Cash.

MR. HARMON: Who puts up the bail when members of The Corporation are arrested.

THE WITNESS: Well, the money comes out from Annulfo, and it is Lalo, the one who can post the bail or he sends somebody else.

MR. HARMON: But The Corporation puts up bail for the members of The Corporation who are arrested; is that right, sir?

THE WITNESS: Yes, The Corporation.

MR. HARMON: Now, about how many people work for the corporation in New York City?

THE WITNESS: About 2,500.

MR. HARMON: Where else does The Corporation have people working for it?

THE WITNESS: In Miami, everywhere.

MR. HARMON: How about Northern New Jersey?

THE WITNESS: Uh huh.

MR. HARMON: At the time it took place, were you aware of a seizure of cash which took place at JFK Airport, cash which was taken from Miguelito and Palaco?

THE WITNESS: Yes.

MR. HARMON: Was that spoken about at the head office?

THE WITNESS: Yes.

MR. HARMON: If you look at this diagram, Hearing Exhibit 17, I would ask you if, before walking into this room this afternoon, you have had an opportunity to see that before.

THE WITNESS: Yes.

MR. HARMON: If you assume, Mr. Witness, that at the time of the seizure of that cash that Miguelito attempted to throw away that piece of paper, would you consider that an incriminating piece of paper?

THE WITNESS: Yes.

MR. HARMON: Would you explain why, please.

THE WITNESS: Because if the police were to catch you with something like that, it's bad, so you throw it away.

MR. HARMON: Why would it be bad to get caught with that piece of paper?

THE WITNESS: Because it's a tally sheet.

MR. McNULTY: Is that the weekly tally sheet for The Corporation in New York?

THE WITNESS: Weekly.

MR. HARMON: What is done with the weekly tally sheet for The Corporation in New York?

THE WITNESS: That tally sheet is taken to Jose Miguel.

MR. HARMON: The Godfather.

THE WITNESS: The Godfather.

MR. HARMON: What gets put on the tally sheet?

THE WITNESS: It's money.

MR. HARMON: Does Annulfo play any role in the preparation of this tally sheet?

THE WITNESS: Yes. He is the manager.

MR. HARMON: The manager of The Corporation?

THE WITNESS: Yes.

MR. HARMON: Does this document, Hearing

Exhibit 17, represent the net weekly profit for The Corporation, to your understanding, in New York City?

THE WITNESS: Yes.

MR. HARMON: Now, we talk about a corporation, Mr. Witness. Do people actually own shares in this corporation?

THE WITNESS: The people who come in are the ones who buy the shares.

MR. HARMON: So people actually do own shares in The Corporation, correct?

THE WITNESS: Yes.

MR. HARMON: Do you see on that piece of paper, Hearing Exhibit 17, the names of any corporate shareholders?

THE WITNESS: Yes.

MR. HARMON: Could you identify them, please?

THE WITNESS: Latino, Gatto and Nelson.

MR. HARMON: What does it actually mean if you own shares in The Corporation?

THE WITNESS: Well, it means that they are new because they have just purchased a small spot.

MR. HARMON: So that if you are a shareholder, that means that you actually own policy spots, is that right?

THE WITNESS: Uh huh.

MR. HARMON: I might add, Mr. Chairman, as far as we know this corporation is not traded on the New York Stock Exchange or any other.

Would you please describe the physical appearance of the gambling locations operated by The Corporation?

THE WITNESS: Well, it's a place, let's say it is like a place like this, or like an OTB parlor.

MR. HARMON: How many days a week is one of these locations open?

THE WITNESS: Seven days.

MR. HARMON: How many hours a day?

THE WITNESS: From 7 to 10:30.

MR. HARMON: Approximately what would you say is the average daily take in the spots that you are familiar with?

THE WITNESS: They get about between \$7,000 and \$12,000 a day.

MR. HARMON: Does The Corporation have a standing rule as to how much of that The Corporation wants to make by way of profit?

THE WITNESS: Yes.

MR. HARMON: What is that figure?

THE WITNESS: 65 percent.

MR. HARMON: What types of gambling can a person engage in by walking into one of the gambling locations run by The Corporation?

THE WITNESS: \$1, \$5, \$10.

MR. HARMON: What types of games can they play?

THE WITNESS: On the numbers, baseball, you can bet on the baseball games; the Santo Domingo lottery; the Puerto Rico lottery; also all kinds of bets.

MR. HARMON: And how about slot machines and video gaming machines?

THE WITNESS: And slot machines.

MR. HARMON: Does The Corporation actually sell Puerto Rican lottery tickets?

THE WITNESS: Yes.

MR. HARMON: Who is responsible for procuring machines, slots and video games, for The Corporation?

THE WITNESS: Lalo.

MR. HARMON: Now, why, Mr. Witness, do people place debts and gamble with the corporation and not with the New York lottery, in your opinion?

THE WITNESS: Because The Corporation pays you 600 to 1, and you don't pay taxes.

MR. HARMON: Does The Corporation also own a financing company?

THE WITNESS: Yes.

MR. HARMON: To your knowledge, where is that financing company?

THE WITNESS: In Miami.

MR. HARMON: What is its purpose?

THE WITNESS: They gather money for those who start small.

MR. HARMON: And what do they do with that money and what does the financing company have to do with it?

THE WITNESS: They use it for those who have just started.

MR. HARMON: It is a way to --

THE WITNESS: So that when they get out, they have money.

MR. HARMON: So the financing company is used to invest money then, is that right?

THE WITNESS: Uh huh.

MR. HARMON: For members of The Corporation.

THE WITNESS: Yes.

MR. HARMON: I would like to draw your attention to a person whose name is mentioned up in that chart in the upper right-hand corner, Isleno, Humberto Davila Torres. To your knowledge he is not a member of The Corporation, is that correct?

THE WITNESS: No.

MR. HARMON: Was there trouble between Isleno and Jose Miguel Battle at the end of 1982?

THE WITNESS: Yes.

MR. HARMON: What was the nature of that trouble?

THE WITNESS: Well, because they were setting up spots at a distance of less than two blocks.

MR. HARMON: So Isleno's operation was moving within two blocks of The Corporation's spots, is that right?

THE WITNESS: Yes.

MR. HARMON: How was the problem resolved?

THE WITNESS: Well, the problem was resolved after Jose and he had a discussion. And then subsequently he was selling to him the worst spots.

MR. HARMON: So Jose Battle was selling to Isleno the worst gambling spots, is that right?

THE WITNESS: Yes.

MR. HARMON: How else does The Corporation handle competition from other numbers operators?

THE WITNESS: They burn down their stores and they kill people.

MR. HARMON: Whose responsibility is that, to make sure that the competition is driven out of business?

THE WITNESS: Lalo's.

MR. HARMON: Does Lalo personally kill people, to your knowledge?

THE WITNESS: No. He sends the Marielitos.

MR. HARMON: Who are the Marielitos?

THE WITNESS: Oh, heavens, all the ones who just came in.

MR. HARMON: Have any people been killed as a result of these arsons and burnouts of competitors?

THE WITNESS: About 10, 15 people.

MR. HARMON: And how many people has The Corporation had killed in the New York City area, to your knowledge, aside from arsons?

THE WITNESS: About twenty people.

MR. HARMON: A final few questions, Mr. Witness.

How can The Corporation operate in a city

like New York where the Mafia has such an influence?

THE WITNESS: They send envelopes every week.

MR. HARMON: Who sends envelopes to whom?

THE WITNESS: The Corporation sends them.

MR. HARMON: To the Mafia?

THE WITNESS: Uh huh.

MR. HARMON: So is it correct, then, that the Mafia has given The Corporation a kind of license to operate in New York City?

THE WITNESS: Yes.

MR. HARMON: In your experience, Mr. Witness are the members of The Corporation concerned about law enforcement catching them and putting them in jail?

THE WITNESS: Well, I don't think so.

MR. HARMON: I have no further questions, Mr. Chairman. This witness is prepared to answer questions from the Commission.

CHAIRMAN KAUFMAN: Are there any questions?

COMMISSIONER ROWAN: Judge, could we just clarify that the description of the organization given is not limited to New York, I gather?

THE WITNESS: I really don't know what to answer.

COMMISSIONER ROWAN: Jose Battle Sr., El Padrino, has national power?

THE WITNESS: Yes.

COMMISSIONER ROWAN: And is that true for Miguelito and Abraham Rydz, El Palaco?

THE WITNESS: Yes.

MR. HARMON: Then what happens when we get down to the people who are marked in red, Lalo and some of the others?

THE WITNESS: Jose Miguel sends him.

COMMISSIONER ROWAN: Is Lalo located in New York and has control over New York?

THE WITNESS: Yes, New York.

COMMISSIONER ROWAN: So there would be somebody else like Lalo in other cities where the corporation operates?

THE WITNESS: In every place where they operate.

COMMISSIONER ROWAN: Do you know how many cities The Corporation operates in?

THE WITNESS: The Bronx, Manhattan, Brooklyn, New Jersey, and Miami.

COMMISSIONER ROWAN: Anything on the West Coast?

THE WITNESS: That I don't know anything about.

COMMISSIONER ROWAN: Thank you.

CHAIRMAN KAUFMAN: All right. Call your next witness.

MR. HARMON: Thank you, Mr. Witness. And, madam interpreter, thank you also.

(The witness was excused.)

MR. HUNTERTON: Would Sergeant Herion, Mark Vogel and Judy Dobkin come forward, please.

Marshal, would you swear the three witnesses.

DONALD HERION, MARK VOGEL, and JUDY DOBKIN were called as witnesses and, having been first duly sworn, were examined and testified as follows:

MR. HUNTERTON: Mr. Chairman, Sergeant Herion, Donald Herion, of the Chicago Police Department is seated to the Commission's far right at the table. He has been a member of the Chicago Police Department for thirty years and assigned to the Organized Crime Vice Control Section, Gambling Unit, for twenty of those years, both as a working detective and now as a supervising detective sergeant. He has a thorough understanding of Chicago's organized crime group and its control over illegal gambling in and around Chicago.

Seated at the center of the table is Mark Vogel, a graduate of Northeastern Law School in Boston, who has been with the Department of Justice for thirteen years, the last five of those as a special attorney with the Organized Crime Strike Force, Chicago office. He was one of the prosecutors in the prosecution of Roy Williams, president of the International Brotherhood of Teamsters; Chicago racketeer Joey "The Clown" Lombardo, and the late Allen Dorfman. He will also describe a prosecution in which he took part, in which he was the lead attorney against Frank Balistrieri the head of the Milwaukee LCN family.

At the Commission's far left at the table is Judith Dobkin, a graduate of George Washington Law and a holder of a master's in law from Georgetown, who has been with the Department of Justice for eight years and, like Mr. Vogel, with the Chicago Strike Force for five. She will describe United States v. DiVarco, a gambling prosecution which, to anyone's recollection, produced the longest prison sentence ever handed out in the federal court. She has other experience in this area, having prosecuted race-fixing cases.

This panel has been assembled, like this morning's panel was assembled, to show the connection

between gambling and organized crime. This panel is here to address two important points for this Commission.

The first is the popular notion that illegal gambling is an entirely victimless and nonviolent crime. And this panel is here to demonstrate that that is not in fact so.

This panel is here for the second purpose, on the good-news front, of showing that while this is a crime which generally receives very short prison terms, there can, with the effective investigation and prosecution of well-targeted cases, result lengthy prison terms.

Sergeant Herion, we will begin with you. What is "The Outfit" in Chicago?

MR. HERION: "The Outfit" is organized crime, the Mob or the Mafia.

MR. HUNTERTON: And what is "The Outfit's" involvement in illegal gambling?

MR. HERION: They control all illegal gambling in Chicago by means of a street tax. That is a fee paid by the bookmakers for the privilege of operating in Chicago.

MR. HUNTERTON: Has this street tax changed

over the years?

MR. HERION: Yes, it has.

MR. HUNTERTON: In what way?

MR. HERION: They have instituted a fifty-fifty partnership in which The Outfit and the bookmaker are partners. The bookmaker supplies his bettors and The Outfit supplies wire rooms, clerks and telephones. Of course, The Outfit has an edge in this business proposition, because they learn the volume of business that the bookmaker has. They keep all the gambling records. And eventually they will become friendly with some of the bookmaker's bettors. They may pick on some bettors that are having a losing week and they will offer them a proposition to put in some phony bets for them. The bettor then will split the profits with the clerk that he talks to on the telephone. Usually they go along with this. Actually the money is going to The Outfit. And eventually the bookmaker is drained of his finances and will probably have to go out of business. And that is when the friendly Outfit comes in and takes over the whole operation.

MR. HUNTERTON: The bookmakers in Chicago were obviously not pleased with this. What is the

bookmakers' current feeling about The Outfit's increase in street tax and this imposed fifty-fifty partnership?

MR. HERION: Well, there has been a lot of dissension and a lot of it has led to violence in Chicago.

MR. HUNTERTON: Sergeant Herion, we will return to that question of violence in just a few moments, but first I would like you to address the question of the numbers involved, the dollar volume involved in illegal gambling.

As you know, there are wide-ranging national estimates of the illegal gambling market for this country as a whole, and in particular the sports bookmaking market. If we take 37 to 40 billion as one of the figures that has been proposed for the entire size of the sports bookmaking, the illegal sports bookmaking market in the United States, how would you see Chicago fitting in there and does that national figure make sense from your perspective in Chicago?

MR. HERION: That figure seems perfectly reasonable. That I am sure doesn't include any numbers or policy or horse betting. It is strictly sports betting. We had a bookmaker in Chicago until recently he was murdered. I recall the year before he was

murdered he probably grossed \$140 million. He ran seven or eight wire rooms. On one occasion in one wire room we raided we confiscated over \$400,000 in wagers alone from that one room with that one clerk. And he told me personally -- I arrested him on several occasions, and he bragged to me on one occasion where he netted over \$200,000 on one football game.

MR. HUNTERTON: Mr. Chairman, we have some examples in the exhibit mounted to the Commission's left of Hal Smith's residence and money seized in gambling raids. Mr. Smith lived fairly well?

MR. HERION: Yes, he did. His home is up on the left. That is his office on the right, I believe. And the money was confiscated by the IRS on a gambling raid where they seized \$600,000 in a gym bag in his garage in cash.

MR. HUNTERTON: How does this business of sports bookmaking work, recognizing that there are lots of different variations and permutations on how it is done? Would you just give us a thumbnail sketch of illegal wagering on football or basketball?

MR. HERION: Yes. They operate on 11 to 10 basis. The 11 to 10 is called vigorish or juice. We call it juice in Chicago. For instance, if a bettor

would make a \$100 bet on a football game, if he lost he would have to pay the bookmaker \$110. But that doesn't necessarily mean he makes \$10 or 10 percent on every bet. He has a lot of operating costs, such as salaries, telephone rentals, lawyer's fees. My understanding of it is, from talking to a lot of bookmakers we have arrested, that if a bookmaker nets 1 percent of the gross handle he has in one year, he had a very successful operation.

Hal Smith was a bookmaker and a gambler. He would change his own point spreads on certain games. He didn't feel that -- in his mind that is where the gambling came in. He took chances and he took certain positions on games. And he was very successful at it. He made a lot of money. His probable net profit would be from 2 to 3 percent of the \$140 million, which would give you approximately three or four million dollars in one year.

The bookmakers are all protesting the street tax. It has gotten a little bit out of hand lately.

MR. HUNTERTON: Is this an additional operating cost beyond salaries and phones and lawyer's fees?

MR. HERION: Yes, it is.

MR. HUNTERTON: So that comes out of the bookmakers?

MR. HERION: Right.

MR. HUNTERTON: And if you are not as good as Hal Smith, you are operating on a pretty thin margin, right?

MR. HERION: That's right.

MR. HUNTERTON: 1 percent for net profit.

THE WITNESS: Right.

MR. HUNTERTON: How is The Outfit responding to this dissension among the bookmakers about paying this street tax and the fifty-fifty proposition?

MR. HERION: They usually give them three choices. It is pay, quit or die, one or the other.

MR. HUNTERTON: Now, let's discuss the seriousness of the problem of illegal gambling and the pay, quit or die ultimatum in Chicago. Starting in 1983 with the attempted assassination of Mr. Eto, who testified at our Chicago hearing, would you tell us what has happened with respect to violence related to illegal bookmaking in Chicago?

MR. HERION: So far this year, we have had three major bookmakers murdered in Chicago: Lenny Yaros, Hal Smith and Chuckie English.

MR. HUNTERTON: This is Mr. Yaras to our left now (indicating)?

MR. HERION: Yes, it is. That is before and after. Ken Eto was a very trusted associate of the Mob in Chicago, and he operated and ran all of the Bolita operations, which is a Spanish numbers game, in Chicago. He had been arrested on gambling charges, and the outfit seemed to think that he was going to cooperate with the authorities. So, lo and behold, two of his friends took him for a ride.

MR. HUNTERTON: The proverbial Chicago ride?

MR. HERION: Yes. That's very common, apparently. John Gattuso and Jay Campise, who is involved in the Joseph DiVarco gambling case -- you will hear about that later -- had Mr. Eto in a car. And Mr. Gattuso shot Eto in the back of the head three times. They left him for dead, but Mr. Eto survived and lived to tell the story. He identified Gattuso and Campise, and they were subsequently arrested for this. And of course they were released on bail. And a few months later they both joined hands in the trunk of Campise's car. Their bodies were badly mutilated. That is for botching up the Eto attempted murder.

MR. HUNTERTON: We are about halfway

through 1985. How many bookmaking-related homicides have you had in Chicago in the first half of this year?

MR. HERION: They are the three I mentioned I am positive of.

MR. HUNTERTON: Yaras, Smith and English?

MR. HERION: Right.

MR. HUNTERTON: Hal Smith you have already described as a bookmaker. Mr. Yaras you have referred to. Would you tell us a little bit about Mr. English?

MR. HERION: Mr. English was the gambling overseer for Sam Giacana, who is a former Mafia boss in Chicago. He himself was murdered, I believe it was 1975. He had been in semi-retirement of late, and he was very vocal about the current street tax in relation to bookmakers. Apparently he met the disfavor of Joe Ferriola, who is reportedly now the new Mafia boss in Chicago. And he was shot to death once between the eyes, as you can see in that photograph up there, in Elmwood Park, Illinois.

MR. HUNTERTON: And that happened to Mr. English although he had withdrawn from the bookmaking business, is that correct?

MR. HERION: That's correct.

MR. HUNTERTON: Sergeant Herion, apart from

the homicides, which are clearly a problem in and of themselves, what are some of the problems that you have experienced over the last twenty years, both problems that don't seem to change or go away and some of the newer problems related to the regulation of organized crime cases in the illegal bookmaking area?

MR. HERION: Well, as of late there's a lot of problems, but a jurisdictional problem enters into our enforcement efforts. A lot of wire rooms are going out in suburban areas. And when they get out there, they use call-forwarding service. They bounce their telephone numbers around two or three times. It makes it very difficult to locate them. We have kicked in doors and found vacant apartments. They also have cordless telephones. The source phone, which would be the number the bettor would call would, may be in one apartment and the bookmaker could be actually sitting anywhere within a radius of a thousand feet. You just can't trace those types of phones. The phone company can't even do it.

And then we have beepers. They seem to be getting into beepers where the bettors call the bookmaker who has a beeper, the bookmaker calls the bettors back and takes all their action. He is very

mobile and very difficult to locate.

MR. HUNTERTON: The exhibit entitled "Armored Chicago Wire Rooms" it is a little difficult for the commissioners to see. If Mr. Leonard would point from upper left to upper right and then come back across the bottom.

Sergeant Herion, would you describe what you found in this bookmaking raid?

MR. HERION: In this particular photograph this was the rear door which is barricaded by 2-by-4's at an abandoned warehouse. On the door, once you got in there, there was a burglar alarm setup which would warn the two gentlemen we found inside a vault. It had a 4-inch steel door and all the walls were concrete, including the ceiling. It would be a good place to go in case of atomic attack or something, but these people were in here. And of course inside we found an 8-foot table, four telephones, lighter fluid, soluble paper, flash paper, whatever else you can think of. And they of course destroyed all the wagers before they would even come out of the wire room. So that is another problem. In Chicago or Illinois we have to retrieve the evidence. If we don't get the bets, we don't get any convictions. We don't have the services of

electronic eavesdropping devices or --

MR. HUNTERTON: You can't do wiretapping?

MR. HERION: No, sir, we cannot.

MR. HUNTERTON: So what you are saying is, unless you get those records, you can make an arrest but it is going to be kicked out?

MR. HERION: It is automatically discharged.

MR. HUNTERTON: You have mentioned water soluble paper and flash paper. Would you show the Commissioners how both of those work, please?

MR. HERION: All right, I will be glad to.

MR. HUNTERTON: I have asked Sergeant Herion to simulate on a sheet of water-soluble paper some gambling records.

THE WITNESS: I wrote pretty big so you can see it. A bookmaker would be sitting next to a table or somewhere where his telephone is and would have a bucket of water right next to him. And in case of an entry being made, he puts it in the water and that's what we got (demonstrating). It's gone in an instant. So all the records are gone, and we have no case.

As far as telephone conversations, that is inadmissible in court. We can't use those. Even though we take \$50,000 in bets, it doesn't do us any

good.

MR. HUNTERTON: You mean after you do the raid, if you stay there and work the bookies' phones for him, the courts won't admit your testimony about the action you took?

MR. HERION: Right.

MR. HUNTERTON: And the other precaution that they take with respect to their recordkeeping?

MR. HERION: This is flash paper. This is more dangerous than the water soluble (demonstrating).

MR. HUNTERTON: It never even hits the floor?

MR. HERION: It never did, did it? It was close, though.

MR. HUNTERTON: You cut it just as close as you could.

We have got time for about one more problem, Sergeant Herion. Pick one that bothers you as an enforcement officer working in this area.

MR. HERION: All right. It's the availability of sports information. Anybody, the police, bad guys, good guys, bettors, bookmakers, can call California for 50 cents and get all the latest sports information they need, point spreads, weather conditions, which way the wind is blowing at Wrigley

Field, the over and under action. It's available to everybody for 50 cents. Years ago it was a federal offense, but not any longer. There is also publications.

(Tape played)

MR. HUNTERTON: What is that we just heard, Sergeant Herion?

MR. HERION: This is the price on baseball games, the pitchers, and the price. For instance, that one game, I forgot the team, but it was, they said \$1.35. You must put up \$1.35 on a favorite. If the favorite loses the game, you pay \$1.35. If you win, you get a dollar.

MR. HUNTERTON: That was a recording?

MR. HERION: Right.

MR. HUNTERTON: Where did you get it from?

MR. HERION: That was just a phone number. It is a 900 number, it goes to California.

MR. HUNTERTON: And it cost you 50 cents to dial?

MR. HERION: That is all it costs.

MR. HUNTERTON: And I would note, Mr. Chairman, that it is not against the law even though -- where was that recording made?

MR. HERION: You mean the source where it came from?

MR. HUNTERTON: No. Where did our staff make the recording?

MR. HERION: I believe they made it right here.

MR. HUNTERTON: All right. And there is no legal sports wagering on baseball in New York, is that correct?

MR. HERION: That's correct.

MR. HUNTERTON: Sergeant Herion, we are going to have to move along, but I understand that in keeping with this morning's testimony you find the problem of the video poker machines to be one that is also extant in Chicago. Is that correct?

MR. HERION: That's correct. We have about 5,000 machines, to my knowledge, maybe more. It seems everybody is paying off on them. They are not gambling devices per se. In order for us to make a legal arrest, we have to be either paid off by the owner of the establishment or observe someone else being paid off. Otherwise we are out of business. You can put \$400 an hour in those machines, and we don't have the time, the resources, to handle this type of problem.

MR. HUNTERTON: You have essentially the same problems that Lieutenant Gaugler from the New Jersey State Police described this morning?

MR. HERION: That is correct.

MR. HUNTERTON: Thank you very much.

Mr. Vogel, tell us about the Balistreri case.

MR. VOGEL: All right. Mr. Chairman, distinguished Commissioners:

One of the geographic areas covered by the Chicago Strike Force is Milwaukee, Wisconsin, and in Milwaukee illegal activity there is dominated by the Balistreri organized crime group. That is the La Cosa Nostra group presently headed by mob boss Frank Balistreri.

Over a period of many years, the Milwaukee division of the FBI gathered intelligence information and developed confidential sources of information inside the Balistreri organization. This information was the genesis of a series of significant investigations concerning such diverse criminal enterprises as sports bookmaking, hidden control of certain vending machine businesses, extortion, obstruction of justice, and contract murder. These investigations resulted in the convictions of Frank P.

Balistrieri, age 66, who was the boss; Steve DiSalvo, age 65, his underboss; his two sons Joseph and John Balistrieri and a number of other members of this criminal organization.

With respect to the gambling activities of this criminal organization, which I know the Commission is most interested in hearing about, the Government's investigation produced a variety of types of evidence demonstrating that Balistrieri and his cohorts ran a sports bookmaking business during the late seventies and in 1980. This evidence was obtained by means of physical surveillance, electronic surveillance, warrant-authorized searches and the investigative efforts of two undercover FBI agents. Unlike Sergeant Herion, the federal government can and does make use of court-authorized wiretaps.

In late 1977, the government conducted court-authorized electronic surveillance of telephones at two sports bookmaking locations in Milwaukee, Wisconsin. On four successive days during that period, the government intercepted a large number of telephone calls that related to gambling on college and professional football games. Other evidence indicated that this sports bookmaking operation was owned and

headed by Frank Balistrieri and supervised by Steve DiSalvo. The operation was run on a day-to-day basis by Salvatore Librizzi, who supervised at least six writers or agents, as is set forth in the organizational chart which I would like to run through with you now.

This chart was introduced and utilized at Frank Balistrieri's gambling trial, and I might add that the names listed on that chart are only of those people that the government had proof beyond a reasonable doubt as to their roles and their involvement. The evidence did suggest, however, that there was a large number of other participants involved in the operation.

Now, looking from the bottom, you can see that there are the writers, which you have already heard about, who take the street action from customers and in turn relay that into the manager, here Salvatore Librizzi. Usually they use the phone to do that. Mr. Librizzi instructed writers as to when and which games they should take bets on. He also totaled up the win-loss figures and settled up the accounts.

From time to time, when Mr. Librizzi determined that the wagering action on a particular

sporting contest was too heavy on one side, he would place layoff wagers through a "beard" or an up-front and that was Mr. Richard Panella. The Balistrieri organization used Mr. Panella as a ruse to place these wagers with other illegal bookmaking operations, and through them they were able to disguise their layoff on bets and obtain a betting advantage. Mr. Librizzi in turn reported to Steve DiSalvo and, less frequently, to Frank Balistrieri. Mr. Librizzi and his brother Dennis Librizzi also personally delivered gambling proceeds, the money, to Steve DiSalvo. Steve DiSalvo in turn conveyed the money to Frank Balistrieri.

You are going to hear a tape recording in a few moments of one of the conversations in which Salvatore Librizzi is reporting to Frank Balistrieri.

In 1977 the operation grossed an average of approximately \$10,000 a day, with a single day's gross as high as \$12,000. In August 1978 a completely separate FBI undercover operation code named "Timbre" was begun with respect to the Mob's involvement in the vending machine business in Milwaukee, Wisconsin. During this operation, undercover FBI agents became trusted confidants and associates of Frank Balistrieri and Steve DiSalvo. Thus, they were allowed to be

present during discussions of past and future gambling operations. Indeed, Frank Balistrieri and Steve DiSalvo talked freely with the agents of their bookmaking operations, including their control of sports bookmaking in general in the Milwaukee area. They also discussed the problems they were having with the operation and in one such conversation Frank Balistrieri expressed dissatisfaction with Salvatore Librizzi and he also expressed his desire to have someone to run the operation who could be trusted.

Ironically, one Benjamin Ruggiero, who is a member of the New York Bonanno crime family, recommended one of the FBI undercover agents as the man who could take over the bookmaking operation for Balistrieri.

In October 1979, a separate wiretap investigation code-named "Bellwether" was begun at three locations in Milwaukee including John Balistrieri's office, John Balistrieri being Frank Balistrieri's son. These court-ordered intercepts produced conversations relating to the same sport bookmaking operation but involved 1979 and 1980 football and basketball seasons. The Bellwether investigation was expanded to include coverage on

telephones at two other locations utilized by Salvatore Librizzi. Incidentally, one of these locations was the same house from which the 1977 bookmaking operation had been run. Intercepted conversations from this investigation further developed evidence of Frank Balistrieri's involvement in and control of the sports bookmaking in Milwaukee and his operation again included Steve DiSalvo, Salvatore and Dennis Librizzi and at least eight other writers or agents.

On January 10, 1980, an extremely important conversation was intercepted in this investigation between Frank Balistrieri and Salvatore Librizzi. This is the conversation I referred to earlier. In this conversation, Librizzi was overheard delivering a large sum of money to Balistrieri. As the conversation progressed, they discussed collections from writers and bettors, past and future football game action, and then began to discuss the upcoming basketball season. Librizzi asked Balistrieri to allow a four-way partnership in the basketball bookmaking operation, with Balistrieri the boss, Peter Picciurro, whose name you see up on the chart, who would be the partner who would bankroll the operation, and with Librizzi and his brother Dennis actually running the operation on a

day-to-day basis. Balistrieri gave his OK but expressed concern that they might get caught because basketball betting action occurs on a daily basis. Librizzi stated that he would rent an office and that they shouldn't worry.

Now, as you heard from Sergeant Herion, from time to time operations such as this make use of cordless remote telephones, and you are going to hear some discussion on this tape recording about that as well.

I might just add, before the tape is played for you, Mr. Chairman, that this tape is a microphone interception from a concealed microphone. Consequently, the audibility of the tape recording is not as good as we would like. But I think if you utilize your headphones you will be able to hear what is being said for the most part.

MR. HUNTERTON: Mr. Chairman and members of the Commission, as we cue that tape, I would also note that the verbatim transcript is in your briefing book immediately following Mr. Vogel's statement. You will find that of substantial assistance as you listen to this tape. Play the tape, please.

(Tape played)

MR. VOGEL: Mr. Chairman, I understand time is running short, so I am going to abbreviate my statement. Suffice it to say, Frank Balistrieri, Steve DiSalvo and some of his cohorts were prosecuted in a gambling case in Milwaukee which took six weeks to try, and they were convicted. Frank Balistrieri was again prosecuted in an extortion Hobbs Act conspiracy trial which also involved his two sons as defendants and he was also convicted in that trial. Based upon the government's motion that Frank Balistrieri was a danger to the community, Judge Terrence T. Evans revoked his bond and ordered him immediately incarcerated. Thereafter, the Judge sentenced him to thirteen years in prison. The sentences on the gambling case were four years each on counts 1, 2 and 3 and one year each on counts 5 and 7 to run concurrently with \$30,000 in fines and the costs of prosecution.

Steve DiSalvo, who was a defendant only in the gambling case, however, was sentenced by Judge Evans to two consecutive four-year terms, and on the government's motion Judge Evans ordered DiSalvo immediately incarcerated as a danger to the community.

Salvatore Librizzi who ran the day-to-day gambling operation had no other apparent organized

crime involvement with the Milwaukee "Outfit" and therefore received only a one-year and a day sentence, a \$15,000 fine and three years' probation. Librizzi received a somewhat light sentence even though he continued to accept wagers after his conviction and indeed was accepting action the day the jury returned its guilty verdicts. However, Librizzi was ordered to surrender and begin immediate service of his sentence.

The substantial sentences imposed upon Frank Balistrieri and Steve DiSalvo resulted, at least in part, from Judge Evans' reliance upon many of the electronic surveillance tape recordings. I believe that segments of these tape recordings may be played for you later in these hearings.

I thank you for giving us this opportunity and it concludes my statement. I will, of course, be glad to answer any questions that I can.

MR. HUNTERTON: Before we turn to Miss Dobkin, your Honor, I would like to note for the record that Frank Balistrieri has been the boss of the LCN family in Milwaukee since the early 1960s. He has ruled that family with the advice and assistance of his two sons whom he had the foresight to send to law school. This family has been closely

aligned with the Chicago LCN family for many years.

In addition to the normal full range of LCN activity known to most families, that association has bred a tight connection between those two families in efforts to infiltrate Las Vegas casinos. For this, Mr. Balistrieri and his counterpart in Chicago, Mr. Aiuppa, will stand trial this September in a major casino skimming case. For that reason we were not prepared to give Mr. Balistrieri immunity. He indicated in a letter that he would assert a Fifth Amendment privilege and therefore we have waived his appearance here today.

Miss Dobkin, as the apparent world record holder for sentencing in a gambling case, would you tell us briefly how that came about in the case of the United States v. DiVarco, and along the way explain some of that telephone charting that looks like the circuitry to a missile system.

MS. DOBKIN: Surely. Good afternoon, ladies and gentlemen.

Joseph "Caesar" DiVarco -- he is rather short and they call him Caesar -- is a top lieutenant of the Chicago LCN and as such is the organized crime street boss of the Rush Street area. Rush Street is Chicago's nightclub district. He was indicted in 1984

for operating an illegal gambling business, along with six other people and was convicted with all defendants save one in January of this year after a six-week trial. In fact, his date of conviction was January 9, and on January 10 the first of the three gambling-related murders in Chicago began. Lenny Yaras was killed the day after DiVarco's conviction. This case evolved from a long-term investigation into racetrack messenger services which were ultimately held to be illegal in Chicago, but what that produced was an infrastructure already on site to begin doing sports bookmaking, which the Chicago mob had let up on for a while when they discovered off-track betting.

It was the theory of our case that the sports bookmaking operation was conducted in a classic business sense with Joseph DiVarco and Jasper Campise, the man who wound up in a trunk, as the bosses of the operation and Victor Locallo as the everyday comptroller.

In chart No. 28 we have charted out for you this particular gambling operation. Locallo had died before the indictment came down, so he was obviously an unindicted conspirator.

The business had two main segments which

wc

were operated by Santo LaMantia and Marshall Portnoy. As it expanded, different people were given more responsibility, and then they utilized several independent bookies who would sit at home and handle the operation of the business as well as their own little bettors. They operated out of their own apartments and apartments of friends.

The actual involvement of the IRS in the diVarco prosecution had its genesis in raid reports from the Chicago Police Department's Vice Control Division. Sergeant Herion's men were exceedingly helpful to us, and the work they did laid the groundwork for our own case. After Portnoy and Santo had been arrested several times by the Chicago police, the IRS started surveilling them. This surveillance led to the discovery of Portnoy's weekly Monday evening meetings at DiVarco's home. He was indeed surveilled going there approximately 52 times during the investigation. He would walk in with a ledger book and with envelopes and with small bags.

The IRS then used phone record subpoenas and ultimately pen registers in order to analyze particular telephone traffic of places we thought were involved.

As the charts in front of you demonstrate --

I believe they are 25 and 26 -- they show that this operation utilized call-forwarding, which in a sense is like an artichoke. You keep peeling layers and you find that where the calls were forwarded to, were sent, were changed, and they were sent somewhere else by the time you discovered where they were originally sent. They made tens of thousands of phone calls. And as you can see, they directed calls to two locations, basically over 10,000 calls, to apartments of friends. And in Armitage, they went to one location and across the street to another location on Armitage. And I believe there are about six or seven thousand calls there.

Of equal value in this operation was the evidence that was seized during the execution of several state search warrants. Some of the warrants were litigated during the course of this trial and upheld by the federal judge who supervised this case. That was Judge Milton Shadur in Chicago. We found this of particular interest, because some of those same warrants were thrown out or otherwise disposed of by the local Chicago court system. It was telling to note that in majority of those cases Dean Wolfson, who recently pled guilty during our Greylord investigation

wc

involving judicial and attorney corruption, was a defense attorney for many of the people involved in the local state searches.

A key item of evidence linking Joseph DiVarco to the conspiracy was the fact that he had weekly, we call them, Thursday morning, breakfast meetings with unindicted coconspirators Jasper Campise and Victor Locallo. He also met with Vincent Solano, who I believe you heard about during the labor racketeering hearings. Solano is president of Local No. 1 of the Laborers International Union. At DiVarco's sentencing, witness Ken Eto testified that Solano was his "boss." These meetings were surveilled by two very diligent and innovative CID special agents, dressed in soda pop truck driver uniforms, and they sat next to these men for almost a year and a half and eavesdropped. They would write down what they were hearing.

Another item of critical importance was the evidence seized from Joseph DiVarco's house and a safety deposit box. Seized from his house -- I believe it is No. 29 on the charts -- on the upper left you have \$35,000 seized from a heating vent in the master bedroom. The cash was found wrapped in a newspaper

dated ten days before the seizure. Found in the rafters of his house, which is Chart No. 30 over there, was a pouch which contained a key to a safety deposit box. Found along with the key were slips of paper that had various amounts of money on them and various notations such as "Vince S." The total amount on those notes was close to the \$150,000 which was ultimately found in the safety deposit box. It was our theory that all of the money was part of the bankroll of the business and the "Vince S." referred to Vince Solano, who DiVarco lists under V. as "Vince S." in his personal phone books.

The case agent in this case estimated that the annual handle was approximately \$10 million.

The sentencing hearing was rather interesting, but before we get into that, Ken Eto, again a protected witness, who testified extensively at the sentencing hearing, also testified in a very limited fashion at trial. He noted that DiVarco had told him shortly after the IRS raid of his safety deposit box that the government had seized his "bankroll." And that was the \$151,000.

After the conviction the Judge found that DiVarco was indeed a danger to the community and

ordered him held pending sentencing.

Following an extensive sentencing hearing, Judge Shadur sentenced DiVarco to ten years incarceration as well as to a \$60,000 fine and ordered him to pay the costs of prosecution. Four other defendants who were also found guilty were given less severe sentences.

At the sentencing hearing, Eto testified about his life of crime in Chicago, and his contact over several years with DiVarco and Solano. He testified about his gambling activities at a certain private club operated by DiVarco and DiVarco's partner Solano which was called "Oldsters for Youngsters." There was a game there called signet. It was a card game and Eto won over \$100,000 during the time he was gambling there. Solano demanded his end of the winnings, and Eto paid him half of everything he won through DiVarco. Also, with DiVarco and Solano's permission, Eto ran a sports bookmaking operation, and he paid a \$2,000 a month street tax to Solano through DiVarco.

At the hearing Eto identified a unique photo which was seized from DiVarco's premises. That is, I believe it -- it seems to have disappeared. It was No.

35. We have referred to it as the Last Supper picture, because it shows almost everybody involved in organized crime in Chicago. Indeed, there is an organized crime chart in No. 36, and almost everyone on that chart is in this picture, which was taken from Mr. DiVarco's house. Eto identified Dominic DiBella, who is the man second from the left who is a boss of his who died, and then Solano, who is right to the right in the picture, took over as Eto's boss. He also identified everybody else in the picture, some of whom he has worked for and who has worked for him. DiVarco is in the right with the black shirt in the picture.

At sentencing, certain defense attorneys successfully argued that all we had was a gambling case. The Court, in a reference to Al Capone, said that people get sentenced not for the particular crime they commit, but for what is known about them in other situations, and that it was always important to recognize that different defendants get different treatment because of different circumstances. Judge Shadur characterized gambling violations as a peculiar crime and noted that gambling was a rather odd offense in the criminal law system, somewhat like Prohibition, in that while prohibiting activities which many people

may not consider bad, it is the sort of thing that tends to feed the possibility that the activity may be taken over by organized crime.

In sentencing DiVarco, the Court made several telling, significant statements. Noting that society has a two-faced ambivalent attitude toward gambling, he stated that Congress has decided that gambling activity of a certain kind should be prosecuted and that what was important for the purposes of the DiVarco sentencing was that the illegality of the gambling business has in fact generated just such involvement of organized crime figures. The Court told DiVarco that there was little doubt as to what result sentencing him ought to produce and that law enforcement officials don't usually get people who are in the middle management or upper management level of organized crime activity.

Stating that Eto's testimony implicated DiVarco in a deliberate assassination attempt, the Court found that the conversations among DiVarco, Campise and Solano and others reflected illegal activities and showed DiVarco to be a figure of significance not only in gambling violations but with things with much more serious connections and

implications. What the Judge meant by that was basically a reference to the Thursday morning breakfast meetings where this group would sit and talk about all their illegal activities. And not only did they discuss their loansharking and their gambling; they were discussing what is basically an obstruction of the grand jury process, because they were talking about paying attorneys for the people whom we had subpoenaed during this investigation; that the lawyers' fees were costing them too much so they are just going to have to tell them not to talk. And in splitting up the money, they talked about putting in money for somebody who was already incarcerated for a failure to testify before the grand jury and Solano said, put in the money for him, we are all partners.

In sum, investigating this case, bringing it to trial, required a very substantial commitment of prosecutive and investigative resources. The IRS agents acted as human wiretaps, human tape-recorders and human cameras in order to garner evidence. The case is an example of the results law enforcement can achieve in investigating organized crime involved in gambling operations when it is well coordinated and everybody is working with each other.

Although the prevailing attitude is, "It's only a gambling case," and indeed Ken Eto testified that he told Solano not to worry about his recent conviction as "It's only a gambling pinch," organized illegal gambling is, at least in Chicago, not an innocent occupation.

Thank you.

MR. HUNTERTON: Thank you, Miss Dobkin.

Mr. Chairman, all three witnesses are available to the Commission for questions.

CHAIRMAN KAUFMAN: I have none.

COMMISSIONER ROWAN: Miss Dobkin has mentioned the use of the funds from gambling to corrupt the official judicial processes. I would like the two gentlemen to comment on whether they have seen the use of gambling moneys in the illegal gambling field used to corrupt the processes in their city, judicial processes, political process, etc.

MR. HERION: I have not.

COMMISSIONER ROWAN: You have not.

MR. HERION: No.

MR. VOGEL: There was no evidence of that sort of activity with respect to the Balistriieri investigations. There was an indication of large

amounts of money being obtained by his operation and there was an indication that that money was used for a variety of other unlawful activities, but that wasn't one of them.

COMMISSIONER ROWAN: Thank you.

COMMISSIONER McBRIDE: Would you describe for me the status of the wiretap and eavesdrop law, federal, versus State of Illinois, either one of you.

MS. DOBKIN: There is none in Illinois.

COMMISSIONER McBRIDE: It is prohibited?

MR. VOGEL: Illinois by statute prohibits not only electronic surveillance, that is, the surreptitious eavesdropping on a conversation where none of the participants know they are being wiretapped; they also prohibit consensual monitoring, that is, where one of the persons would consent to wearing a body recorder or to making a telephone call that would be tape-recorded, except for certain limited circumstances in which I believe under Illinois law you can approach a judge and get what would be the equivalent of a very narrowly drawn search warrant for that activity. Federally now, once you have probable cause and you meet a number of conditions under the Title III of the -- well, the federal wiretap statute,

you can go before a federal District Court judge and present that evidence and that information, and then the judge makes an independent determination as to whether or not a wiretap is justified. Then if he enters a court order authorizing that wiretap, then we may proceed with the wiretap, subject to his directions and his review.

COMMISSIONER McBRIDE: Can you explain that strange evidentiary ruling of the calls coming in during the raid not being admissible, apparently, in Illinois?

MR. HERION: I have no idea. Apparently it is admissible in other states, but in Illinois it is completely inadmissible. There is no way they will let it in.

MS. DOBKIN: It is nonconsensual.

MR. HERION: It is hearsay is what they tell me.

MR. VOGEL: Are you saying that --

COMMISSIONER McBRIDE: Could you admit it in a federal prosecution under res gestae or some other theory?

MS. DOBKIN: Yes.

MR. HERION: Yes.

COMMISSIONER McBRIDE: Thank you.

CHAIRMAN KAUFMAN: Thank you very much.

MR. HUNTERTON: My thanks to the witnesses.

Mr. DeFeo? Last witness, your Honor.

CHAIRMAN KAUFMAN: How long will you be with him?

MR. HUNTERTON: I will ask him to finish by 3.

MICHAEL A. DeFEO

was called as a witness and, having been first duly sworn, was examined and testified as follows:

MR. HUNTERTON: Mr. Chairman, today's last witness, Michael DeFeo, is the Deputy Chief in the Organized Crime and Racketeering Section, Criminal Division, United States Department of Justice. He has worked for the Department for twenty-two years in Los Angeles, Las Vegas, Kansas City, and now Washington. He has witnessed the evolution of the Department's policy on enforcement of illegal gambling laws in organized crime cases firsthand, both as a prosecutor and now as a manager. Although he is here to address only that issue today, he is also familiar with the LCN's influence in casinos, having acted as the Department's coordinator for all casino-related prosecutions and all prosecutions relating to the Central States Pension

Fund.

He has prepared a statement for the record, which I would move that we adopt.

I would ask you, Mr. DeFeo, in light of the hour, if you could answer two questions: What is the Department's policy with respect to enforcement of illegal gambling laws, and how did we get there?

MR. DeFEO: Certainly, Mr. Hunterton, our present policy is to reserve electronic surveillance, extensive grand jury inquiries and other intensive techniques for the situation that Special Agent Storey outlined this morning, that is, gambling situations which involve direct influence or control by traditional organized crime, normally meaning La Cosa Nostra, or situations involving corruption, particularly law enforcement corruption, and situations which are of a dollar volume which are truly extraordinary for the region in which they take place.

Now, that is a quick answer to your first question.

Your second question will take a few more minutes.

MR. HUNTERTON: Go ahead.

MR. DeFEO: Beginning in 1950, the federal

government had its attention directed to illegal gambling by the circumstances of the revelations of the Kefauver Committee which investigated the influence of organized crime in interstate commerce. The revelations of the Kefauver Committee demonstrated corrupt political administrations in the State of Florida; in Cook County, Illinois; in Kansas City, Missouri, tolerating and profiting from illegal gambling in an unholy and very profitable alliance. As a result of that, public attention gradually shifted to the problem of illegal gambling. After the Appalachia, New York, 1957 meeting, there was an immense public outcry for public, or governmental attention to this problem of organized crime. The Kefauver Committee at that time had demonstrated that illegal gambling was certainly one of the most lucrative activities of organized crime.

At that same time one of the other, more noteworthy activities of organized crime, that is, heroin trafficking, was in remission due to some very successful prosecutions during the 1950's and what seemed to be a withdrawal by American LCN Families from the negative publicity and severe sentences associated with heroin trafficking, in addition to

which at that time gambling enforcement was one of the few areas in which the federal law enforcement establishment had access to the activities of organized crime. At that time many of the legislative tools which exist today simply did not exist and the Internal Revenue Service wagering laws and the federal FBI statutes which are directed at interstate gambling operations were the only statutes giving a point of contact with the activities of organized crime, other than generalized statutes such as immigration or Internal Revenue statutes.

As a result of that limited possibility, great attention was directed toward federal gambling enforcement. When the electronic surveillance statute became available, passed in 1968 and first used by law enforcement in 1969, the principal focus was in the area of gambling and on the interstate gambling activities, many of which had a large traditional LCN crime presence. As a result of that, when a second statute was passed two years later, the illegal gambling business statute which presumed an impact upon interstate commerce in the size and dollar volume of an operation, the FBI concentrated, as well as the prosecutive agencies of the government, most of their

investigative resources on the problem of illegal gambling, because it presumptively was the largest proprietary activity of organized crime.

And during gambling intensification efforts in 1971 and 1972, as many as a thousand gambling convictions were secured each year. A study subsequently performed by the Organized Crime Section of the Department estimated that a gross handle, a gross illegal wagering activity, was conducted of about 29 to 39 billion dollars a year, of which approximately 42 percent was dominated by organized crime. This reinforced to some extent the previous conception that organized crime did exercise a substantial influence and activity in the area of illegal gambling, but at the same time it demonstrated that at least half of illegal gambling was independent, non-LCN controlled.

Moreover, we found from the experience of our sentencing results during that period of time that for one period as many as three-fourths of all convicted defendants were receiving probation, and, simply put, the game was not worth the candle.

As a consequence, a retrenchment began of shifting resources into other areas of investigation, into investigations of the leadership of La Cosa Nostra

Families, which resulted in convictions of Family leaders in cities like Detroit, Los Angeles and Cleveland, and into projects, undercover projects, other projects, of the nature of BRILAB, which resulted in conviction of an LCN leader in New Orleans, Louisiana, for attempting to fix state insurance contracts by bribery, ABSCAM with which we are all familiar, and similar projects of that nature; and STRAWMAN, which revealed La Cosa Nostra's hidden ownership in Las Vegas gambling casinos.

So at the present time we have come from the point where in the early 1970s over half of all federal organized crime law enforcement resources were being devoted to illegal gambling enforcement to the present point in time when approximately a minimum of 10 percent of our resources are devoted to what are called strictly illegal gambling businesses, and the particular statute 18 U.S.C. 1955, and perhaps another 15 percent, giving a sum total of approximately 25 percent are devoted to cases which may involve gambling in one form or another, such as interstate travel in aid of racketeering to reach hidden ownership of a Las Vegas gambling casino, or a RICO, 18 U.S.C. 1962, Racketeer Influenced and Corrupt Organization, in which

there may be a mix of several crimes, one being gambling, one being extortion of bettors and perhaps stolen property offenses combined with that.

So we presently have come to the point where in the last ten years we have perhaps reduced our commitment to illegal gambling enforcement from roughly 50 percent to perhaps a maximum of 25 percent, and basically those resources which have been freed have been devoted to racketeering investigations and perhaps also to narcotics investigations. I hope that covers the ground you were interested in.

MR. HUNTERTON: It does and very well. Mr. Chairman, Mr. DeFeo is available for questioning by the Chair and the other Commissioners now.

COMMISSIONER McBRIDE: I have one question, Mr. Chairman.

You mentioned 42 percent as being the results of organized crime section research some years ago in terms of organized crime's involvement in gambling operations.

MR. DeFEO: Yes, sir.

COMMISSIONER McBRIDE: Has there been any update of that? Do you have any either research-based or anecdotal data which would indicate that or the

crime is a greater or lesser presence than it is then?

MR. DeFEO: We do not. I would offer anecdotal data from personal experience and experience of other professionals that after the intensification program, many La Cosa Nostra organizations reduced their activity in illegal gambling simply because it was too vulnerable to electronic surveillance. However, that is an anecdotal response not founded in research and not as statistically soundly based as were the figures in the mid-1970s which were based on a semi-scientific study of what we learned in 1971 and 1972.

COMMISSIONER McBRIDE: Thank you.

CHAIRMAN KAUFMAN: Are there any approaches short of investigation and prosecution which might do in the light of manpower shortage and so forth, for example civil injunctions?

MR. DeFEO: Well, your Honor, I think we have had a failure of imagination probably in this field. I am familiar with one case in Chicago, or at least my recollection is that in a case in Chicago we have utilized a civil injunction as an aspect of the RICO statute to in effect prohibit a person from returning to the profession of illegal bookmaking

and then utilizing a contempt citation to enforce that. Similarly, we have increased our attention in recent years to the heightened use of probation revocations, because we find that if a person receives probation, it is far more cost effective to put a little extra effort into following up that probation and to secure a revocation rather than to begin a whole complete investigation. And we can often double the amount of jail term return for only a marginal investment.

However, with regard to a straight civil injunction remedy, obviously anything that would increase our cost effectiveness is attractive to me as an administrator. However, I am a pessimist by nature and unfortunately, my immediate reaction is to see several problems which could be encountered. First of all, many of the criminal investigative techniques which were utilized to secure evidence, at the present time would be inappropriate and possibly actually misused to support civil litigation such as grand jury search warrants, electronic surveillance. At the same time I assume when we are dealing with illegal gamblers we are dealing with people who are crooks by definition and therefore who are going to operate covertly, who

are not going to answer deposition questions honestly, who are not going to keep records and produce them subject to subpoena, and therefore who aren't very amenable to the relatively polite procedures of the civil law. So I have problems, but it would merit deeper thought.

CHAIRMAN KAUFMAN: All right.

COMMISSIONER DINTINO: Mr. DeFeo, you quoted 42 percent and you used the term traditional organized crime and you referred to the rest as independents. I would like to know what your definition of organized crime is. I guess what I am referring to, I take it you have sat through this morning's hearing in which they went through the Jose Battle's Corporation. In my view that is organized crime. In your view, this other 48 or 53 percent, is that organized crime or is that not organized crime?

MR. DeFEO: Well, Commissioner, to that I have to give a lawyerlike response: yes and no. For different reasons I would define organized crime differently. When we were talking about the 42 percent, which was the figure calculated in 1974, as to organized crime domination of illegal gambling, that referred to traditional LCN control of gambling operations. It did not reach a Jose Battle type

organization and in fact many other organizations which for many legitimate reasons could be considered organized syndicated gambling. They just strictly talked about LCN-type gambling. And it also did not include organizations such as the Cuban numbers organization, testified to by the previous witness, which paid a street tax to the LCN.

COMMISSIONER DINTINO: Would you consider any gambling operations to be nonorganized crime?

MR. DeFEO: Yes, I would, because I think to use organized crime to mean any kind of crime which is in any way organized is not a helpful concept. I think one has to be more precise and have concepts of perpetuity, historical association and that sort of thing.

COMMISSIONER ROWAN: I have been led to believe that some of the American Indian reservations are looking toward legalized gambling, Bingo particularly, for resolution of some of their economic problems which we have not been able to solve. And I have also been led to believe that organized crime has reached out to instruct some of the people on the reservation in the ways of handling this. Is that true, and what policy has the Department developed to focus

on that area, if are able to focus on that area at all?

MR. DeFEO: Of my personal knowledge I am unable to other than to analogize by other examples in which it is almost inevitable -- Bingo games in many cities when they are first permitted and things of that nature -- that organized crime are the professional gamblers who know how to run those kind of organizations. When one starts a business organization, one almost inevitably gets a consultant or an experienced person and there is no one else to turn to.

COMMISSIONER ROWAN: What is the government's response, or are their reservations sacrosanct and out of the reach of the Justice Department?

MR. DeFEO: No, no. The reservations are obviously within the ambit of federal jurisdiction. There is a number of different responsibilities. Interior Department has a substantial responsibility; within the Department of Justice there is another section of the Department besides the Organized Crime Section which has responsibility for gambling on Indian reservations, and I would have to say things are in a state of flux would be my most honest answer.

COMMISSIONER ROWAN: Thanks.

COMMISSIONER MILLER: Is there any evidence

that the arrangements as described in the Chicago area, with street tax and control of bookmakers, has been transported by the Chicago Mob to other urban areas in this country?

MR. DeFEO: There is a case in prosecution in Los Angeles which proceeds upon exactly the same theory. There have been several prosecutions in Los Angeles involving that same kind of activity. It is by no means unheard of in other areas. I think in Las Vegas it also is a common practice. So I think that that is probably an area of organized crime which has always existed. I think organized crime in its essence is an extortionate type of activity, and the most likely victims of that extortion are professional criminals who cannot complain to the authorities. So I think it is probably an area that has always existed and which we are only now, because of our increasing intelligence capabilities with FBI electronic surveillance, we are only now learning about it and beginning to appreciate its commonality.

COMMISSIONER MILLER: Thank you.

CHAIRMAN KAUFMAN: I want to say to you, Mr. DeFEO, that the Commission is grateful to you for your testimony. But, in addition, I understand from

Commissioner McBride that you have been in the Department of Justice for about a quarter of a century.

MR. DeFEO: Very close, your Honor.

CHAIRMAN KAUFMAN: And you have survived all the pulls and tugs of that Department, which I think entitles you to a medal all by itself. Your knowledge of this subject undoubtedly is vast. I spent a few years, as you know, in the U.S. Attorney's Office and also as a Special Assistant to Justice Tom Clark, so I have an empathy for you. I congratulate you upon your service for the public and the Department and the Commission. Thanks.

MR. DeFEO: Thank you very much, your Honor.

CHAIRMAN KAUFMAN: We will stand in recess until 9:30 tomorrow morning.

(An adjournment was taken to Tuesday, June 25, 1985, at 9:30 a.m.)

WC

**ORIGINAL**

PRESIDENT'S COMMISSION ON ORGANIZED CRIME

GAMBLING HEARING

New York, N. Y.  
Tuesday, June 25, 1985

The hearing in the above-entitled matter  
resumed at 9:40 a.m.

BEFORE:

Irving R. Kaufman, Chairman

MEMBERS OF THE COMMISSION:

Jesse A. Brewer, Jr.  
Justin J. Dintino  
William J. Guste, Jr.  
Judith Richards Hope  
Philip R. Manuel  
Thomas McBride  
Edwin L. Miller, Jr.  
Barbara Ann Rowan  
Frances A. Sclafani  
Phyllis Teresa Wunsche

CHAIRMAN KAUFMAN: The second day of hearings in New York by the President's Commission on Organized Crime will come to order.

The evidence presented yesterday described the current status of illegal gambling in the United States. Today's testimony will focus upon two major topics.

One principal area of inquiry at today's hearing will be organized crime's involvement in fixing college and professional sporting events. Organized crime's influence is not limited to college athletics, and we will examine criminal involvement in boxing and other sports. Our examination of the college problem in particular must take place in the context of recent attempts by the NCAA to curb what are perceived as widespread abuses within the college athletic system.

We must be particularly concerned about a supposedly amateur system of athletics designed to instill leadership in young men and women, but which induces a few athletes to accept relatively small bribes in exchange for cheating. We will examine how bookmakers and their associates are able to purchase the honor and integrity of college athletes for a relative pittance, and then personally reap large

profits from the arrangement.

We will also examine ways in which organized crime is able to profit from legalized gambling in Atlantic City. Casinos are attractive sources of revenue for state governments. Although legal casinos in New Jersey and Nevada are for the most part legitimate businesses, it must be recognized that the amount of money generated by legalized gambling, and the movement of millions of dollars in cash in small denominations through the casinos, are irresistible attractions for organized crime.

Before turning to that testimony, we will hear first from two distinguished law enforcement officials experienced with the problems of gambling. It is no secret that in recent years federal authorities have not made gambling enforcement a priority and state and local police forces have had significant responsibilities in this regard. The Commission is therefore pleased to have the opportunity to hear the views of Chief Daryl Gates of the Los Angeles Police Department, and Superintendent Clinton Pagano of the New Jersey State Police.

MR. HUNTERTON: Chief Gates, would you give us your statement first, please.

STATEMENT OF DARYL GATES, CHIEF,  
LOS ANGELES POLICE DEPARTMENT

MR. GATES: Yes. First of all, I want to thank the Commission for the opportunity to appear here today, and also to thank each of you for your diligence in this work that in my judgment is extremely important to the health of this nation.

Fortunately, I don't come here with a great deal of information, because in Los Angeles and in the Southern California area we are relatively free of major problems in the area of organized crime in gambling. That doesn't mean we don't have them, we do, but we feel very fortunate in that we do not have, as I mentioned to my colleague, some of the institutionalized problems that you find in the Middle West and on the East Coast.

Gambling in the Los Angeles area really was absolutely no problem at all except for disorganized bookmakers and also those dealing in sports gambling until about 1972. In 1972 there began a series of court decisions and efforts by the legislature and also work by our people in voting in some legal gambling in the Los Angeles area.

We had in 1977 a little thing called Bingo.

Before that time we had a constitutional amendment that prohibited lotteries in the State of California, and the citizens decided that charitable Bingo would be a good thing, and they voted that in. Almost immediately we had organized crime attempting to move in on Bingo. They purchased the Hollywood Palladium. That effort was uncovered very quickly and that was stopped at the outset. It, I think, gives you an idea that organized crime is ready, willing and capable of moving in no matter what the situation.

As you know, we have had in the Los Angeles area, in California, poker parlors that have existed for a long period of time. Those poker parlors have expanded in the most recent past. There has been an introduction not only of different games, Panquine was found to be acceptable, and also in the very recent past a game called Pai-gow or Pie-gue, which is a very popular game with Asians. And that has moved into our California card clubs in the recent past. That is a problem because, one, it is a game that is played illegally to a large extent and now has become legal through an effort in the court of getting a temporary restraining order against law enforcement to do anything about it. And then, of course, last year we legalized

lottery, so that in California we now have a legalized lottery, which is not up and operating as yet. We have always had our racetracks, which are few and far between, and our card clubs. That is the legal side of it.

The illegal side: As I mentioned, bookmaking organizations that for the most part have been independent, that is, they are small organizations, but there has been a constant effort to organize our bookmaking operations. Beginning in 1980, we received information that organized crime, principally from the Chicago area, was attempting to move in and organize what we call our independent bookmakers. That proved to be unsuccessful due to the arrest of a John DiMattia for bookmaking, and that stalled the effort. He was subsequently arrested for extortion and for forgery.

We continued to have efforts to move in to organize our bookmakers, and last year we had an operation called "Operation Lightweight." We titled it "Operation Lightweight" because it was an effort by what we considered to be very lightweight organized crime to move in. Our intelligence operation and our administrative vice operation stopped that effort almost immediately. We arrested twenty suspects, most of whom are leaders in the organized crime field in the Southern

California area. Twelve of those individuals were finally filed on for bookmaking. The others were not filed on.

One of the problems we find in the State of California in attempting to deal with organizations such as these that attempt to move in on the bookmaking operations is that, while we can, through surveillance and through our gathering of basic intelligence information, our knowledge of those hoodlums who are operating in the Los Angeles area, we can pretty well determine the direction that they are moving in, but we have little opportunity to really make cases that will stick, that go to the heart of the organizing activity.

The reason for that is that in California we do not have, as my colleague has, the ability to wiretap. We have a bill pending in the legislature, but that, in my judgment, is a serious limitation on law enforcement in California, and it has only been through very aggressive efforts by all of law enforcement in Southern California that has kept organized crime out.

I think we are really wide open for organized crime to step in, and I think it is going to happen if we do not get the tools to do something about it. And wiretapping is right at the top of the list to

do something about it.

Just a couple of observations. I mentioned we have card clubs in the Southern California area, none in the city of Los Angeles. Two opened recently, during the 1980s, one in the City of Commerce, which is a very small city, another in the city of Bell. While card clubs are legal, I think the experience that these two card clubs had in these two cities had indicated that even though gambling is legal and even though that legality stamp is placed on it, I think it shows that gambling can create the kind of corruption that really is disturbing to healthy communities.

In both these instances, in the City of Commerce, and in the city of Bell, in opening their legal card clubs, it was determined that public officials, the mayor and city council in one case and the mayor and another city councilman and another city official in the other case, took bribes in order to allow individuals to come in and open those legal gambling places. These public officials have been prosecuted by the federal government, after extensive investigation by local law enforcement and the federal government, and that has been stopped. But I think it indicates the corrupting influence gambling can have

even though it is legal.

One last observation, and that is: As I mentioned before, we do have lottery in the State of California, and I know that lottery has been legalized in other states. In California I think you have a unique situation. We have 26 million people. We are a state that has bordered on Nevada for a long period of time. Many of our people, hungry for gambling, have gone to the Las Vegas area, have found that as an outlet. But I think we have a unique situation in California where a lot of people believe that this is an opportunity to kill the golden goose, and we have a lot of people who are waiting to gamble. I think it is going to present some very, very serious social problems in the state -- a state that has not solved many of its social problems to date. But that is what the people want; that is what they are going to get. I think what it means for all of us in law enforcement in the State of California is that the State of California is going to become the shill, the state is going to become, unfortunately, the mechanism that is going to create a desire among people to gamble, and people do not always gamble in the legal system, within the legal system. I think you are going to find there is going

to be a proliferation of bookmaking, there is going to be a proliferation of gambling of all types that are illegal, and I think it is going to cause law enforcement to face up to a very serious problem, with the potential, as I mentioned before, of organized crime sitting back waiting to move in and organize our independent operators.

Once again, I think that one of our clear needs in the State of California is wiretapping. We are hopeful that we can encourage the legislature to give law enforcement that authority, court approved of course, with very, very careful guidelines, and I hope that this Commission will make that recommendation, or at least support the need for wiretapping in the states of the United States.

The federal government is most helpful. They have not been very helpful in the area of gambling in the recent past. They have put that on a very low priority. While that has not hurt us in terms of our ability to make arrests and to deal with some of the major bookmakers, major gamblers, it has hurt us from the standpoint of developing the intelligence that we need to look at the organized crime structure, simply because we do not have wiretapping and the federal

government has had that ability in the past, it has given us that assistance.

With that, I will turn it over to my colleague.

MR. HUNTERTON: Thank you, Chief.

STATEMENT OF CLINTON PAGANO,  
SUPERINTENDENT, NEW JERSEY STATE POLICE

MR. PAGANO: I would like to thank you also for the opportunity to appear before you this morning, because I think the issues that you are discussing are important to me and to the persons we serve.

Gambling is certainly wise to investigate, given the proliferation described by Daryl, the proliferation of legal gambling throughout the United States, and certainly the illegal gambling we have known for centuries.

If you were to read through the President's Commission Report on Gambling, those volumes probably only gave me one lead-in that was significant, and that is that gambling begets gambling. I think this hypothesis can be proved in a hundred different ways.

In New Jersey we have Bingo, Daryl, we have legalized horse-betting, we have a state lottery, and we have casino gambling, making New Jersey one of the most wagering states in the nation.

I served in the New Jersey State Police before these various forms of gambling were made legal, and for the past decade I have witnessed the legalization of lottery and casinos as the Superintendent of State Police. As such, I feel confident that I can provide this Commission with a historical contrast of the effects of legalized gambling on illegal gambling, and the impact of law enforcement policy and practices on both legal and illegal gambling.

First, I would like to dispel the myth, the ever-popular myth, that legalizing gambling dries up sources of revenue for organized crime. We in New Jersey law enforcement have found that despite the legalization of state lottery, we continue to make a substantial number of lottery arrests, illegal lottery arrests. For example, between 1975 and 1984, state and local law enforcement authorities were responsible for making 4,137 numbers and lottery arrests, or 35 percent of the total number of gambling arrests that we have made were lottery arrests. Recognizing that such enforcement only represents the tip of the iceberg -- that is, it's only indicative of law enforcement activity and not the actual incidence of lottery -- it

has become evident to us that the legal lottery has not dried up illegal lotteries. The reasons for this are numerous, but I would suggest that easy availability of credit, the odds which are substantially better in the illegal lottery, and the avoidance of taxes all contribute to the existence of an illegal lottery. In New Jersey this year alone, the state lottery netted \$395 million from the legal lottery -- that is almost twice that acquired in casino gambling, which accounted for \$193 million, net, in tax to the state.

Again, if we examine casino gambling we find that illegal casinos -- illegal casinos -- are being run by organized crime in the northern section of the state and here in New York. In one case not too long ago, we arrested the leadership of the notorious Campisi Crime Family for running an illegal casino. Moreover, we have found a substantial increase in illegal sports bookmaking in Atlantic City, involving members of organized crime families from Pennsylvania and New York and Massachusetts. These people have actually gone to Atlantic City and conducted their illegal sports bookmaking operations in and around the casinos. This again suggests that legal gambling begets illegal gambling.

Our experience indicates that what often occurs when gambling is legalized is that a new clientele emerges, some of whom ultimately partake in illegal gambling. Thus, we in New Jersey have found that illegal gambling often benefits from legal gambling.

Secondly, we found that "sports bookmaking" is by far the most lucrative form of illegal gambling in our state. Between 1975 and 1984, state and local law enforcement made 1,679 bookmaking arrests, or 15 percent of all gambling arrests. It is clear from the numerous wiretaps -- and Daryl has mentioned electronic surveillance. We in New Jersey -- and I point to our state in some respects in a sense of pride -- have had a problem; we have recognized the problem. Not only do we have electronic surveillance to work with; we have compelled testimony, we have a statewide grand jury, we have a system that places one individual, an Attorney General, a nonelected, appointive type, directly and squarely in control of the entire law enforcement community. We have a state Commission of Investigation to pick up the pieces where the system drops off. And within the law enforcement community we have sophisticated intelligence-gathering capabilities that permit us to properly orient the enforcement load that

that we have.

CHAIRMAN KAUFMAN: On that point I wonder if you would brook an interference. We have been reading in the newspapers lately about the conflict that exists between the State Attorney General and the Commission.

MR. PAGANO: That is the Casino Gaming Commission.

CHAIRMAN KAUFMAN: Right.

MR. PAGANO: And I have yet to see an attorney, prosecutor, judge, who from time to time hasn't had a problem with the court. In New Jersey, as far as the Commission is concerned, they are in fact our court. But I don't know of any great difficulties that would reflect on the integrity of either. In fact, to the contrary, Judge, those differences of opinion will ultimately be settled by higher courts, sir.

CHAIRMAN KAUFMAN: Very well.

MR. PAGANO: And I think that you have got to look at the system before you reach a final conclusion, sir, because I from my own experience know that there is a good relationship between our Attorney General and the Commission. The Commission has a much broader mandate in the area of the casinos.

It is clear from the numerous wiretaps that

we have initiated that sports bookmaking remains a primary source of revenue for organized crime, second only to narcotics. The Mob is still involved in gambling, and legalized gambling has not driven them out.

Third, and perhaps most important, we have found that traditional elements of organized crime remain involved in gambling. Contrary to what has been found in other areas of the country, we in New Jersey law enforcement can and have demonstrated the invidious presence and in some cases violent control by organized crime elements of illegal gambling. This is not to say that the Mob has a lock on illegal gambling, for we find nontraditional criminal networks in these illegal gambling operations. Nonetheless, our electronic surveillances have proven that the Mob has not withdrawn from illegal gambling and remains primarily involved in sports bookmaking.

This is all the more reason for law enforcement to consider an aggressive posture toward illegal gambling -- a policy that has all but disappeared in most jurisdictions because it is seen as a victimless crime.

In New Jersey we have continued to maintain

an enforcement vigilance of the gambling laws despite the fact that we have legalized most games of chance. While it has been argued that such enforcement is hypocritical, we believe that it is a necessary ingredient in an effective organized crime control effort.

During the past four years, the New Jersey State Police have conducted thirty-four electronic surveillances of gambling operations, and we have found the great majority of these wires involved traditional organized crime syndicates. Through the enforcement of our gambling laws we are able to gain an entree into organized crime syndicates that heretofore were untouchable. Oftentimes we uncover a wide range of other syndicated crimes through this enforcement technique, which again justifies our continued policy toward gambling.

Lastly, I would like to comment upon the unintended consequences of what I will call a liberal law enforcement policy, for want of a better term.

We often hear that gambling is a victimless crime and consequently does not warrant a commitment of limited law enforcement resources. Moreover, we are often criticized for making gambling a high priority,

which has resulted in New Jersey leading the nation in electronic surveillances. Both points deserve some further clarification.

While a case can certainly be made for reallocating our limited law enforcement resources to "victim-type" or "index crime," such a policy decision would only allow this market -- gambling -- to operate void of any government control. I use the word "control" for that is what we in New Jersey do: we control the gambling market as best we can, and organized crime's attempts to dominate this market. Absent our presence, this market would be left to the more powerful crime syndicates to organize, eliminating any and all competition. We do not make any claim, no claim whatsoever, to eliminating illegal gambling. Such a claim would be ridiculous and such a task inevitably would be a failure. What we do argue is that through a proactive and well-focused intelligence program, we are able to selectively allocate our limited law enforcement resources toward those criminal networks seeking to acquire a monopoly on illegal gambling. It is the control of such monopolies that we in New Jersey seek to inhibit and substantially reduce, not illegal gambling. If we are able, of course, to reduce illegal

gambling in the process, so be it. We have learned through years of experience that the absence of a viable gambling enforcement program inevitably leads to the organization of this market by powerful organized crime interests.

I would like to point out, too, that there has been a trend in New Jersey over the past several years for our New Jersey bookmaking types, sports bookmaking especially, to retreat in their operational pursuits to both New York and to Philadelphia. They are New Jersey operations being conducted outside the jurisdiction of New Jersey authorities.

With respect to gambling remaining a high priority and as a result giving New Jersey the highest number of electronic surveillances in the nation, I would argue that without electronic surveillance we would be terribly ineffective in maintaining an assertive vigilance of organized crime. We are extremely selective in our electronic surveillances, ensuring that the targets are worthy of our investigative efforts. To obtain an electronic surveillance in the New Jersey State Police, we mandate a careful and deliberate review, we mandate an analysis of each and every request, this to avoid the

indiscriminate or uncontrolled use of this very valuable law enforcement tool.

Prior to our electronic surveillance law, we were unable to reach beyond the visible manifestation of a gambling operation. We got the street guy. We were not getting up the ladder to the people actually controlling the operations. We hit the policy runner or the bookmaker. With electronic surveillance, we often reach into the hierarchy of the network, and if we are patient, innovative and diligent, we are able to identify, arrest and prosecute those who control the gambling network.

We in state law enforcement would be remiss if we were to rely solely on the federal authorities to investigate gambling, but I would want to point out that in New Jersey, when we seek particular target individuals, our cooperation with the FBI and other federal agencies is excellent. Their priorities and resources certainly differ from ours. I personally believe that absent such a policy of aggressive gambling enforcement on a state and city level, organized crime will ultimately control who is permitted to operate and who is not -- in other words, an organized crime monopoly will have evolved.

In New Jersey we are fortunate to have electronic surveillance and we have carefully circumscribed our enforcement policies to ensure that this tool is not abused. I can say confidently that since the law has been enacted, we have been able to initiate some of the most potentially disabling criminal investigations of organized crime and we have never overextended the use of our authority.

In closing, I would strongly urge this Commission to develop a policy statement with respect to defining the role of organized crime in gambling, both legal and illegal; elevate gambling enforcement to the priority it rightfully deserves; develop an understanding among public officials that clearly delineates the consequences of legalized gambling as an answer to eliminating organized crime, because it does not; and recommend that electronic surveillance is a necessary tool in this war against organized crime. I realize this task may be more difficult than it sounds, but without it, gambling enforcement will be relegated to a low priority and organized crime will ultimately be the benefactor.

I thank you and I welcome any question you may have.

CHAIRMAN KAUFMAN: Thank you, Superintendent Pagano. It is a very fine statement. And thank you, Chief Gates.

I would like to ask just one or two questions. I imagine this is addressed to Mr. Pagano.

No. 1, why do you suppose that the bookmakers, et cetera, are retreating to New York and Philadelphia?

MR. PAGANO: Because there is less of a priority in those areas so far as the issue of gambling is concerned. The prosecution is lighter. The sentences are lighter. We have a sympathetic court and we have an aggressive Attorney General, who realizes the problem and he gives us what we need as best he can to do the job. So they go to other states. They go there to elude law enforcement.

CHAIRMAN KAUFMAN: How extensive would you say that is?

MR. PAGANO: I'd say that we probably first began seeing it six or seven years ago, and it has grown steadily since. We know, because of the intelligence-gathering capabilities that we have, who these people are, and rarely is there not some notice to New York that our surveillance teams are in their

city solely for the purpose of taking these gamblers from their operations back to New Jersey, back and forth. And we have had a lot of cooperation with the public morals people here in New York City.

CHAIRMAN KAUFMAN: My last question, and either of you two gentlemen can answer this one:

Over the years you have observed that the press and others have cried out for legalizing crimes that can't be enforced. We saw it with respect to marijuana, we hear it now with respect to gambling. Is it your view, do I understand, that legalizing gambling will not diminish the influence of organized crime in those areas?

MR. GATES: I will answer that, Judge, for the California area. We are just beginning in the area of legalized lottery, and I suspect that we are eventually going to be, like New Jersey, I think we will have casino gambling and I think we will have racetrack betting in various locations throughout California. And clearly, as I mentioned before, the state becomes a shill not only in producing more revenue and more people to become involved in legalized gambling, but more people that become involved in gambling, and therefore illegal gambling proliferates.

And when illegal gambling proliferates, you will see organized crime attempting to take over, because there are enormous profits.

So I think what you have is unfortunately the state being the vehicle to cause organized crime to see the value of stepping in.

CHAIRMAN KAUFMAN: So that I understand you to say you do not favor legalized gambling or, at the very most, you prefer a minimization of legalized gambling if it has to be legalized.

MR. GATES: I think we haven't controlled most of our social problems. It is rather foolish to start another one.

MR. PAGANO: You want my position, sir?

CHAIRMAN KAUFMAN: Yes.

MR. PAGANO: I think that free speech is one of our most precious gifts in this country, so any newspaperman who suggests that legalizing gambling or legalizing marijuana will in fact cure the ill is exercising that right of free speech, his First Amendment privilege. But I don't agree. In fact, I disagree heartily, and I think that should be the thrust of my statement.

As a law enforcement type, I have to be

attentive to the will of the voter who ultimately is the one who sets policy in issues of this type. When 26 million people travel in and out of Atlantic City, there must be a good focus of citizen support for gambling. What I say is, we have got to look at it realistically.

I think in New Jersey, as our governor has already pointed out, we have got to look carefully at further proliferation of gambling, legalized gambling. And we have a Commission currently looking at what the state policy ought to be.

The Commission, and therein lies the second half of the gambling control scheme in New Jersey, has a mandate in the statute to look to determine what the saturation point is, and to take a position as to whether they should or should not see the proliferation. But legalized gambling really, in my view, only provides a much more lucrative market for the illegal gambler.

CHAIRMAN KAUFMAN: Wouldn't you say that that is more the obligation and duty of your state commission that regulates gambling?

MR. PAGANO: To what, sir?

CHAIRMAN KAUFMAN: You were talking about

this Commission examining into the question of proliferation of organized gambling in your state.

MR. PAGANO: All right. The state Commission only deals with casino gambling. It is the Casino Gaming Commission. So the governor's commission looks at the overall --

CHAIRMAN KAUFMAN: Let's talk about that for a moment, whichever commission it is, whether it is the governor's, you feel that they should reexamine whether they have reached the saturation point in legalization of casino gambling.

MR. PAGANO: I think the state should be taking a very close look at what is being done in the legal gambling business. And it is not my role to identify the societal impacts of gambling. I am an enforcement officer. And if I go too far afield, I will stub my toe. But I think there is a need, and that need has been recognized by our governor and legislature, to look at what the societal impact of gambling is.

CHAIRMAN KAUFMAN: Thank you. Fair enough. Any other questions?

COMMISSIONER ROWAN: Chief Gates, first: You described to us two things which you mentioned this

morning. In Bell and in Commerce, public officials were bribed. Now, that was a situation where there was presumably a method by which applications were made for people to come in and conduct legal gambling.

I want you to describe what caused the payoffs to have to be made.

Second -- just let me ask it and then you can go ahead -- in connection with Bally Corporation, what efforts did they make that we can hear about to influence the California legislature, et cetera, to have the lottery?

MR. GATES: Well, first of all, on the card clubs, one in Commerce and the other in Bell, both involved corruption, political corruption, and that in itself is unique in California. We have had very, very little corruption. But here were two small cities that decided that they wanted to put in their cities for purposes of getting more revenue a card club. In order to put those card clubs into their communities, individuals came in and bribed city officials in order to take over those card clubs, to be granted a license to run the card clubs. In one case, in the city of Commerce, it was an individual that was involved in Las Vegas gambling. Also, it tied it to another individual

who is being investigated by the federal government for widespread corruption throughout the State of California.

COMMISSIONER ROWAN: These are people, then, who would not have gotten the license had they followed the normal procedures, they would have been excluded?

MR. GATES: That is correct. In the case of the fellow from Las Vegas, a fellow by the name of Sansoni, the Commerce officials had been warned that he had organized crime connections. They disregarded that because they were all in league together in order to issue the license.

The Bell card-club situation, basically the same situation where people in government took points in the club secretly, and for that they issued permission for the license, for the club.

As far as Bally Corporation and Scientific Games, as I think all of you know, Scientific Games is a subsidiary of Bally. Scientific Games financed, almost totally financed the Citizens for Better Education, which was the name used by the group supporting legalized lottery in the State of California. I think it is interesting, and I think much has been said about it, that here we have Bally Corporation that

has had ties to organized crime. They have indicated they have cleaned themselves up. And I understand that New Jersey, who does a very, very good job of looking into these organizations, has given them a clean slate. But they, through a group subsidiary, Scientific Games, are the leading lobbyist and the leading promoter for legalized lottery in the State of California, and financed almost all of it, wrote the law. And part of that was to provide the pull-tabs and the other paraphernalia for the lottery, and as you know they have just been awarded a large contract to do just that.

COMMISSIONER ROWAN: It is the monopoly power that we are concerned about.

MR. GATES: Well, when you are the only one in the business who really has the ability to supply, you can almost say it is a monopoly, yes.

COMMISSIONER ROWAN: Superintendent Pagano, this is not a question. I just want to thank you for letting Justin Dintino share his talent and sense and wisdom with us. He has been an extremely valuable part of this Commission. I thank you for that.

CHAIRMAN KAUFMAN: She described that exactly, just the way the Commission wished.

COMMISSIONER ROWAN: The way the Commission

wrote it out for me. (Laughter)

CHAIRMAN KAUFMAN: I understand Commissioner Brewer wants to ask a question.

COMMISSIONER BREWER: Colonel Pagano, you have spoken about the vital role that wiretapping plays in your enforcement efforts. What would happen if you suddenly lost that enforcement tool tomorrow?

MR. PAGANO: We'd be geldings.

COMMISSIONER BREWER: Could you elaborate on that?

MR. PAGANO: No. Let me put it this way: I grew up during World War II, before I went out to serve my country, so to speak, in Cliffside Park. I worked for the mayor of that town, after school, in his garage. The New York bookmakers came in in the morning, when Bell Tel moved out, and when Bell Tel trucks came back at night, the bookmakers went home to New York. They controlled everything in that town down to and including who got a parking summons. And when you speak in terms of what this Commission is about and when we speak in terms of undermining government, there is only room in a free society for one government to control. And if we don't have the tools that are necessary, with the tremendous sums of money that are

involved in this kind of activity, that go, in the main, if you don't control it, to corrupt legitimate government, then we have got a problem that is probably the problem best described in the Time-Life articles in 1967 which showed New Jersey to be one hell of a terrible place to try and control anything.

We needed electronic surveillance. We came into the electronic surveillance and the other areas of law enforcement toolmaking, so to speak, after a tremendous embarrassment to the legislature of our state. When we first went into electronic surveillance, it was common to hear a bookmaker or an organized crime type talk about specific contacts that he had in government: mayors, councilmen, legislators. We don't hear that any more. And I think that we have come a long, long way.

We don't have a situation where there is no corruption, obviously. As long as men are men, and, I guess, women are women, too, and there is gain to be gotten, there will be some form of corruption. But we have impacted it, and we have impacted it because we have the capacity to expose it and prosecute it. If electronic surveillance were to be taken away -- and we face a renewal every five years -- and if it was abused,

we would probably see it disappear; but if it were taken away, we would not be as effective as what I think we are.

COMMISSIONER BREWER: Thank you.

COMMISSIONER MILLER: This is a question for both of you.

CHAIRMAN KAUFMAN: The District Attorney of San Diego County.

COMMISSIONER MILLER: What has been your experience with the telephone company in investigating gambling cases, and what recommendations would you have to improve the regulatory scheme, especially in view of the modern changes in technology in the communications area?

MR. GATES: Well, clearly we need the help of the telephone companies and we have had the help of the telephone companies up until the recent past when in California, as you know, a court decision rendered the information we were receiving on unlisted telephone numbers and message units -- a search warrant to be required for that. That really doesn't make much sense as far as I am concerned, and I think that that would be another benefit from this Commission, if that would be clearly pointed out, how unnecessary that is and how

unnecessary it is for securing a search warrant in each one of these cases. It is almost an impossibility when you are trying to trace down a gambling operation.

So a recommendation indicating that that ought to be a requirement of a public utility, the telephone company, to provide law enforcement that information, would be most helpful.

COMMISSIONER GUSTE: We have been trying for years -- Ed, did you finish?

COMMISSIONER MILLER: I think Mr. Pagano wanted to answer the question, also.

MR. PAGANO: Our experience has been excellent. At the outset we had a relationship with the companies that had to be formalized. There had to be a good deal of recordskeeping and systems put into place. And they were. They are compatible with either the statewide grand jury system or electronic surveillance. We have, to my recollection, had no defaults on the part of any employee of the company in revealing our locations. We do have and we are currently facing up to technological problems, because the bookmaker has access to high-tech as well as any other consumer, and they do develop telephone systems where the dials count faster than our counters. And we

have had to seek assistance from the legislature in getting the funding necessary to improve our technology. We have had an excellent relationship with the companies.

MR. GATES: If I could just add to that, because I think it is so important. When you compare California with no electronic surveillance ability to deal with the telephone companies, to New Jersey that can, I think that is something for this Commission to really look at.

COMMISSIONER GUSTE: We have been trying for years in Louisiana to get a wiretap law, and it has been unsuccessful. However, I think this year it is going to fly because the legislature is now in session and it has had the support of the Governor as well as the Superintendent of Police and the District Attorneys Association and the Attorney General. I think it will go.

But my question is: What restrictions do you have on the use of wiretap?--because that is what the general public fears: that everybody can be tapping in on everybody else. What approvals do you have to get in order to put it into effect?

MR. PAGANO: Mr. Guste, I think that is an

excellent question, because again probably our greatest prize in life in this nation is our freedom, and we have got to do everything to preserve those freedoms. And we should not be eavesdropping on each other.

So, to begin with, we have four levels of approval within my division alone, before it goes to the Division of Criminal Justice, where there are at least two more attorney reviews of any application. Those reviews deal with not only the technological problems, they deal with priorities within the division, they deal with the goal of that particular surveillance, they deal certainly with what we are doing with our resources. They deal, when you get to the level of the Division of Criminal Justice, with the legal underpinning of the probable cause necessary.

It ultimately goes to the Attorney General personally, and he reviews each and every one of these, and he questions me, he questions Justin, he questions the Director of the Division of Criminal Justice. And we have got to justify that particular surveillance. They are not willy-nilly granted.

From there, they go to a Superior Court judge, and there are only certain Superior Court judges that have been designated by the Chief Justice to hear

or to rule on any application for electronic surveillance.

So those levels of review certainly are sufficient to assure that electronic surveillance is not improperly used.

We have had a minimum number of cases in New Jersey, because the New Jersey State Police investigate all reports of improper electronic surveillance. We have had a very few number of those kinds of cases, and to the best of my knowledge we have none by law enforcement.

Were you to read today's paper, I would have to admit to you that we are looking, but I won't comment on the case, at one particular case that has been reported to us where there was an internal abuse possibly of electronic surveillance. But it did not go beyond, as far as I know, the Police Department into some citizen's home.

COMMISSIONER GUSTE: So what you are telling me, I think, is that you need the approval of a Superior Court judge plus the State Attorney General.

MR. PAGANO: They need a very structured review within the division, our own state police division, on into an attorney-prosecutor relationship

on to the Attorney General, on to designated Superior Court judges.

CHAIRMAN KAUFMAN: We can move on unless --

COMMISSIONER MANUEL: Chief Gates, I would like to ask you this question. I take it from your statement that as far as the Los Angeles Police Department is concerned, organized crime is defined in terms of La Cosa Nostra or Italian crime families, is that correct?

MR. GATES: That is not the only organized crime we have. When we are talking about organized crime, that is the traditional organized crime that we have had. But, as this Commission knows, we have gone far beyond that in terms of those people who have organized for purposes of crime.

COMMISSIONER MANUEL: I was interested in pursuing your statement that because traditional organized crime is not strong in Los Angeles, there is, if I am interpreting your statement correctly, not a large organized crime problem in that city.

MR. GATES: I was really referring to the LCN specifically. It has not been a very strong organization. One of the reasons we titled our operation on the bookmaking organization "Operation

Lightweight" was for that very specific purpose, and also to, if you will, impugn the strength of organized crime in California. We think that is important, to let them know that we don't think much of them in terms of their strength. And they really have not had that.

Now, we have had constant attempts by the Chicago to move in to the Southern California. It is a very lucrative area. They are very desirous of moving in. But fortunately we have been able to keep them out.

COMMISSIONER MANUEL: Let me ask you, then: Is sports gambling a problem in Los Angeles?

MR. GATES: Oh, yes, very, very big. We have made several large-scale arrests in sports bookmaking.

COMMISSIONER MANUEL: Could you give the Commission an idea of the volume of sports gambling in Los Angeles, and how it compares with other major cities in the country?

MR. GATES: Yes. We have probably fifty independent operators that do large-scale bookmaking, sports gambling. I was just looking for the amount of organizations that we have taken off in the recent past. It seems to me about \$12 million a year -- \$12 million in bets annually. That was a group we took in 1982.

COMMISSIONER MANUEL: That was just one of the groups.

MR. GATES: One that was taking \$2 million per week, total handle was \$2 million weekly, also 1982, that we took off. That is the --

COMMISSIONER MANUEL: Would you say that the volume of sports betting in Los Angeles compares approximately to that which is going on in Chicago or New York or any other major city?

MR. GATES: I would think, in terms of -- yes, I would think so, although I don't think the organizations are as large and therefore the total handle of the organization is not as large.

COMMISSIONER MANUEL: But there is no control --

MR. GATES: But the bettors and the desire, it is there, and it is just simply not quite the ability to connect up with the bookmakers, sports bookmaker.

COMMISSIONER MANUEL: So you have the criminal activity in Los Angeles but you don't have the control by the traditional organized crime groups, is that correct?

MR. GATES: That is correct.

COMMISSIONER MANUEL: To the best of your ability to determine it without electronic surveillance, which you do not have in California, can you tell us who controls, if anybody, the sports betting in Los Angeles?

MR. GATES: We don't have anyone controlling it. The last group that was attempting was under -- the effort to move in was under Peter John Milano. That was the last effort --

COMMISSIONER MANUEL: No, I am not talking about LCN people. I am talking about are there non-LCN people who control sports gambling in Los Angeles?

MR. GATES: All independent operators, all independent operators.

COMMISSIONER MANUEL: Not under any control, not paying tribute to anybody.

MR. GATES: No. As far as we can tell, and we are pretty certain that is true.

CHAIRMAN KAUFMAN: Thank you. We do have to get on.

COMMISSIONER DINTINO: Just one question.

Superintendent Pagano, in your statement you talked about that the legal gambling increases illegal gambling. If, say, in the case of the lottery, that

the state paid more than the illegal lottery, if the state did not take any taxes, if the state gave credit, in your opinion do you think that would reduce illegal lottery?

MR. PAGANO: Justin, you pose a hypothesis that we have not before discussed. However, I don't think that the state ever would be in a position to do those things, first. But, secondly, I think the experience that we have had is that there is no diminution of activity if you make the gambling scheme easier. In fact, what you do is just encourage more gambling. And therein lies the question: What is the societal impact? I don't think it would make a difference.

CHAIRMAN KAUFMAN: We are very grateful to you two gentlemen. You have been very articulate, very helpful, very candid. I think we are very fortunate to have the benefit of your testimony. With that, as far as the Commission is concerned, you are excused. Mr. Pagano, if you want to say something to Justin because of that last question, you --

MR. PAGANO: I will settle his hash when he gets back to New Jersey. (Laughter)

CHAIRMAN KAUFMAN: Thank you very much.

(The witnesses were excused.)

MR. HUNTERTON: Would Ronald Chance come forward, please.

Mr. Chairman, as the next witness comes forward to be sworn, I would like to note that we are going to shift gears here slightly and focus on a follow-up of some of the labor racketeering related work which we began with the hearings in Chicago. Through the testimony of Mr. Chance and a panel of witnesses which will follow him, we are going to look at the potential for an illicit triangular relationship among the LCN, labor unions, and casino infiltration. Would the marshal please swear the witness.

RONALD C. CHANCE

was called as a witness and, having been first duly sworn, was examined and testified as follows:

MR. HUNTERTON: Mr. Chairman, Ronald C. Chance is the supervisor of the Camden and Pomona, New Jersey, Offices of the United States Department of Labor, Office of Labor Racketeering, and the supervisor of the Labor Department Agents assigned to the Camden Field Office for the Justice Department's Organized Crime Strike Force.

He is intimately familiar with the history,

structure, and LCN ties of Local 54, Hotel Workers Union. Mr. Chance has prepared a statement, which has been submitted for the record, and I would ask Special Agent Chance to summarize that now.

MR. CHANCE: First, I want to thank the Chairman and the Commission for giving me this opportunity to appear here today. I am very honored to have this opportunity. I want to also advise you that the information that is contained in my statement is information that was obtained through interviews that I have done and other law enforcement people I work with have done, from court testimony, and from both electronic and physical surveillances.

I have been in law enforcement for twenty years and have been assigned to investigate organized crime in Atlantic City since 1977.

There have been several phases of organized crime attempts to control the casino industry in New Jersey through labor unions and service industry contracts. They have ranged from securing union benefit plan contracts for organized crime associates to doing construction work on an actual casino.

Nicky Scarfo is currently the on-site power for organized crime in Atlantic City. But he holds

that position in part because former Roofers Union president John McCullough was murdered. Scarfo has used his relatives and close associates to act as fronts for him in obtaining many lucrative contracts in the concrete and re-bar construction industry. He also has significant influence over the Hotel Restaurant Workers Union, Local 54.

In the testimony of Joe Salerno, before the New Jersey Casino Control Commission, we learned that Scarfo claims to control all unions in Atlantic City. He claims to have appointed Frank Gerace and the former Treasurer, Bob Lumio, to their positions.

To truly understand the significance of the organized crime influence in unions, I have selected Local 54 as an example, because in Atlantic City Local 54 and the Mob are one and the same.

Local 54, in Atlantic City, is a classic case study in organized crime and labor racketeering. Several of the officers of this union and its predecessor unions boast convictions for murder, arson, extortion, drugs, bribes, kickbacks and racketeering. Next to the ownership of the casino itself, the control of Local 54 is the most important prize in the Atlantic City sweepstakes. Local 54 is currently comprised of

WC

all the former members of Locals 54, 491, 170 and 33. The history of corruption in this union predates the casinos, but the arrival of casino gambling signaled the start of a new quest for control of the local.

In 1978, when the casinos opened, Local 54 began to rise in stature and importance. Prior to the casino gambling, they only had about 2,500 members and most of them were employed in seasonal jobs in the hotel and restaurant industry in the seashore. The opening of each casino, though, brought between 1,500 and 2,000 new members into the local and they now have about 15,000 members.

Ralph Natale, the former president of Local 170, tried to take control of Atlantic City from Nicky Scarfo, and at that time Nicky Scarfo was just a local hood. And he was operating in a decaying resort. He was a nothing. Casino gambling made him important. He didn't have the respect of other organized crime figures then and he still doesn't today. He stepped into a vacuum, not because he was respected by his peers; just because there was no one else there. Natale was not successful in taking over because he went to prison. So John McCullough was the next person to try to take over.

McCullough was a respected man. McCullough was even loved by his own union members. He was a respected public citizen. And McCullough, even to the law enforcement people in Philadelphia and in the South Jersey area, McCullough was known as a generous and a well thought of man.

But there was another side of John McCullough that most of the people didn't know about or didn't see. He was also a friend of Angelo Bruno. He met directly with Bruno and didn't have to go through such underlings as Nicky Scarfo. McCullough was an outsider, but he had more respect than Scarfo did.

McCullough tried to take control of Local 54, but he was murdered before he succeeded. Albert Diadone, a vice president of Local 54, was convicted of that murder along with Raymond Martorano and Willard Moran.

The most interesting question is, why have so many acts of violence, murder and racketeering taken place over control of this union? Why is it such a prize that criminals will go to war with each other to control it? Why is any union such a valuable prize to organized crime? The answer is simply a matter of economics, and there are three basic reasons.

The first one is that organized crime is in business to make money, and pension plans represent the largest source of private investment available in this country. Today, unions control nearly 7,000 jointly administered plans with assets in excess of \$51 billion available for investment. Controlling that money and the manner in which it is invested naturally brings a great deal of power and influence.

A second reason is that unions are perfect vehicles for extortion. They have been exempted from the Sherman Antitrust Act and from enforcement of the Hobbs Act by court order or by court decisions, the two primary tools for prevention of economic extortion.

A third reason is that unions have political influence which can properly be used to further the goals of their membership or improperly used to enrich the criminal.

Now, if a corrupt union official usurps power through violence or rigged elections, he too assumes all the political and economic power properly accorded to an honest union official. He turns all the special protections afforded to an honest union official into a special protection for a criminal and, in particular, for organized criminals.

An example of this we can see if we take a look at Local 54. Ralph Natale did not become a union officer by election of the members. He was appointed to that position by a criminal. He then appointed other criminals to assist him. Former strong-arm man Charlie Allen testified that Natale routinely rigged elections and had Allen beat up Natale's competitors to maintain control of the union.

Frank Gerace did not get elected into Local 54's presidency. He was appointed. Gerace then appointed Robert Lumio, Frank Materios, Karlos LaSane, Eli Kirkland, Frank Lentino and Rocco Marandino, all convicted criminals, to union positions. The influential posts of the local were filled by criminals.

Also, Gerace, in his capacity as a trustee of the Severance Fund and the Health and Welfare Fund, voted to appoint Larry Smith as Administrator of the Severance Fund, as a consultant for dues management, the dental plan and computerization of union records. All of these appointments of Larry Smith occurred around the same time that Charlie Allen was testifying publicly that Smith had paid bribes to Angelo Bruno and Ralph Natale. There is no doubt that Frank Gerace was aware of these charges.

Local 54's annual dues income changed from \$269,000 in 1979 to \$1,389,000 in 1982. As Commissioner Dintino testified before the Senate Permanent Subcommittee on Investigations, the casinos also contribute about \$15 or \$16 million a year to the Health and Welfare and Pension Plans of the International. Frank Gerace is also a trustee of those funds.

The real story, though, is the illegitimate use of the political influence that Local 54 has. Local 54 could make or break any political candidate in Atlantic City. It's the biggest, richest, and the most powerful union in the city. The support of its 15,000 members is something every political candidate wants. They supported Michael Matthews for mayor, in more than just the conventional and legal channels.

Frank Lentino demonstrated for us just how corrupt the system can become if all the legitimate sources of power are used illegitimately. He also demonstrated how a municipality suffers when the very institution that has been designed to prevent corruption, the government itself, becomes the corrupting influence. The sordid saga of Local 54 really comes to a head when we look at the purchase of

the mayor's office by organized crime, using the political and the economic influence of Local 54. The Michael Matthews case is really a classic example of union corruption at its worst.

MR. HUNTERTON: Thank you, Mr. Chance.

With our next two witnesses, Mr. Chairman, we will be looking precisely at that purchase of the mayor's office.

I would like to ask you, Agent Chance, you are familiar with the court proceedings regarding the removal of Frank Gerace from Local 54, are you not?

MR. CHANCE: Yes, I am.

MR. HUNTERTON: Suffice it to say that was a full-court-press effort by law enforcement authorities to get Frank Gerace out of that union, was it not?

MR. CHANCE: Yes, sir.

MR. HUNTERTON: And what is Frank Gerace's status today?

MR. CHANCE: Frank Gerace is a consultant to the union. He maintains, I don't know if it is all of his former compensation from the union, but substantial amount. In addition to that, he is paid as a trustee or as a consultant to the international union. He still makes about \$45,000 or \$50,000 from the union.

MR. HUNTERTON: So now essentially the New Jersey state authorities, particularly those with responsibility for casino regulation, are in effect left to do over again that which they thought they had already done, which was remove Gerace's power from Local 54?

MR. CHANCE: Well, Gerace, in his decision to resign, decided that he would no longer represent casino employees, he would only represent noncasino employees, which is a very small portion of the union itself. That is the position that he has taken and still receives the same compensation.

MR. HUNTERTON: The fox is still in the hen house.

MR. CHANCE: I would say so, yes.

MR. HUNTERTON: Are there any questions from the Commission of Agent Chance?

COMMISSIONER DINTINO: Yes. In your statement, Ron, you mentioned something about that they are involved in contracts and whatnot. To your knowledge, does, say, Scarf Inc., which is controlled by Phil Leonetti, who is a nephew of Nick Scarfo, have any casino contracts?

MR. CHANCE: Right now?

COMMISSIONER DINTINO: Right now or previously.

MR. CHANCE: In the past, yes, sir. They have had many. I am aware of at least six casinos that they worked on. However, the contracts were not with the casino and them. They usually worked as a subcontractor to a subcontractor, who was a subcontractor to the general contractor. And you have to follow the paper through four or five layers before you find out that the guy who really poured the concrete was Phil Leonetti.

COMMISSIONER DINTINO: Scarf Inc. is very well known in the Atlantic City area. It has been publicized that Scarfo controls that. How can it happen with the strong law enforcement apparatus in New Jersey that a corporation like Scarf Inc. winds up with casino contracts?

MR. CHANCE: Because Scarf Inc. itself is not the person on record anywhere. And if you talk to any casino official, the casino official will tell you that they never contracted with Scarf Inc.

The other problem that I see -- and this is my personal opinion; it is certainly not the position of my agency or anyone else -- when you are working on

a casino that is not yet licensed, the persons who build that casino are not required to be licensed. There is no requirement that the contractor who is building the casino be licensed. They don't have to be licensed until after the fact. When the casino itself receives its license, then anyone it does business with from that point on has to be licensed. So anyone that they do business with during the construction phase does not have to be licensed.

COMMISSIONER DINTINO: One further question that I want to pursue. You are a labor expert. Organized crime has infiltrated just a very few labor locals within the United States, maybe as low as 1 percent. Why do they pick out a local like 54? What is so important about Local 54 that organized crime wants to control that, is controlling it?

MR. CHANCE: Well, again this is my opinion. This is not the position of my department or anyone else. My experience has shown me that organized crime traditionally operates in what we would call middle-class neighborhoods, where they provide a service that people have the money to pay for, gambling, prostitution, narcotics, whatever it is. They just moved laterally into labor unions because that is where

the middle-class people who live in the neighborhoods that they operate in, that is where they work. And so they move their same operations into those positions.

When they take control of a union, the real thing that happens, the most important thing that happens, is that they gain control of the money that is in the benefit plans. Right now in the benefit plans, pension, health and welfare in the United States, there is one trillion dollars of money that is available. That is the largest source of capital anywhere in this country outside the Treasury of the government itself. And organized crime is in business to make money, they are going where the money is.

So you have them moving into a middle-class neighborhood in a middle-class industry, which is labor unions. And then what they do, they set up scams and things that, in health and welfare plans, insurance things, things that people at the lowest level of the economic scale, the lowest level of education and sophistication, are not aware of. The people who are victims don't know that they are victims. These scams can continue to operate for years and years and years, because there is never a bottom line where there is not money enough to pay for your bill if you go to the

dentist and you have your tooth pulled out. So the people don't know that they are victims and they are preying on people that that --

COMMISSIONER DINTINO: But in this particular local, this is a local, by your testimony, that has unionized 15,000 casino workers. Do you think that that has any bearing on the fact that organized crime is interested in that local?

MR. CHANCE: Certainly. If they can control the people. They have attempted many times, not just this local but other locals, to organize the security guards and the dealers. Local 54 can shut down any hotel and set up a picket line. That will seriously hamper their ability to keep the casino open and to generate cash and to generate money for themselves. If they can -- again it is an extortion tool to have people in a position where you can say, hire this contractor to do the renovation, hire this contractor to provide linen or meat or cheese or whatever it is you want to sell, or my people walk. And that is not just Local 54. That is all unions in general. And I think that in an industry where it is a labor-intensive industry where you must have people who show up for work every day on time, come to work and do their job,

if you can control whether those people actually do that or not, you have a hammer over the head of the manager and he has to deal with you.

COMMISSIONER ROWAN: Special Agent Chance, what we have heard in Chicago is about people who buy unions. "I think I will have me a union." So they go out and they buy a union. What suggestions do you have for us? We are looking at a situation where we don't want to condemn every union in the country by more stringent enforcement policies. What can we do with this 1 percent?

MR. CHANCE: I really am not in a position to answer that. That would really have to be a decision that -- I am not a policymaker. I am just a policeman. And that would have to be a decision of a policymaker.

COMMISSIONER ROWAN: Tell us from a policeman's point of view what you think.

MR. CHANCE: I really don't know, because my whole family has been involved in unions. My father was an organizer for a union. I have been a member of the Teamsters and five different unions myself. Unions are a significant, important force in our country. I think it is a great thing. I think we should have them.

It is a black mark on unionism that we have this small percentage of people who detract from it and use it for their own personal benefit and gain. And I think the overall social impact of greater control or more stringent recordkeeping or something of that nature on a union could have the effect of preventing other honest, legitimate unions from doing their job. I really don't know the answer to that question. I am glad that you are looking into this area and I hope that you probably maybe can find a better solution than I have.

COMMISSIONER ROWAN: All right.

COMMISSIONER McBRIDE: Agent Chance, I won't let you off quite this easily. The Hotel Restaurant Workers International Union is a union that itself has extensive associations with organized criminal figures. It is the international union of which Local 54 is a local. Are you aware as a result of your investigations or any other sources what the interactions have been between the international and the local? Here we have a hierarchy which is basically appointed, not elected; a membership which I don't know what their attitude is, whether they are passive, disinterested, intimidated, or whether, indeed, they

support the crooked leadership. What have you found in your investigations that is relevant to the issue of how you ensure union democracy in that kind of setting?

MR. CHANCE: Well, on the international level, there was a study that I believe was done by the Senate Permanent Subcommittee relating to the manner in which the international of this union has taken control and put into receivership locals of the union and put international representatives as the prime operators of the union for periods of time. That is what happened in Local 54. Local 54 was split into two unions. Some of the members of Local 54 were put into another union. Frank Gerace was put into the position of president --

COMMISSIONER McBRIDE: By the international?

MR. CHANCE: No, by the appointment -- you see, that is one of the quirks in this particular union. If there is a vacancy on the executive board or any executive office, there is no requirement for election by the members. The president of the local merely appoints someone to that position. And Frank Gerace was appointed in that manner. The former president announced his intention to resign, appointed Frank Gerace president, and then resigned. And Frank Gerace became the president without any of the members having

anything whatsoever to say about it and he can stay president for three years or whatever the term is left on the president's position. He then runs as an incumbent with all of the power of the union and the position that he is able to get himself into as that.

The international has placed this particular local in the receivership. It has merged locals. It has merged the benefit plans of other locals and merged the benefit plans into International Health and Welfare Fund, and it has taken away a great deal of the democracy of the international and of the local unions.

COMMISSIONER McBRIDE: Perhaps just as the FTC passes on corporate mergers prior to the fact, we need some agency to review proposed trusteeship receivership in union mergers.

MR. CHANCE: There are some requirements now. I am not an expert in that area and I don't want to get into an area that I don't know anything about.

COMMISSIONER McBRIDE: It has been very, very helpful, Agent Chance. We thank you very much for appearing.

CHAIRMAN KAUFMAN: Thank you very much.

MR. HUNTERTON: Thank you, Agent Chance.

(The witness was excused.)

MR. HUNTERTON: Will Peter Bennett and Jim Bannister please come forward, and we will look at a specific ramification of what Agent Chance has been talking about.

Would the marshal swear the next two witnesses, please.

PETER BENNETT AND JAMES BANNISTER were called as witnesses and, having been first duly sworn, were examined and testified as follows:

MR. HUNTERTON: Mr. Chairman, seated at the center of the table is Peter Bennett, the Executive Assistant United States Attorney for the District of New Jersey and the lead prosecutor in the case of the United States v. Matthews, et al., the former Mayor of Atlantic City.

Seated to his right is Special Agent Jim Bannister with the Drug Enforcement Administration. He has been an agent for fifteen years and, as you will see in the course of his testimony, is experienced at undercover work. In April of 1980 he started a DEA undercover investigation into the activities of Frank Lentino. By December of 1981, after Lentino brought up the subject of Mob campaign financing in Atlantic City, the jurisdiction for the investigation shifted to the

Federal Bureau of Investigation, although Agent Bannister continued to be the undercover operative.

From March of 1982 through the end of 1983 he worked under the Bureau's supervision in this undercover capacity in the case which is now going to be summarized.

Mr. Bennett, would you please tell us your role in the prosecution of Michael Matthews and Frank Lentino, give us a brief description of the investigation; and, of course, given the topic of this hearing and this morning's focus on attempts to infiltrate casino projects by organized crime and corrupt labor unions, we would like you to focus on what was known as the Piedmont Casino Project, or the H-Tract scenario, in undercover parlance.

MR. BENNETT: As a federal prosecutor, I was involved in both the investigation and the prosecution of the former Mayor of Atlantic City, Michael Matthews, and Frank Lentino, an organizer for Local 54 of Hotel Restaurant Employees Union and who is also a close associate of Nicky Scarfo and the Bruno Crime Family.

The convictions of these two individuals arose out of a very successful FBI undercover investigation which was known as "Wild Bond." "Wild

Bond," in turn, had commenced as a DEA undercover investigation in the spring of 1980. Both of these investigations concluded some two and a half years later at about 10 o'clock in the evening on December 6 in 1983.

Earlier that evening, while the investigation was still ongoing, Michael Matthews had convinced a majority of the members of the Atlantic City City Council to sell 21 acres of city-owned property for casino development which was worth millions of dollars. Unknown to the City Council, earlier Michael Matthews had received a \$10,000 cash payoff from the company that intended to purchase this property, the Piedmont Group, which was a Washington-based real estate firm. Matthews had also agreed, upon the sale of the property to the Piedmont Group, to receive an additional \$10,000 from Jim Biacco, the man who had paid him off originally and who was acting as the Piedmont Group's representative in connection with this transaction.

Upon the sale of the property, Matthews also agreed to receive a 1 percent ownership interest in the property, which was to be concealed.

At the very same time, on December 6, that

Matthews was convincing the City Council to sell this land, Jim Biacco, the Piedmont representative, was meeting with Frank Lentino, the organizer for Local 54, paying him \$15,000 in cash. \$5,000 of that cash was for Frank Lentino, \$10,000 was for Lentino's superior in the Scarfo Organization. And the money was being paid to them for their roles in getting the Mayor of Atlantic City to put this 21 acres of property up for sale.

Frank Lentino and a superior also had agreed to receive 1 percent ownership interest in the development of that property as a casino, and once again these ownership interests were to be hidden or concealed. Based upon the tape recordings of Frank Lentino with Jim Biacco, Lentino considered these 1 percent interests as assets of the Bruno Crime Family.

The scheme of Lentino and his superior to hold a hidden ownership interest in an actual operating casino in Atlantic City came to an end that night on December 6, 1983, when Michael Matthews was advised that the Piedmont Group was in fact part of an FBI "sting," and that Jim Biacco was actually Jim Bannister, a Special Agent of the United States Drug Enforcement Administration.

Before Agent Bannister identifies the tape-recorded excerpts which the Commission has subpoenaed, I have to point out that there are pending criminal proceedings and there have been two convictions to date. That is Mayor Matthews and Frank Lentino. Because of the pending criminal proceedings, our remarks or answers to any of your questions have to be limited to the public record in United States v. Matthews.

MR. HUNTERTON: Thank you, Mr. Bennett. I am sure we will appreciate that and structure our questions accordingly.

Agent Bannister will be narrating tapes through the use of these transparencies. We are going to have to adjust the lighting in the room. The conversations which you are about to hear by and large took place in restaurants. There is a good deal of background noise. So in the interests of clarity of presentation for the Commission, and the public audience, we are going to run the tape and simultaneously try to dim those lights and run transcripts of the tape which match up almost verbatim -- there are some overlaps and some missing parts -- but match up almost verbatim with that which is on the tape.

Agent Bannister, on both March 16 and March 27 you had meetings with Frank Lentino in Giovanni's Restaurant, which constitute our first excerpt. We are going to run through the 3/27 and 3/16 meetings together in this excerpt.

Before we play the tape, would you describe the subject matter of that conversation.

MR. BANNISTER: Yes, I will. During these meetings and in these excerpts you are about to hear, Mr. Lentino describes the meetings between Mike Matthews, Frank Gerace, Al Diadone, and Mr. Lentino himself in December 1981, in which the organization agreed to give Matthews \$125,000 in return for favors when Matthews was elected mayor.

(Tape played)

MR. HUNTERTON: Agent Bannister, before we run the next tape, the last segment of that tape was missing from the transparencies. Am I correct, though, that Lentino informed you of a deal to provide \$125,000 to Matthews' campaign on behalf of the Scarfo organization?

MR. BANNISTER: Yes.

CHAIRMAN KAUFMAN: Mr. Hunterton, I am wondering does it do any good to run the tape. It is

so hard to hear. Isn't it better to just put the script up there? Better still, have it read, as it is in the courtroom frequently, in question and answer form if you want to.

MR. HUNTERTON: Very well. Since we have the two folks here who know this best, and since Agent Bannister already knows the undercover role, if I could impose on Mr. Bennett, if he doesn't find it too offensive, to be Mr. Lentino, we can proceed in that manner without the audio.

Would the Chair like the transparencies to go along?

CHAIRMAN KAUFMAN: I think the reading will be sufficient.

MR. HUNTERTON: All right. May I have the house lights back on then, please.

The next conversation took place on April 1, 1982, at McGettigan's Restaurant, and involved Lentino discussing the investigation by the Division of Gaming Enforcement into Local 54, at which time Lentino expressed his concern about being associated with mob figures. He also candidly describes the succession of leadership in the crime family from Angelo Bruno through Phil Testa to Nicky Scarfo.

Gentlemen, if you will, please.

MR. BENNETT: Once again I am Frank Lentino.

"LENTINO: The only thing I got goin' for me is the last bust I had was years and years ago,

BANNISTER: They wouldn't pick that up, would they?

LENTINO: I don't know. So far so good." Then laughter. "I really don't know. I have my fingers crossed.

BANNISTER: Yeah.

LENTINO: And if they, if they ever associate me with the guys, oh, geez. Pete Cassella was Testa's underboss.

BANNISTER: Umm hmm.

LENTINO: When Bruno went, and Testa took over, then he become second man. And they, they did it because they treat him more like a statesman, you know, he's up, he's up there in years.

BANNISTER: Umm humm.

LENTINO: Nicky, he, he wanted Nicky but, Nicky was young. But the guy uh, put like eighteen, nineteen years, he's a little senile. What they did, they retired him.

BANNISTER: Umm hmm.

LENTINO: They sent him back to Florida like. He likes Florida right, so they sent him to Florida, they take care of him.

BANNISTER: That's not bad. What the hell.

LENTINO: And Nicky, that's when Nicky became the boss. 'Cause when he retired him.

BANNISTER: Hmm.

LENTINO: Now they got a young guy in. He's Chickie, a young guy, Chuck rather, Chuck, in Philly.

BANNISTER: What, that's under Nicky now?

LENTINO: Yeah."

MR. HUNTERTON: The next excerpt is from the September 24, 1982 tape. In the beginning of this excerpt, Lentino explains to the man he believes to be Biacco how risky it is for him to meet his superior in the organization in public places in Atlantic City, and identifies Chuck Merlino as the person in charge of the family's business while Scarfo is incarcerated, and indicates that he is in charge of labor for the organization. Gentlemen?

MR. BENNETT: Once again I am Lentino.

"LENTINO: And in fact, I told (blank) I don't think we should meet in Atlantic City anymore. I don't, I suggest this place in the

afternoon, not at night.

BANNISTER: Yeah, in the afternoon this place, we met here a couple of times, there's nobody around. Right, it's nice and quiet.

LENTINO: Not nights.

BANNISTER: You....

LENTINO: They tell me at night time, this place jumps.

BANNISTER: Kind of crowded now, I can't believe it. Who's uh, who, who's runnin' things down there now for Nicky?

LENTINO: Well, (blank) in this area. I'm in charge of labor. That's my angle. (Blank) and me with labor. And the guy in

Philadelphia, I -- don't wanna --

BANNISTER: Yeah?

LENTINO: I don't like to mention names.

BANNISTER: No, no.

LENTINO: He's taking whatcha call's place while he's gone.

BANNISTER: What's it look like there, he's gone?

LENTINO: A little rough right now.

BANNISTER: Hm.m.

LENTINO: Too early yet, he's got to do some time.

Maybe fourteen months, I guess, hopefully,  
he's out in fourteen.

BANNISTER: Hum. That's a long time really. A lot  
can happen in that time.

LENTINO: So we all through (unintelligible).

BANNISTER: Yeah, yeah we're done. Do you want me to  
take you home?"

MR. HUNTERTON: The next conversation took  
place on April 20, 1983, and in light of our new format  
I just would like Agent Bannister to describe the  
tongue-lashing that you got from Lentino on that day in  
lieu of reading the transcript. I think, since you  
were there, you might give the Commission a better  
flavor for it.

MR. BANNISTER: OK. During this meeting  
Mr. Lentino reprimanded me at length for making a  
direct payoff to Mayor Michael Matthews in Lentino's  
absence. He went on at length about the need to follow  
the chain of command, and touching base, which is  
synonymous with obtaining permission in the  
organization. He described how people are required to  
report to him and that he in turn must touch base with  
his own superior before he is even allowed to speak to  
the guy in Philadelphia, which is a reference once

again to the underboss Chuck Merlino, who is acting on Nick Scarfo's behalf while he was incarcerated.

MR. HUNTERTON: How angry was he?

MR. BANNISTER: He was very angry. At that time he was going to cut me off completely from any further dealings with him or the organization.

MR. HUNTERTON: And how did you reingratiate yourself with him?

MR. BANNISTER: I just kept talking at that time and got back in his good graces by the end of the conversation.

MR. HUNTERTON: Before we go to the next sequence, Agent Bannister, I would like to ask you, just to be clear about this, did Michael Matthews in fact receive the up-front payment to which Mr. Bennett referred earlier for H-Tract or the potential casino project land?

MR. BANNISTER: Yes, he did. While Mr. Lentino was traveling in Italy, I met with Mayor Matthews and discussed in detail the payoffs to him, Lentino and the organization, for each of their roles in selling the city-owned property known as H-Tract. On Monday, November 21, 1983, while Lentino was still abroad, I paid Mr. Matthews \$10,000 in cash in his

office in Atlantic City after receiving his assurances of assistance in the land sale. I never told Mr. Lentino about the \$10,000 in cash that I paid Mr. Matthews in Lentino's absence.

MR. HUNTERTON: I wonder if I might ask you, Agent Bannister, the last segment that we have here is the tape of December 6. Is the quality of that tape such that we could in fact listen to it or is it as rough as that first one we tried?

MR. BANNISTER: Well, the tapes vary, the quality of the tapes vary, but I believe the quality of this one might be a little bit better because it was done in the back room of Angelo's Fairmount Tavern.

MR. HUNTERTON: Your Honor, since this is really the key to this, with the Chair's permission, could we try and find that spot on the tape so that we can get the tenor of the conversation.

CHAIRMAN KAUFMAN: All right.

MR. HUNTERTON: It is the conversation of December 6, 1983, approximately 5 p.m., in Angelo's Fairmount tavern in Atlantic City, New Jersey.

The Commissioners may find that the use of the headphones will help.

Could we have the lights down, please.

(Tape played)

MR. HUNTERTON: Would you stop the tape, please.

CHAIRMAN KAUFMAN: I think we get much more out of a reading.

MR. HUNTERTON: Yes, sir, your Honor.

CHAIRMAN KAUFMAN: We will assume for the record there is a legitimate tape.

MR. HUNTERTON: Thank you. Will you gentlemen resume your roles and pick up from that point.

"BANNISTER: How are we going to handle the points?

LENTINO: Ah, that's something else, well, I'll be quite honest with you. Mike told me he don't think it's gonna be a problem, he has some people in Florida.

BANNISTER: Okay.

LENTINO: Who could pass any scrutiny and everything else.

BANNISTER: Okay, then that's what we, you know.

LENTINO: So, it's a question of Mike gettin' together with us now.

BANNISTER: Okay.

LENTINO: Through other people and how we're protected.

BANNISTER: Umm hmm.

LENTINO: He personally said look that, that'll be no problem. I have some people in Florida.

BANNISTER: Okay, yeah, whatever.

LENTINO: He has, I said how about us, how about, you know.

BANNISTER: See, the bad thing with that is giving him the point and letting somebody take it or sign for a point or whatever and then how does that guarantee that that person ah won't, you know, renege on the deal.

LENTINO: Well, that's --

BANNISTER: That's the thing.

LENTINO: That's what we have to do.

BANNISTER: And somewhere down the line even like.

LENTINO: Yeah.

BANNISTER: You know, 10 years from now how, you know, what's gonna keep from goin' back on it.

LENTINO: Yeah, yeah, I know that, I also brought up, ah, in the event something happens to me.

BANNISTER: Exactly.

LENTINO: What happens to, ah, my end, my end.

BANNISTER: Exactly, yeah.

LENTINO: So.

BANNISTER: I mean somebody could say hey wait a second, you know, we're not gonna do anything.

LENTINO: So ah, we're looking to protect everybody.

BANNISTER: Well, that's the whole thing, that's what I mean we gotta do it in such a way to protect everybody and make sure everybody's happy that's it, it's the only way we can do it, you know, and I know what you said before about Stella you know, in case anything happens to you.

LENTINO: Yeah.

BANNISTER: Hey, I agree, you know, but see in somebody else's thing who's, what's the guarantee that that person is gonna.

LENTINO: Right.

BANNISTER: You know, you know, they might see an easy shot here for you...to know, phew, to just take your point over if something. If something happens to you, you know what I mean, that's, that's why you gotta be careful.

LENTINO: All right, then you can live with that.

BANNISTER: Yeah, that's no problem.

LENTINO: It's no, ah?

BANNISTER: That's no problem at all, no problem at all.

LENTINO: You're speedin' ahead and you intend to do it right away.

BANNISTER: Oh, they're gonna do that, yeah, they're gonna do it next week.

LENTINO: It reverts back to, ah, your city.

BANNISTER: Umm hmm.

LENTINO: So ah, that's no problem.

BANNISTER: No, it'll be within two to three years I'm sure the whole thing will be completed.

LENTINO: Good.

BANNISTER: So it's you know, from start to finish which will be, as long as we can get the construction phase and union phase and all.

LENTINO: Well, as far as the, ah, labor problems, there may be labor problems, but we can correct them.

BANNISTER: Okay.

LENTINO: 'Cause you know the labor people are funny, not, not the officers, the, ah, membership.

BANNISTER: Umm hmm."

MR. HUNTERTON: So indeed if Jim Biacco had not been Jim Bannister and had not been a sworn law enforcement officer, the plan would have evolved to try and beat the Division of Gaming Enforcement licensing process and "beard" a co-hidden ownership between a corrupt mayor and the local mob. Is that a fair summary?

MR. BENNETT: That was their stated intention.

MR. HUNTERTON: Mr. Bennett, later that evening, December 6, 1983, would you describe for us what occurred and how the undercover investigation was terminated.

MR. BENNETT: The city was on the verge of selling millions of dollars worth of city-owned property, and we knew that was a result of corrupt activity on the part of the mayor and the resultant payoffs and we couldn't allow the city to go forward. Rather than just completely terminating the investigation, we decided to try to continue it by approaching Matthews, asking if he would plead guilty and cooperate with us on a continuing covert investigation. He would therefore be in a position to terminate the sale of the public property.

At about 10 o'clock that evening, two FBI agents approached Mr. Matthews. They met with him for a while, reviewed some of the tape recordings gathered during the course of the undercover investigation, and eventually we solicited his cooperation. He agreed to plead guilty, and he was thereafter debriefed.

MR. HUNTERTON: Could you tell us whether or not Mr. Matthews made any admissions with specific reference to his association with the Scarfo organized crime family or Bruno organized crime family?

MR. BENNETT: Yes, he did. He stated that before he decided to run for the office of mayor of Atlantic City, in December of 1981, he approached the Bruno Crime Family, met with Albert Diadone, the vice president of Local 54, Frank Gerace, the president of Local 54, and Frank Lentino, an organizer for Local 54, with the understanding, that is, his understanding that they represented Nicky Scarfo and Nicky Scarfo's organization. He said he solicited \$125,000 from them to assist him in his campaign for mayor. He indicated that they agreed to it. They identified a middleman, a real estate developer from Philadelphia who is active in Atlantic City, Ken Shapiro, as the conduit for it. He also indicated that Shapiro was to provide him with

other sorts of campaign assistance. He indicated that he had only received from the middleman \$50,000 to \$60,000 of the promised support from the Scarfo organization.

MR. HUNTERTON: Apart from the campaign contributions, did Matthews make any admissions with respect to his role in extortion conspiracies, that is, those which were ultimately charged against him and to which he ultimately pled guilty?

MR. BENNETT: He admitted his role in what we refer to as the "Flag" conspiracy, and which we haven't touched on here, which was receipt of \$4,000 in payoffs in return for the award of city business to another FBI company. Those payoffs were also made by Agent Bannister.

He also admitted his role in full in what we refer to as the H-Tract conspiracy, and provided us with details of meetings that we were unaware of. He told us that the H-Tract conspiracy began in a meeting in Ken Shapiro's apartment in Margate, New Jersey, where he met Frank Lentino's superior, who raised the subject matter of the sale of this city-owned property. He said that he was ordered by Frank Lentino's superior to get the city to sell this property for a casino

development. He was also advised by Lentino's superior at that meeting that he, that is, Michael Matthews, would be making money on the project.

He then, in some detail, revealed to us all of the meetings that he had relating to this project, only some of which we are aware of. He indicated that he had received the money, the \$10,000 payoff, on November 21 in the mayor's office in Atlantic City from the undercover agent and that a week later he saw Frank Lentino's superior in the Mars Restaurant in Philadelphia, and at that meeting he discussed with him the subject matter of H-Tract and assured him that it was on track and the city would be selling the property.

MR. HUNTERTON: Did former Mayor Matthews admit to the presence of any other people at the Mars Restaurant meeting?

MR. BENNETT: With Philip Leonetti at the meeting, although not a participant in the H-Tract discussion, was Robert Simone, an attorney in Philadelphia; Lawrence Merlino, who is known as Yogi Merlino, who is a member of the Bruno Crime Family; and Salvatore Testa, who is a son of Philip Testa, the former boss of the Bruno Crime Family.

MR. HUNTERTON: With my thanks to you

gentlemen for stepping into our technological gap here, I will turn you over to the Commission for questions.

CHAIRMAN KAUFMAN: I have no questions.

Thank you very much.

MR. HUNTERTON: Thank you again.

(The witnesses were excused.)

MR. HARMON: Mr. Chairman, with your permission I will call the next witnesses.

Mr. Chairman, organized crime always looks for what they call "the edge." The same is true when it comes to making money by betting on college athletic events. We have selected for examination today the Boston College case as a vehicle for examining the dynamics of a fix by organized crime and what can be done to prevent these kinds of activities from taking place in the future.

I would ask Edward McDonald, Edmundo Guevara, and Richard Kuhn to please come forward.

Once they have done so, would the marshal please swear each one of these witnesses.

RICHARD KUHN, EDWARD McDONALD, and EDMUNDO GUEVARA were called as witnesses and, having first been duly sworn, were examined and testified as follows:

MR. HARMON: From the Commission's right,

Mr. Chairman, is Edmundo Guevara, an investigator with the President's Commission, who before that served with the FBI for nearly ten years as a special agent.

Seated next to him in the center is Edward McDonald, who since the beginning of 1972 has been a prosecutor, first beginning with the New York County District Attorney's Office. Following in 1977 his movement to the Organized Crime Strike Force in Brooklyn, he has been the chief of that Department of Justice Strike Force for over two years now. Perhaps by coincidence, Mr. McDonald is a graduate of Boston College and for one year as a freshman played basketball for Boston College.

Investigator Guevara was the case agent on the Boston College case. Mr. McDonald was the prosecutor of that case.

Seated to Mr. McDonald's right is Richard Kuhn, a former Boston College basketball player, who was convicted of sports bribery in the point-shaving scheme.

With that in mind, Mr. Chairman, I would ask Investigator Guevara to provide some background, an introduction to this segment of the Commission's hearing.

MR. GUEVARA: Mr. Chairman, members of the Commission: The Commission heard yesterday from Special Agent Storey of the FBI who testified to the enormous profits realized by organized crime through the medium of illegal gambling. The Commission saw a videotape of the actual operation of a video room -- of a wire room, excuse me -- run by organized crime, taking bets on college basketball games. The Gaming and Wagering Business Magazine estimates that illegal sports betting increased 67 percent from 1982 to 1983. In another indicator, the Commission survey taken of over 500 law enforcement agencies throughout the United States, illegal gambling is the fourth most frequently identified organized crime activity following cocaine, marijuana and dangerous drugs. If all the drug categories were to be combined, then illegal gambling would rise to the second most common enterprise of organized crime. The Commission's survey further indicated that nationally sports betting, that is, gambling on athletic events, ranked No. 1 above all forms of gambling, and it is in this area that I wish to devote the next few minutes of my testimony.

Sports events have historically attracted gamblers and as a result scandals have erupted.

Literally no major sport has escaped. Of significant interest to organized crime is college athletics, in particular basketball and football, the former leaving a trail of major scandal.

Beginning with 1951 and proceeding through this current year, a total of thirty-one institutions of higher learning and seventy-seven players have been embroiled in scandal over the past thirty-five years, and there is no end in sight.

History has demonstrated that the gamblers are not satisfied with just betting on these athletic events but instead insist on going a step further. They insist on getting an edge. They accomplish this by recruiting a ballplayer who is willing to fix a game in exchange for payment. In the words of Dale Bonstable, a University of Kentucky player caught in the first major collegiate basketball scandal:

"Those guys were smooth talkers. They should have been salesmen. They took us out for a stroll, treated us to a meal, and before we knew anything we were right in the middle of it. They said we didn't have to dump a game."

You will hear a similar situation occurring thirty years later in the testimony of Richard Kuhn, a

Boston College basketball player who was recruited by organized crime figures to shave points. Many in the sports world feel that a ballplayer is the target for gamblers and for organized crime and also a victim of a system that demands a winning team at all costs. They fall prey to this system where the victim ballplayer finds it difficult determining the difference between accepting gifts from an institution and accepting gifts for shaving a few points.

In a study conducted by the National Collegiate Athletic Association in 1981 of 175 member colleges, the graduation rates for athletes involved in football and basketball were significantly less than the graduation rates for male athletes in other sports, an average of 42.4 percent for football and basketball combined, as compared to an average of 51.1 for all other sports combined. Additionally, the NCAA estimates that basketball and football at Division One schools account for over 90 percent of all recruitment violations.

MR. HARMON: If I could draw your attention to the next page of your statement, Investigator Guevara, and ask you whether or not one of the participants who testified for the government in that

case was Henry Hill and whether or not he explained the relationship of one Jimmy Burke and Paul Vario, a Capo of the Lucchese Family, in this point-shaving scheme. Understanding that, I would ask you to explain what the Lucchese Crime Family is and Vario's position within that family.

MR. GUEVARA: The Lucchese Crime Family is one of five crime families operating in the New York area. Paul Vario is the leading and highly influential Capo in the Lucchese Crime Family. Vario is the most significant organized crime figure operating at JFK Airport, exercising enormous influence in the air freight and trucking industries and over various Teamster locals, activity for which he is currently under indictment.

Vario has an extensive record of convictions beginning in 1931, including burglary, rape, bribery, bookmaking, extortion, criminal contempt, and tax evasion. Although never convicted of other criminal activities except for making false statements in support of Mr. Henry Hill, the Vario crew has engaged in arson, murder, robbery, hijacking and loansharking.

Under Vario's direction, members of the Lucchese Crime Family have participated in two major

robberies at JFK Airport. In the late 1960s the Vario crew stole over a half a million dollars from the Air France, and in 1978 over \$6 million from the Lufthansa cargo building.

MR. HARMON: What is Jimmy Burke's background?

MR. GUEVARA: James Burke is perhaps the most ruthless of gamblers to be involved in a collegiate basketball scandal. James Burke is a major figure in organized crime circles and is reputedly Paul Vario's right-hand man. He is suspected of being the ringleader of the Lufthansa cargo building robbery, the largest robbery in the history of the United States at that time.

During James Burke's sentencing hearing, I testified to four murders Burke was responsible for, individuals who either participated or had information regarding this robbery. While serving twenty years for his conviction on sports bribery as a result of the Boston College investigation, Burke was later indicted and convicted in New York of murder. Burke's criminal history includes numerous convictions for bookmaking, assault, robbery, fraudulent checks, untaxed cigarettes and extortion.

Although not a member of the Lucchese Crime Family himself because he is not Italian, Burke commands the respect of the Capo, this because of his ruthlessness and his income-producing abilities for the Lucchese Crime Family.

MR. HARMON: In your view, Investigator Guevara, will college athletes continue to be targets of organized crime in the future?

MR. GUEVARA: As long as gambling continues to provide the kind of guaranteed income for organized crime and as long as individuals such as Vario and Burke continue to operate an illicit gambling business, young college athletes will continue to be prime targets. In the words of Eddie Gard, an L.I.U. ballplayer convicted of sports bribery in 1951:

"Mark my words, all the rest of you will be hearing plenty about it. I've got to wonder if anybody ever stopped doing business. So it's only a matter of time, it will all come out again some day, and some poor bum will do the time in the can."

To deter this type of conduct in the future and to reduce the vulnerability of college athletes, the Commission will be presented with testimony that provides differing perspectives of the problem -- that

of the player, the prosecutors, the coach, the NCAA, and the sportswriter.

MR. HARMON: Now, Mr. McDonald, could you give the Commission some idea of the experience of your office in the investigation of sports fixes by organized crime?

MR. McDONALD: Yes. During the past decade my office has been involved in the investigation and prosecution of several cases involving the corruption of sports. Two such cases involved the fixing of harness races at New York area tracks, Yonkers Raceway and Roosevelt Raceway. Another case involved the fixing of thoroughbred horse races at Aqueduct Raceway, Belmont Raceway and Saratoga. The fourth case involved the fixing of Boston College basketball games.

MR. HARMON: Could these schemes, in your opinion and based on this experience, have succeeded without the involvement of organized crime?

MR. McDONALD: In my experience, organized crime -- the Mafia, La Cosa Nostra -- was at the heart of each corrupt scheme. I plan to address myself to the Boston College case and the involvement of organized crime in that case. But from all of these cases and the experience of my office, one thing is

absolutely clear: No scheme to fix any sporting event, whether it be on the college or professional level, can succeed in any significant way unless the Mob is involved. Organized crime support, organized crime involvement, is necessary before any substantial profit can be made.

In addition, organized crime is essential for the efficient operation of the scheme. Unless the Mob is behind a fix, it would be impossible to place significant numbers of large bets on fixed games. Organized crime is therefore essential in setting up large numbers of bookmakers to take the necessary bets. Moreover, anyone fixing sporting events and cheating bookmakers needs protection. That protection can only come from organized crime.

MR. HARMON: As the prosecutor of the BC case, I would ask you to draw upon your perspective there and recount in very general terms and summarize the facts of the BC case.

MR. McDONALD: Well, the Boston College case began in Pittsburgh in the summer of 1978. Rick Kuhn, who is seated at my right, was a Pittsburgh resident and he was about to begin his senior year at Boston College. He was a backup center on the Boston College

basketball team. Mr. Kuhn happened to be friendly with another Pittsburgh resident, Tony Perla. Mr. Perla, besides being the teacher of library science at a suburban high school, also ran a small bookmaking operation and, like any bookmaker or gambler, he was looking to make a fast or easy score.

That summer, 1978, Tony Perla began to speak to and cultivate Rick Kuhn. One thing led to another and before long Kuhn agreed to shave points for money. That is, in any game in which Boston College was favored by a certain number of points, Mr. Kuhn would see to it that BC's final margin of victory was less than the point spread. That way bettors such as Perla, who were betting on BC's opponents, would win their bets.

Even though Rick Kuhn agreed to participate in the fix, Tony Perla still had a few problems. Obviously, in order to make a lot of money, Perla had to make a lot of bets. In most games, however, bookmakers will not take especially large bets from any one bettor. Bookmakers will take large bets on pro football and occasionally on college football games and in boxing. But with college basketball, bookmakers usually will not accept more than one \$1,000 bet from

any one individual.

In addition, Pittsburgh, the city in which Mr. Perla lived, had only a small circle of bookmakers. If Perla were betting heavily and winning regularly on BC games, all of the Pittsburgh bookmaking world would soon realize it. They would suspect that the fix was in and they would no longer be willing to take Perla's bets. Therefore, since Perla wanted to be able to place a large number of bets and do it anonymously, he realized that he should have a network of bookmakers, as he called it, in various cities.

Perla realized something else. If the bookmakers from whom he was winning money realized that the fix was in, they would be reluctant to pay. Even worse, they might become violent when they realized that they were cheated. Therefore, Mr. Perla didn't want any lightweights from Los Angeles. He wanted heavyweight protection, probably from New York.

MR. HARMON: So is it correct, then, Mr. McDonald, that the BC point-shaving scheme had a sort of subplot to it, and that was a way to beat the Pittsburgh bookmakers in a way that they wouldn't realize it, or at least who was behind it?

MR. McDONALD: That's right. That was part

of it, because Perla realized that there was no way that he could make any large amount of money just dealing in Pittsburgh, and also that the Pittsburgh bookmakers would realize pretty quickly when he was betting with every one of them, many to the maximum amount, once he started to win they would realize that something was going on and they wouldn't take the bets. So therefore he had to circumvent them. He wanted to continue to bet with them, but he wanted to maximize his profit and reach out beyond the Pittsburgh area to other cities where he could bet anonymously and he could bet the maximum number of bets.

MR. HARMON: How did Perla handle this problem?

MR. McDONALD: Well, Perla turned to a man named Paul Mazzei, who was a longtime friend of his. Mazzei also happened to be a convicted narcotics trafficker who had spent several years in prison. Mazzei promised to provide Perla with what he needed. Mazzei had been friendly in prison with a man by the name of Henry Hill, a middle-level New York hood who boasted of having all the right connections in the New York underworld. Mazzei knew that Hill was on the level. He had seen him in prison with Jimmy Burke, the

powerful New York mobster that you have already heard about, who was especially friendly with Hill. In addition, on furloughs from prison Hill even introduced Mazzei to Paul Vario, the captain in the Lucchese Crime Family and one of the most notorious organized crime figures in the New York area.

I will just note that not only has Mr. Vario been involved in the criminal activity that Special Agent Guevara has already described, but he is currently under indictment in the Eastern District of New York on charges of a massive extortion and racketeering scheme involving the extortion of several air freight companies at Kennedy Airport. It is a multimillion dollar scheme.

Mazzei and Perla decided to speak to Henry Hill. They told Hill about Perla's scheme and even emphasized what they were lacking. Hill was impressed. He saw the scheme as a way of making money for himself and his organized crime associates. The first chance that Hill had a few weeks later when Burke was released from prison he went right to Burke. Now, Burke, who around this time was planning the multimillion dollar Lufthansa robbery, was also involved in a murder for which he has recently been convicted, was also

interested but he was far more cautious. He insisted on seeing Mazzei himself and later Perla. He wanted to know that they had a sure thing.

MR. HARMON: Did Burke and Hill have to get the blessing of Vario, the Capo in the Lucchese Crime Family, before they went ahead with the scheme?

MR. McDONALD: Yes, that was a necessary matter of protocol. Before Hill and Burke could get involved in this scheme, they had to go on record with their boss, their mentor, Paul Vario. Therefore, at Burke's direction, Hill went to see Vario at Getkin's Bar, his headquarters in Brooklyn, and told Vario about the fix. Vario was as cautious as Burke. He wanted expert advice. He told Hill to speak to his son, Peter Vario, and, more importantly, to Peter's partner, Richard Perry.

Why were Peter Vario and Richard Perry such experts? Perry, who is also known as Richie the Fixer, had already been convicted of sports bribery in connection with the bribery of horseracing in the so-called Superfecta case tried in Brooklyn. He was a longtime sports fixer, and despite his conviction in the Superfecta case, he was a very, very successful sports fixer.

Incidentally, he never misses a chance to become more acquainted with sports fixes in gambling and things of that nature. As a matter of fact, I saw him here in the courtroom today in the audience with his attorney.

Consequently, just before the season began, a major conference, an organized crime conference, if you will, took place in New York to discuss the pros and cons of the scheme. Burke chaired the meeting at his base of operations at Robert's Lounge in Ozone Park, Queens. Also present were Hill, Mazzei, and Perla. Burke also invited several Lucchese Family bookmakers and other organized crime figures who would be in on the scheme to provide the necessary muscle.

After discussing the scheme and weighing its potential, it was tentatively decided that the Varios, Burke, and their organized crime associates, including the Lucchese Family bookmakers, would participate. Burke and the Varios would provide the necessary muscle. The Lucchese Family bookmakers would take the bets from Perla, Mazzei, Hill, and the Varios.

These inside bookmakers, of course, would realize that the games were fixed. With this knowledge, they would take the bets from the participants in the

scheme and place them with other bookmakers throughout the United States. In return, the inside bookmakers could place their own bets on fixed games.

One further thing remained. Burke dispatched Hill, Perla and Mazzei to Boston where they could meet Kuhn and other interested players. The idea was for Hill to evaluate the players for the New York mobsters and also to come on strong, to emphasize that the players were now playing with heavyweights from New York. Hill, Mazzei and Perla flew to Boston and met with Kuhn and one of his teammates, the team captain Jim Sweeney. After meeting with the players, Hill was convinced that the scheme could be a success. He reported this to Burke and his associates and they agreed to go forward with the scheme.

MR. HARMON: Was the point-shaving scheme ultimately a success from the viewpoint of the Lucchese Crime Family?

MR. McDONALD: No. It turned out that the scheme was not foolproof because the players were simply unable to produce on certain games. Mr. Kuhn was a backup center and simply was unable to fulfill the potential that Perla and his associates had in him with respect to fixing games, and the other players who

were recruited to join the scheme proved not to be successful and adept at fixing games. There were certain victories, but over the long haul it turned out that the participants in the scheme, those who were placing the bets, actually lost money. So from the standpoint of the Lucchese Crime Family, they actually lost money during the season.

MR. HARMON: What lessons, as the prosecutor, can you draw from the BC case, Mr. McDonald?

MR. McDONALD: Well, I think there are several lessons to be learned. First of all, even though this scheme did not reap large profits for organized crime, it was very, very serious business. Indeed, it eventually resulted in several criminal convictions, and, as Mr. Kuhn can no doubt attest, several ruined lives.

In addition, this case graphically demonstrates just what role organized crime plays in the corruption of sports and in the fixing of sporting events. While the Mob cannot guarantee success, its absence will doom a fix to failure, or at least minimal profits. Organized crime is required for the placing of large numbers of significant bets. So organized crime is essential to any significant profit.

In addition, organized crime has to provide the necessary muscle, the protection that is necessary, for a scheme to survive and to thrive.

There is one further thing. Any fixer who is not associated with organized crime might as well notify organized crime about the fix right from the start, because they are going to get involved anyway. Once a sports fix becomes successful, bookmakers and their organized crime backers will soon learn about it. Once that happens, organized crime will simply muscle in, because the fixer will have no one else to turn to.

MR. HARMON: Thank you, Mr. McDonald.

Now, Mr. Kuhn, in 1978, while all this was going on, you were at Boston College; correct?

MR. KUHN: Yes, sir.

MR. HARMON: And what year were you in at that time?

MR. KUHN: Starting in my senior year.

MR. HARMON: In the fall of 1978, were you a starter for Boston College or were you not?

MR. KUHN: No, I wasn't.

MR. HARMON: At that time, when these events were taking place -- that is, Jimmy Burke talking to Paul Vario, Paul Vario in turn deciding whether or not

to commit organized crime assets to back this scheme --  
had you even heard of Jimmy Burke?

MR. KUHN: No, I didn't.

MR. HARMON: Did you ever meet Jimmy Burke  
yourself?

MR. KUHN: Personally not.

MR. HARMON: Did you ever meet Paul Vario?

MR. KUHN: No.

MR. HARMON: At that time did you even know  
what the Lucchese Crime Family was?

MR. KUHN: No, I didn't.

MR. HARMON: Where were you born?

MR. KUHN: In Pittsburgh.

MR. HARMON: Is that where you went to high  
school?

MR. KUHN: Yes, sir.

MR. HARMON: And what high school was that?

MR. KUHN: Swissvale.

MR. HARMON: Did you play high school sports  
at that school?

MR. KUHN: Yes, I did.

MR. HARMON: What sports were they?

MR. KUHN: Basketball and baseball.

MR. HARMON: Were you a good player?

MR. KUHN: I achieved All City and All Conference honors.

MR. HARMON: How did your team do in basketball?

MR. KUHN: We tied for the Section Championship and then we lost in the playoffs.

MR. HARMON: After graduating from high school, did you immediately go on to college?

MR. KUHN: No, I didn't.

MR. HARMON: What did you do?

MR. KUHN: I played professional baseball for the Cincinnati Reds.

MR. HARMON: What position was that that you played?

MR. KUHN: I was a pitcher.

MR. HARMON: Had any physical problems that prevented you from continuing to play baseball?

MR. KUHN: I hurt my shoulder.

MR. HARMON: What happened then after you hurt your shoulder?

MR. KUHN: I attended Allegheny Community College in Pittsburgh.

MR. HARMON: So you couldn't play baseball any more?

MR. KUHN: No, I couldn't.

MR. HARMON: When you went to Allegheny Junior College, did you continue with athletics of any kind?

MR. KUHN: Yes, I did.

MR. HARMON: Explain that to the Commission in your own words, please.

MR. KUHN: I played basketball for Allegheny Community College and we had a very good team that year. We ended fourth in the nation. And I personally averaged twenty points and fourteen rebounds.

MR. HARMON: Did you have any connection with organized crime --

MR. KUHN: No, sir.

MR. HARMON: -- while at Allegheny Junior College?

MR. KUHN: No, sir.

MR. HARMON: You then moved on to Boston College; correct?

MR. KUHN: Yes, sir.

MR. HARMON: How were you recruited to go to Boston College?

MR. KUHN: When we were in the national tournament in Kansas, the assistant coach of Boston

College was at the tournament and he invited me to Boston College for a recruiting trip.

MR. HARMON: And who was that that invited you to Boston College?

MR. KUHN: Drayton Miller.

MR. HARMON: Did you go on this recruiting trip?

MR. KUHN: Yes, I did.

MR. HARMON: What took place there?

MR. KUHN: I went for two days, and we had dinner at several restaurants and basically I just had a very good time. And we had a sideline conference between me and Mr. Miller, and was told if I attended Boston College that I would receive money per month, use of a car if I ever needed it, and room and board on campus.

MR. HARMON: Were any of those promises made good, specifically the promises that you would be paid and that you would be given a car?

MR. KUHN: No, sir.

MR. HARMON: What did you think of Boston College during the course of that recruiting trip?

MR. KUHN: I was very impressed by them, the institution itself and the surrounding area.

MR. HARMON: How did you see yourself then as fitting into the team?

MR. KUHN: I thought I could contribute highly to it.

MR. HARMON: Were you interested in playing well and Boston College being a good team?

MR. KUHN: Yes, sir.

MR. HARMON: Any thoughts of taking money for shaving points?

MR. KUHN: No, sir.

MR. HARMON: What kind of team did Boston College have in your junior year?

MR. KUHN: In my junior year? We had a respectable record. We were 15 and 10 that year.

MR. HARMON: What position did you play?

MR. KUHN: Forward and center.

MR. HARMON: Were you one of the starters?

MR. KUHN: My junior year? Yes.

MR. HARMON: Where did you go for that summer, the summer between your junior year and senior year?

MR. KUHN: I returned home to Pittsburgh.

MR. HARMON: Did you get a summer job?

MR. KUHN: Yes, I did. I worked on

construction.

MR. HARMON: Did you know Rocco Perla?

MR. KUHN: Yes, I did. I attended high school with him.

MR. HARMON: Did you know his brother?

MR. KUHN: Just vaguely.

MR. HARMON: Who was it that first approached you with any sort of idea about shaving points?

MR. KUHN: Tony Perla.

MR. HARMON: Initially was the overture made that you should shave points or were you asked for something else?

MR. KUHN: No, initially it was just based on inside information more or less as to how the team was doing, and whatnot, the first conversation.

MR. HARMON: So what Tony Perla wanted first was just inside information?

MR. KUHN: Yes, sir.

MR. HARMON: Like what kind of inside information?

MR. KUHN: As to how the team was practicing, injuries to certain players, you know, pretty much along that line, how we were performing at the time,

whether we thought we could -- how we could play against an upcoming opponent.

MR. HARMON: You were not approached by the godfather with a black shirt and white tie?

MR. KUHN: No, sir.

MR. HARMON: This was your friend's brother?

MR. KUHN: Yes, sir.

MR. HARMON: Correct?

MR. KUHN: Yes, sir.

MR. HARMON: Were you offered any money at the outset to give this information about the team?

MR. KUHN: At the first conversation there was no elaborate discussion on money. It was just along that line, just basically sport talk.

MR. HARMON: Did you see any harm in maybe giving that kind of information to your friend's brother?

MR. KUHN: No, sir.

MR. HARMON: He changed after a while where the subject of point shaving came up?

MR. KUHN: Yes, sir.

MR. HARMON: Under what circumstances did that come up?

MR. KUHN: It was a second conversation with Tony Perla and this is when I met Paul Mazzei. And he asked if we were interested in making money on the upcoming season as to keeping opponents in the game. This was the conversation where the point shaving came in.

MR. HARMON: What was the offer at that time?

MR. KUHN: \$2,500 a game per player.

MR. HARMON: How many games?

MR. KUHN: Seven to nine games.

MR. HARMON: So this looked like big money to you, or did it not?

MR. KUHN: It looked like big money.

MR. HARMON: So this was \$2,500 per player per game?

MR. KUHN: Yes, sir.

MR. HARMON: Did they tell you what they expected you to do as one of the players?

MR. KUHN: In that reference, just see to it that the game would never go beyond the point spread.

MR. HARMON: So at least at the outset you were not asked to do anything that would cause Boston College to lose a game, is that right?

MR. KUHN: That's true.

MR. HARMON: Just win, but win within a certain amount.

MR. KUHN: Yes, sir.

MR. HARMON: Was there an agreement made that the Providence game would be a test game, so to speak, to see how the scheme worked out?

MR. KUHN: Yes, sir.

MR. HARMON: How did that work out, the Providence game?

MR. KUHN: I believe the point spread was around 8 points and we ended up beating Providence by 16 points. So therefore the gamblers that bet on Providence lost.

MR. HARMON: How did that happen that the game got out of hand and Boston College ran Providence out of the gym, so to speak?

MR. KUHN: Yes, sir.

MR. HARMON: How did that happen?

MR. KUHN: We were playing very well, and then as it got down to the final part of the game, the coach substituted, put in the substitutions, and they just ran the score up.

MR. HARMON: During that summer when you were approached by Perla, did you think you were going

to be a starter when the fall came around?

MR. KUHN: Yes, sir, I did.

MR. HARMON: And before the season began were you one of the starting five?

MR. KUHN: In preseason, yes.

MR. HARMON: And did that change at all by the time the season began?

MR. KUHN: It changed about in the second or third game into the season.

MR. HARMON: How did it change?

MR. KUHN: I became sixth, seventh. I was no longer in the starting five.

MR. HARMON: Was that something that you expected, to be sixth or seventh man on the team?

MR. KUHN: No, it wasn't.

MR. HARMON: Did you think it was justified?

MR. KUHN: You always feel it is justified if it is for the better of the team, but in your own mind, no, it is never justified.

MR. HARMON: During the course of the Providence game I assume you played; correct?

MR. KUHN: Yes, sir.

MR. HARMON: And you knew that you were expected to bring Boston College within the point

spread, is that right?

MR. KUHN: Yes, sir.

MR. HARMON: Is that something that affects a player from the beginning of the game to the end of the game, this thought that "I have got to bring the team within the point spread"?

MR. KUHN: I would say it doesn't have an effect through the the whole game. It really doesn't become apparent, really, until the final five minutes of the game where it is the most crucial point of the game. Because throughout the game the tempo can change.

MR. HARMON: So if anybody is looking for signs of point shaving they should look in the last few minutes of a game; is that fair enough?

MR. KUHN: Yes.

MR. HARMON: Is that what you would recommend to college coaches, for example?

MR. KUHN: Yes.

MR. HARMON: That if that is where you are going to look during a game, that is when you should look?

MR. KUHN: Yes.

MR. HARMON: How about the Harvard game that year, 1978? Was that a game that stands out in your

mind?

MR. KUHN: Yes, it was.

MR. HARMON: Could you explain in your own words why that game stands out to you?

MR. KUHN: That was a game that the bettors were betting on Harvard to win, I believe the point spread was 7 points, and we beat Harvard by 3. So therefore the gamblers won.

MR. HARMON: Did you actually, to your recollection, make any plays towards the end of the game which caused Harvard to stay within reach, so to speak?

MR. KUHN: Yes, sir.

MR. HARMON: Describe that to the Commission, please.

MR. KUHN: I committed a foul on a player, which eventually turned into a 3-point play. So I think it was a time we were winning by 8 points and with the play we were only winning by 5 points.

MR. HARMON: Were you ever asked to actually lose a game?

MR. KUHN: No, sir.

MR. HARMON: How about the Holy Cross game?

MR. KUHN: We were asked, yes.

MR. HARMON: Was Holy Cross a big rival and does Holy Cross continue to be a big rival of Boston College?

MR. KUHN: Yes, sir.

MR. HARMON: Who asked you to throw the Holy Cross game?

MR. KUHN: The gamblers through Tony Perla.

MR. HARMON: What was your reaction to that?

MR. KUHN: That Holy Cross was our biggest rivals and it was just too important of a game; that we wouldn't attempt to try and lose the game.

MR. HARMON: Drawing upon your own experience can you point to any times when college basketball players, in your view, are most vulnerable to this kind of overture to take money for affecting the outcome of a game?

MR. KUHN: In their junior or senior years when it becomes a reality to them that they are not going on to a lucrative career, whatnot, that they are vulnerable to such offers.

MR. HARMON: Did you consider yourself basically a basketball player or basically a student while at BC?

MR. KUHN: I considered myself more of a

basketball player than a student.

MR. HARMON: Would you explain that, please.

MR. KUHN: When you go to the college you are more or less classified when you arrive there as being an athlete, you are separated from the rest of the students, sometimes you are put in special dorms; when you walk across campus, you are recognized as an athlete; you have the special meals, the study halls. So more or less you are formed into that; you are the athlete before the student.

MR. HARMON: Turning to a couple of other questions, the point spread that is published daily by some newspapers, for example, can you point to any instances where the point spread in a particular BC game affected the performance of BC one way or the other?

MR. KUHN: Yes, sir.

MR. HARMON: Will you explain that, please.

MR. KUHN: In our junior year we were playing Georgetown, and Georgetown at the time was undefeated and they were ninth in the nation. And we were a 15-point underdog. And I think that inspired us to play beyond our abilities, and we ended up beating Georgetown by 14 points. It had been at one point

during the game where we were winning by 24, 25 points. So at that point I think it made us play beyond our abilities.

And a time where it had a negative effect was my senior year we were playing St. John's and we were playing them on a Tuesday night and we got into New York on Monday, and Monday is the day that the college polls come out. And they had us ranked 20th in the nation. And we were favored to beat St. John's by, I think, 5 points. So I think we just looked at that and expected first to walk out on the court and that it was going to happen, that we were just going to walk away with the victory. And we really didn't have to play up to our abilities. And we ended up losing by 9 points.

MR. HARMON: Aside from offering \$2,500 a game per player, were you offered anything else by Henry Hill, Mazzei and Perla?

MR. KUHN: Yes, we were. We were offered drugs, women, cars.

MR. HARMON: Were you offered any opportunity to bet your winnings?

MR. KUHN: Yes, sir.

MR. HARMON: Could you explain that, please?

MR. KUHN: That if we wanted to bet -- of the \$2,500 that was promised to us, if we wanted to bet any part of it or all of it on the games, or any games, that they would take our bets.

MR. HARMON: At the time was it any concern of yours that organized crime might have been behind this approach to you as a basketball player?

MR. KUHN: No. At the beginning, throughout, organized crime was never on my mind, it was never, like, it wasn't an influence there.

MR. HARMON: What was the motivating factor?

MR. KUHN: When I received a phone call from Henry Hill, saying I couldn't play basketball with a broken arm, it was then that I was sort of in over my head.

MR. HARMON: And you had a pretty good idea at that point that, so to speak, there were some heavyweights --

MR. KUHN: Yes, sir.

MR. HARMON: -- behind this.

MR. KUHN: Yes, sir.

MR. HARMON: Now, if you knew at the time that in order for this scheme to go ahead that somebody like Henry Hill -- whom you met, correct?

MR. KUHN: Yes, sir.

MR. HARMON: -- that somebody like Henry Hill was going to need the blessing of a Capo in a Mafia family, and an entire network of bookmakers was going to have to be mobilized by organized crime, would you have looked upon this approach any differently than you did at the time?

MR. KUHN: I wouldn't have became involved.

MR. HARMON: Did you ever entertain any thoughts about getting out of this, getting out of the scheme at the time?

MR. KUHN: No, because at the time it was, like I just stated, it didn't seem to be so widely spread. I wasn't aware of how deeply involved I really was.

MR. HARMON: Did these guys make good on their promises of \$2,500 a game?

MR. KUHN: No, sir, they didn't.

MR. HARMON: So that gave you second thoughts?

MR. KUHN: Yes, sir.

MR. HARMON: Were you the only player that was involved in this?

MR. KUHN: No, sir, I wasn't.

MR. HARMON: Did it become obvious fairly quickly that one player really couldn't control the outcome of a game, at least a player in your position?

MR. KUHN: Yes, sir.

MR. HARMON: What kind of conclusion can you draw from that, or what kind of statement can you make as to how many players have to be involved in this kind of a scheme if it is to succeed?

MR. KUHN: With the way offenses are run today, where there is a minimum of eight ballplayers involved, it would take, in order for a point-shaving scheme to be successful, four or five of the eight to be involved.

MR. HARMON: What sentence did you receive, Mr. Kuhn?

MR. KUHN: I was originally sentenced to ten years.

MR. HARMON: How did the judge while you were there explain the reason that he was sentencing you to ten years?

MR. KUHN: He said that it was to be an example, to be a detriment to future ballplayers who may be tempted along the same lines.

MR. HARMON: Do you think it worked out that

way, that the example that was made of you served as a deterrent for other players?

MR. KUHN: No, sir, I don't.

MR. HARMON: Why don't you explain that, please.

MR. KUHN: I think that it had a negative effect, because people became sympathetic for me for the ten years that I received, and they forgot that I had been convicted of a serious crime.

MR. HARMON: Serious in what way?

MR. KUHN: Serious that I broke a promise to Boston College and to myself, but not serious in the nature of the crime because when you stop -- who was hurt?

MR. HARMON: Who was hurt?

MR. KUHN: The only people that were hurt by it were bookmakers.

MR. HARMON: And who was hurt personally the most?

MR. KUHN: Myself and my family.

MR. HARMON: Are you still in jail as you sit here today, correct?

MR. KUHN: Yes, sir.

MR. HARMON: What are your plans for the

future as you see them, Mr. Kuhn?

MR. KUHN: Hopefully to go home, I have plans to get married in the spring.

MR. HARMON: What advice would you give to any other player that is approached by a friend of his or the friend's brother who wants a little bit of information on the team, based on your experience?

MR. KUHN: That if they are ever approached by a friend, a relative, never to alter their priorities, to maintain their goals and not jeopardize their future.

MR. HARMON: Is there anything else you would like to say?

MR. KUHN: Yes, I would. At this time I would like to apologize to my family for being involved in this and to thank them for standing beside me throughout. I would also like to thank my fiancée, Barbara Hack, for standing beside me throughout. I would like to apologize to Boston College for involving the institution in this scandal and to coach Tom Davis and my teammates for forgetting one major rule, that there is no "I" in "team." I would like to thank the Chairman and the fellow Commissioners for giving me an opportunity to speak here today.

MR. HARMON: Mr. Chairman, these witnesses are prepared to answer questions from the Commission.

CHAIRMAN KAUFMAN: Let me ask Mr. Kuhn just one or two questions, and if the Commissioners would like these gentlemen to return after lunch, we can arrange that.

May I say on behalf of the Commission, Mr. Kuhn -- I address you in the main, and of course that does not mean it diminishes our gratitude to the other two gentlemen who testified -- but it took a good deal of courage to come here and speak up as you did, and you have the gratitude of the Commission for doing that. I think it should serve as quite an example for college athletes who pretend to be playing for the sport but instead are reaping financial benefits from organized criminals and others.

To be more specific, may I ask you, when is your term up?

MR. KUHN: I finish in December of this year.

CHAIRMAN KAUFMAN: You will have served how long?

MR. KUHN: 28 months in all.

CHAIRMAN KAUFMAN: Do you think an incident such as yours could be avoided if college athletes were

paid a sum of money by the college directly and it was in the open that they were being paid and they were in effect professionals?

MR. KUHN: Yes, sir, I do, because a scholarship athlete is not allowed to maintain a job throughout the college year, so therefore he has no money. So if you give him a salary or whatnot, you are taking away a temptation.

CHAIRMAN KAUFMAN: Is it your feeling that the outstanding college athletes in effect are being paid in some fashion?

MR. KUHN: Yes, sir.

CHAIRMAN KAUFMAN: Can you enlarge on that?

MR. KUHN: I think some are receiving funds on the sideline from alumni. There have been tickets sold, two tickets for a home game, sold for a thousand dollars. Those are some pretty good seats.

CHAIRMAN KAUFMAN: Yes. I believe that that is all I will ask at this point. Does anybody want them to return?

COMMISSIONER MANUEL: Yes.

CHAIRMAN KAUFMAN: Suppose you return at 1 o'clock, gentlemen. Thank you. We will recess until then.

(Luncheon recess)

AFTERNOON SESSION

1:20 p.m.

CHAIRMAN KAUFMAN: I think Commissioner Guste was about to ask you a question, Mr. Kuhn.

COMMISSIONER GUSTE: Mr. Kuhn, I wanted to pursue something in your statement to the effect that you testified that you were at one point offered drugs.

MR. KUHN: Yes, sir.

COMMISSIONER GUSTE: Was there a drug problem on the basketball team at Boston College while you were there?

MR. KUHN: No, sir.

COMMISSIONER GUSTE: What did you think about the offer made by the man concerning drugs? Was that a usual thing to you? How did you consider that?

MR. KUHN: I think it was something along the line to further entice us into the scheme.

COMMISSIONER GUSTE: Let me pursue that line with you, Mr. McDonald. Based on your experience as a prosecutor what is the connection, if any, between drug use and the fixing of either professional or amateur sports for the benefit of gamblers?

MR. McDONALD: We found in two of the four sports corruption cases that we have had in my office

that cocaine was offered as an inducement to the, in one case jockeys, in the other case basketball players. We are not talking about a situation where there was addiction, but simply that cocaine -- and this goes back a period of about six, seven, ten years -- was offered as an inducement to the sports participant to get them to go along with the fix. I think that in the last decade, the last few years, that cocaine use has become much more widespread throughout the country and especially among athletes, both on a professional and amateur college level. So I think that the likelihood of the offer of narcotics, primarily cocaine, is much greater now than it was in 1978 when Mr. Kuhn was approached.

COMMISSIONER GUSTE: Do you see the use of the cocaine in the manner which you described as an indication of vulnerability, as far as professional and college sports are concerned, to the temptations posed by gamblers?

MR. McDONALD: I can't say that I have any direct experience with that type of thing and that I know of any specific instances. I can only speculate.

COMMISSIONER GUSTE: What is your opinion?

MR. McDONALD: My opinion is that the

widespread use of cocaine and possibly other narcotics, primarily among amateur athletes and college athletes, makes their susceptibility to a bribe much greater than it would be if they were not involved with the use of narcotics.

COMMISSIONER GUSTE: One final question, Mr. Kuhn. How did you get caught?

MR. KUHN: By Henry Hill, through Henry Hill. He was arrested and I believe when, as I indicated earlier --

COMMISSIONER GUSTE: He provided the evidence that uncovered your participation in the fixing scheme?

MR. KUHN: Yes, sir.

MR. McDONALD: Perhaps I can address myself to that, if you like. Mr. Hill was indicted on seven separate indictments in Nassau County on state charges of narcotics trafficking, and after he was indicted he decided to cooperate with both my office and with the state authorities. Primarily we were interested in his participation in the Lufthansa robbery, the multimillion-dollar cargo theft, or actually the theft of several million dollars in cash and jewelry from the cargo building in 1978, in which Hill was a participant.

In the course of debriefing Hill about that case we came sort of by coincidence on to the BC case. Hill having been involved in so many criminal activities didn't even realize that what he had done in connection with the BC case was a crime.

COMMISSIONER GUSTE: So that, in point of fact, at the same time he was a narcotics trafficker and a fixer of college basketball games, among other things.

MR. McDONALD: And he was one of the planners of the Lufthansa robbery. The crew that he was associated with was involved in a wide variety of criminal activity, ranging from murder, gambling, to widespread extortion, and very, very significant economic crimes.

COMMISSIONER GUSTE: Very interesting. Mr. Chairman, that is all I have.

COMMISSIONER MANUEL: Mr. Kuhn, I have a few questions. First of all, how long was it from the time you were approached till you realized that organized crime was involved? Was it a matter of weeks, months?

MR. KUHN: Originally I was first approached in the summer, in July, and the first time I realized

organized crime was involved was February.

COMMISSIONER MANUEL: Also, had you not heard of any of the previous scandals involving similar situations?

MR. KUHN: Not really, no.

COMMISSIONER WUNSCH: I was interested to hear your comments that in college there are athletes and then there are students. I think we have that filtering on down to high school now. We recently passed a law in Texas, and it maybe needs to be considered at the college level, where it is referred to as "no pass, no play," and obviously I don't think it will be but your comments were interesting.

MR. KUHN: I agree with you that there should be something along that line, that a required grade level should be instituted. I believe right now a 2.0 average is required. I really don't think it has been enforced greatly, and it needs to be, without a doubt.

COMMISSIONER HOPE: Mr. McDonald, Mr. Kuhn has expressed his view that his sentence was so harsh that it really backfired. What is your view on that and did you request the sentence?

MR. McDONALD: We requested a substantial

•

sentence of incarceration. We subsequently supported Mr. Kuhn in his efforts to have his sentence reduced and indeed the sentencing judge did reduce the sentence from a period of ten to four years of incarceration. The impression I had when Mr. Kuhn said that it had the reverse effect, I think it had the reverse effect upon him, that people didn't look on him as a serious offender or criminal. With respect to the deterrent effect the judge intended when he imposed such a heavy sentence, I think that one would expect that it would have a deterrent effect on some athletes, on some college athletes. Obviously it appears from what we read in the paper, at least from the indictments in New Orleans, that it might not have had a deterrent effect on some of the athletes there, but I think the intent of the judge was that it have a deterrent effect on the other athletes, and I would speculate that it has had such a deterrent effect.

COMMISSIONER HOPE: What would you recommend that we consider as an appropriate kind of sentence for athletes who are involved in these kinds of illegal activities?

MR. McDONALD: As with any type of sentencing I think that you have to consider a whole

number of factors and I think you just can't look at the crime itself. I think you have to look at all the circumstances surrounding the crime. Perhaps at the outset you have to look to see whether the player was victimized, whether he was essentially threatened into joining the scheme. Sometimes there is a fine line between a bribe and an extortion or a threat. You have to look at all the circumstances surrounding the crime itself and you also have to look into the circumstances of the player's background.

In Mr. Kuhn's situation it was rather unfortunate that we solicited his cooperation against the organized crime figures and the people in Pittsburgh, and unfortunately for Mr. Kuhn he did not see fit to cooperate at an early stage of the prosecution, that is, before he was indicted and prosecuted. Obviously if he had chosen to cooperate we would have recommended that he be treated rather leniently. So that is another factor that has to be considered with respect to athletes.

So I think it is very difficult to prescribe any sentence based on the type of criminal activity. There is certainly a wide scope or a wide sentence range that a sentencing judge can impose, and I think

that that is probably something that should remain discretionary with the sentencing judge.

COMMISSIONER HOPE: Thank you.

I have one question, if I may, Mr. Chairman, for Mr. Kuhn. You said in your testimony, Mr. Kuhn, as I recall it, that you thought it was really a victimless crime and that the only people that got hurt is the bookies, is that right?

MR. KUHN: Yes, ma'am.

COMMISSIONER HOPE: I have a teenage son who is a pitcher and indeed a fine baseball player and a pretty good basketball player, and I would say, and I would like your views on this, that every high school kid coming up and every aspiring athlete in the college level is hurt or is threatened or is in danger, and the whole system of amateur athletics in this country is in danger by point shaving and bribery and the other things of which you too were a participant and are a victim of. I would like to hear your views on that.

MR. KUHN: I didn't make myself clear. I agree that also along with the victim, the integrity itself of college sports was damaged badly by it, and also the people who watch the game on TV, be it your son or anyone else's, that they were damaged by it

because just by the reputation alone, without any incident, was that on purpose or did the person make the bad play just because it was a bad play, or was it involved in scandal?

CHAIRMAN KAUFMAN: It puts the integrity of all sports into question, particularly for spectators who are watching it for enjoyment and leisure and pleasure and think they are watching something that is legitimate and it isn't.

MR. KUHN: Yes, sir.

CHAIRMAN KAUFMAN: That is a grave danger. Millions of dollars are being expended to bring that to the public, with the implication that they are seeing something that is appropriate and proper.

COMMISSIONER HOPE: I would just say in conclusion, Mr. Kuhn, that I hope that when you are released from prison that no matter what your profession is you spend a lot of your time talking to athletes at the college and high school level about the dangers, because I think you can tell it like it is and it is a very important message.

MR. KUHN: That is my plan for the future, ma'am, because I see a great need for just that, because it is heading in the wrong direction, and being

I started it or what not, but I see myself as a route of stopping it, because as you say, I can speak from experience, and I think that is very important now.

CHAIRMAN KAUFMAN: We thank you gentlemen for appearing before this commission. It is very helpful particularly to have you, Mr. Kuhn, testify openly as you have. It takes courage and it takes will to admit a grave mistake such as you made in the open so that millions of people may be able to view it. You are a young man and you have a life ahead of you. I hope it is, as Commissioner Hope tried to point out, an example for those who are engaged in athletics in high school and in college. Thank you very much.

Call your next witness.

MR. HARMON: Mr. Chairman, the next panel of witnesses consists of John Davis, the president of the NCAA, Lou Carnesecca, basketball coach at St. John's, and Vincent Doria, the sports editor of the Boston Globe. I would ask those three gentlemen to please come forward, if they would, to the witness table, and I would ask the marshal as they take their positions to please swear the witnesses.

JOHN DAVIS, LOU CARNESECCA, and VINCENT DORIA, were called as witnesses and, having been duly sworn, were examined and testified as follows:

MR. HARMON: Mr. Chairman, as you and the Commission are aware, the NCAA has recently met and adopted some measures which in the view of the staff of the Commission could tend to minimize the vulnerability of college athletes down the road to overtures made by organized crime. We have asked Mr. Davis to come and address those issues before the commission. We have also, as part of an effort to secure an overall perspective on the problem, asked Coach Carnesecca to come in, whose team last year posted a 31 and 4 record and was one of those to reach the finals of the NCAA, as well as Vincent Doria, who himself, as editor of the Boston Globe, followed the Boston College case in some detail.

Perhaps I could turn to you first, Mr. Davis. We have your prepared statement in advance. You may at your choosing deliver the statement in whole or in part.

MR. DAVIS: Thank you, Mr. Harmon. Mr. Chairman, members of the commission, my name is John R. Davis. I am the current president of the National Collegiate Athletic Association, the NCAA, an

unincorporated association of some 980 four-year colleges and universities and allied organisations.

With me is Mr. Michael Scott, partner in the Washington law firm of Squire, Sander & Dempsey, legal counsel for the NCAA.

Formed in 1906, the NCAA is dedicated to the promotion, improvement and regulation of intercollegiate athletics. Competitive athletics are designed to be a vital and integral part of the educational programs maintained individually and in common by our member institutions.

I appear before the Commission today to draw your attention to one of the most serious problems affecting the integrity of intercollegiate athletics programs in the 1980's: the individual and combined threat of drugs and gambling to the programs of our members and the 270,000 student athletes presently participating in those programs under the auspices of the NCAA.

Two months ago, hard on the heels of exposition of the most recent point-shaving scandal involving intercollegiate basketball, the governing NCAA council unanimously adopted the following statement:

"The ominous combination of point shaving (or game fixing) and use of drugs by student athletes has come into full view. The potential for the destruction of intercollegiate athletics' integrity from either already has been recognized. Their combination more than doubles that threat. The honesty of competition in the public's eye probably is more important than even the integrity of an academic record or the financial aid rules of the institution."

The tragic social problem involved in the availability to the nation's young people, including college students, of marijuana, cocaine, heroin and numerous other illicit drugs is of course well documented. Students engaged in intercollegiate athletics are by no means insulated from that problem, but as noted by the NCAA council, the problem is exacerbated in intercollegiate athletics by the pressures and influences, often involving drugs, of those who would bet on or affect the outcome for betting purposes of college games.

It will thus not come as any surprise to the Commission to learn that the NCAA is flatly opposed to any form of gambling on intercollegiate sports events and will support any legislative effort, federal or

state, which would make such practice illegal or would otherwise impede the opportunity to gamble on the outcome of such events. The NCAA has taken a strong antigambling position because of the particular vulnerability of intercollegiate sports programs and their young participants to the undesirable side effects of gambling.

Gambling on intercollegiate athletic contests is clearly inconsistent with fundamental concepts of amateurism in sports and raises questions whether college sports conducted in such an atmosphere remain valid educational programs.

Gambling increases the pressures and responsibilities already placed on college athletes by adding to the already existing academic and competitive pressures, the pressures of defending themselves against harassment by gamblers seeking to gain an edge from inside information and against improper attempts to influence the outcome of events in which they participate. Further, where gambling exists, suspicions about the integrity of the competition inevitably arise.

Tampering with intercollegiate sports events is not a "victimless" crime. Its victims include, one,

the student athletes directly involved; two, other student athletes who may be subjected to pressures from gambling interests or whose honesty may be called into question when their efforts appear to be responsible for a failure to "beat the spread"; three, all participants in intercollegiate programs, the value of which may be questioned if tainted by an association with gambling; four, the colleges and universities whose reputations for integrity may be affected; five, those young persons who adopt student athletes as role models and who emulate their life styles and behavior both on and off the field.

Dramatic current evidence of the impact of gambling on an institution itself can be found in the recent decision of Tulane University to drop intercollegiate basketball in the wake of a point-shaving scandal.

In 1976, the President's Commission on the Review of the National Policy towards Gambling reported that: "In terms of gross volume of betting sports wagering today is the number one form of illegal gambling in the United States." The NCAA is not aware of any data to suggest that this statement is any less true in 1985.

Although the Commission does not distinguish between the volume of illegal betting on professional or amateur contests, it is unfortunately safe to assume that betting on college football and basketball -- betting information which is widely and regularly published by professional gamblers, and indeed some of the nation's largest and most prestigious newspapers -- annually involves hundreds of millions of dollars.

Notably, the President's Commission on Gambling in its final report took a vigorous stand in opposition to gambling on amateur events. I will quote from that report:

"The commission strongly recommends that there be an absolute prohibition against the inclusion of wagering on amateur sporting events in legalization (of gambling that might occur). While the commission recognizes that some amateur events already are the objects of illegal wagering nationwide, it cannot condone the utilization of wagering purposes of educational institutions and similar organizations dedicated to the improvement of youth.

"This opinion is in part predicated on the fact that young athletes of high school and college age are far more impressionable and therefore are in

greater danger of being subjected to the temptations of player corruption. Additionally, unlike professional sports leagues, particularly the NFL, amateur athletic associations do not have enforcement or investigative capabilities which would enable them to maintain sufficient safeguards."

Regrettably, no action has occurred in the ensuing nine years to give any effect to this recommendation of the commission. The situation has now become even more serious. As noted in the beginning of this statement, the NCAA is increasingly aware that a nexus exists between the introduction of drugs into the collegiate athletic scene and gambling on intercollegiate events, at least in terms of efforts by gamblers to affect the outcome of a college contest by bribery.

To be frank, we at the NCAA have no hard information that there is a direct link between organized crime on the one hand and drugs and gambling in the college scene on the other. But from our conversations with federal law enforcement authorities we believe this simply is a probability that cannot be ignored. What we do know is that legal and illegal gambling and the illegal distribution of drugs, both

separately and combined, threaten to destroy the integrity of major college sports programs and threaten the well being of the young men and women who are involved in those programs.

We at the NCAA believe that the time has come directly to confront the issue of gambling on college and other amateur sports events. We believe that the Gambling Commission's recommendation in 1976 that gambling on these events be made illegal should be implemented by federal legislative action now. We thus urge this Commission to recommend to the President that he propose legislation to the Congress prohibiting such gambling on college and other amateur sports events, whether involving interstate or intrastate activity. You may be assured that we and our members will provide maximum support for such initiatives and I am absolutely confident that strong support will come from the nation's high school administrators and from other amateur sport administrators as well.

We also believe that existing federal antigambling legislation should be amended to permit more effective response to gambling on collegiate contests. This would first involve amending the federal sports bribery statute, as indicated on the

card to my right, which presently relates only to the utilization of the facilities of interstate commerce to cover purely intrastate activities as well, when those intrastate activities relate to intercollegiate athletic competition.

Second, the NCAA proposes that the statute prohibiting the interstate transmission of wagering information by gambling businesses be amended to limit the exception to the prohibition, presently existing in the statute, for the news reporting of sports events to exclude the transmission of odds or point spread information relating to intercollegiate athletic contests. Although it is clear that such an amendment would not have the effect of eliminating in the nation's newspapers information relating to gambling odds and point spreads, it would have the effect of preventing gambling businesses from supplying such information and would thereby impede, we believe, gambling on intercollegiate sports events.

Quite frankly, were it not for apparent constitutional limitations, the NCAA would favor federal legislation which prohibited the publication by the nation's newspapers and other media of gambling information relating to intercollegiate events.

The NCAA also intends to develop a model state bill prohibiting wagering on amateur sports events. We anticipate that once this bill is drafted our member institutions, many of which are state supported institutions, would be in a position to spearhead a legislative effort to gain adoption of the model legislation -- although we recognize that implementation of any model legislation is a time consuming process. As indicated above, our strong preference would be for passage of a federal law preempting the entire issue.

The Commission should be aware that in the past few weeks representatives of the NCAA have been engaged in intense discussions with both the Federal Bureau of Investigation and the U.S. Drug Enforcement Administration, to attempt to establish the basis for an increased level of cooperation between those agencies and the NCAA and its members.

Although it is premature fully to outline the major points of this program of cooperation, it is reasonably safe for me to say that both agencies have expressed an enthusiastic willingness to participate in a major expansion of drug education clinics for college athletic department personnel and for student athletes

engaged in intercollegiate athletics. It also appears likely that the FBI will be willing to extend its already existing education program concerning the dangers of gambling -- presently conducted in cooperation with some of the professional leagues -- to the intercollegiate athletic scene as well.

The objectives of this latter program would be to advise athletic department staff members, coaches and student athletes that illegal gambling and/or sports bribery is a criminal offense that could induce disciplinary and eligibility penalties for the institution and participants; to identify subjects and the "types" of individuals that may attempt to obtain information that would aid organized gambling; to review the history of point-shaving scandals in intercollegiate athletics and the effect they have had on the institutions and the individuals involved; and to announce that the FBI and the NCAA will accept any information of sports bribery and gambling on a confidential basis.

As part of this program the NCAA council intends to propose an amendment to current NCAA legislation, to be considered next January, that would require institutional staff members and student

athletes fully to cooperate with the NCAA and institutional representatives administering investigations that involve gambling and sports bribery, drug distribution or drug use that are allegedly involved in intercollegiate athletics. Failure to cooperate in this regard would result in a particular individual being found in violation of the NCAA principles of ethical conduct and therefore subject to disciplinary action for staff members and loss of eligibility for student athletes.

The NCAA has already advanced the substantial drug education program and has adopted rules and regulations governing intercollegiate competition in order to maintain such competition within reasonable educational boundaries and control and to prevent the exploitation of the competition and the participants therein. Included are specific rules aimed at destroying or minimizing the opportunities for organized gambling in intercollegiate athletic events. We also contemplate adopting internal operating procedures directing each of our staff investigators to include in any investigation of an alleged violation of our rules an inquiry concerning possible gambling activities.

At the next NCAA convention legislation will be proposed to provide for drug testing of participants in both contests and NCAA championship events. We hope to begin implementation of this program in the 1986-87 academic year.

We very much appreciate this opportunity to appear before the Commission and strongly urge that the Commission give serious consideration to support of the legislative and other initiatives that I have just discussed. We are, moreover, fully prepared to cooperate with the Commission in developing additional information concerning criminal activities relating to either gambling or drugs on the college scene and welcome the opportunity to work with your staff in this respect.

I am happy to respond to your questions later and Mr. Scott will help me if necessary.

MR. HARMON: If I could, Mr. Chairman, turn to Coach Carnesecca at this point and point out, as you may not be aware, Coach Carnesecca, that La Cosa Nostra has its most prominent presence of anywhere in the nation in New York City, that you have seen from the Commission survey that illegal gambling is a number one money maker for organized crime in the northeast.

Notwithstanding that, St. John's has been untouched by any of these kinds of scandals that we have heard about. I wonder, Coach Carnesecca, if you could explain to the Commission whether, notwithstanding that, this subject about which we have spoken today is something of concern to you as the coach of St. John's.

MR. CARNESECCA: First of all, we were touched in the '60s, unfortunately. It is a problem that has troubled us very much. I hope and pray that our kids are never tainted.

What can a coach do? I think first of all it is one of education. You hope that when you are recruiting you recruit good people. However, sometimes it is difficult to fully get to know a person. But as a coach what can you do? I think the basis is one of education. What do I mean by that? From the very onset, from the day they come to school, I think they have to be informed that there are people out in this world looking to take advantage, there is no doubt in my mind about that. What do we do at St. John's, and I don't know if it is enough, first we have a promissory statement where the athlete comes and reads it, whether in the event anyone should meet him, be it at a bar, at a restaurant, be it anywhere, even if it is in the

manner of a joke, that they report it to the athletic department.

The second thing they do is read the law itself, that there is punishment involved here, that there are laws that govern these situations. So the man says to the coach I didn't know it was against the law, I thought it was a joke. Why do I say it? It was in the '60s that a young man received a phone call and he said, "Coach, I didn't know that I was supposed to report that." Once again, he can't say he didn't know that.

What can you do as a coach? Also try to look at the company he keeps; very important. What type of individuals does he hang around with? These are very important. Does he flash things? Do you see all of a sudden does his mode of living change, his clothing, does he flash money? These are some of the things a coach can do.

Now, what about practice time? I think it is important. As of lately I have closed my practices. In the beginning I used to leave it open. As of lately people will send stringers in to just watch the practice, is anyone hurt, what's happening, is this fellow behaving in a certain way, is he playing well?

They are looking for the edge. Therefore, as a coach you can try to eliminate it. What about on the day of the ballgame? You try to keep people away from it. We have a routine started by Coach Lapchick way back in the '60s and even in the '50s. Let's go back before that. There were games that were fixed even in the '30s, and if I want to get historical, the Greeks and the Romans have been known to throw a few games themselves. What Coach Lapchick would do, at 4:00 he would gather the players, bring them to a hotel on the road and at that time there would be no incoming calls and there could be no outgoing calls unless you had permission from the coach.

We still do that today. The change comes around 6:00, when the line will change. That's when they want the latest line, when they are sure of their bet. So we try to keep that away.

Also, we try to keep it as quiet as possible, stay away from the fans too. That's important too. As we said before, an enemy is not going to come in and try to dump a game. It's going to be someone who has romanced you, someone who has gotten your confidence. It's not going to be an outsider, it will be one who has an in with the player.

You do try to watch over their habits as much as you can but as a coach, let me say this in all honesty, I do worry and I do pray, with all that we try to do to make it as tough as possible for anybody to try to taint our young men. It is a problem, one which I really am concerned about, and after 35 years of coaching I still worry about it today.

CHAIRMAN KAUFMAN: Thank you.

MR. HARMON: If I could, Coach, I wonder whether you share the view of the president of the NCAA that gambling under no circumstances should ever be legalized on amateur college scene?

MR. CARNESECCA: I would have to agree with that statement and I am glad that the NCAA has taken such a strong stand now. I think it is long in coming. This latest they had in New Orleans really came on strong. I think they should be congratulated for that.

MR. HARMON: If I could, and thank you, Coach Carnesecca, turn to Vincent Doria and first thank him for coming to answer a very difficult question, one that has really produced a split among journalists. That is the extent to which point spreads should be published under any circumstances. There are very few who I think would have come to join this discussion

today before the Commission on that particular question, Mr. Doria. On behalf of the Commission I would like to thank you for that.

Based upon your research, how prevalent is it for newspaper publications to print the point spreads on college athletics?

MR. DORIA: Let me give you some figures here without boring you with a lot of statistics. I am going to give you a couple of figures from two recent surveys that were taken by the Associated Press Sports Editors Association, which is an organization made up of over 350 sports editors from well over 200 papers around the country. The first survey was taken in 1982, the second in 1984. During that two-year period papers running pro football lines increased from 67 percent to 77 percent; those running lines on other pro sports increased from 39 to 48 percent; those running lines on college football increased from 50 percent to 70 percent.

Among large newspapers -- those are circulations over 175,000 -- in 1984 92 percent were running pro football lines, 70 percent were running lines on other pro sports, 84 percent were running college football lines, and 68 percent were running

lines on other college sports, primarily basketball.

I am not here to rebut --

CHAIRMAN KAUFMAN: Excuse me a moment.

Could you very simply for the benefit of the public tell us what you mean by running the line.

MR. DORIA: Running a list of point spreads, for college basketball, professional basketball, professional football and so forth.

CHAIRMAN KAUFMAN: And they indicate a spread between the winning team and the losing team?

MR. DORIA: Yes. This would be the sort of information that would say that Boston College is a 7 point favorite over North Carolina in a football game.

I can't rebut the argument that running this material promotes an activity that is illegal and I am not going to try to make a case that all this information is of interest to the nongambler. He may well be interested in the fact that Boston College is a 7-point favorite in a football game over North Carolina, but the fact that Winnipeg is a goal-and-a-half-to-a-goal favorite over Calgary in a February National Hockey League game is only of interest to the hard core gambler. And the Globe runs that information.

But I think most newspapers have come to the

conclusion that gamblers are readers too, and in fact they are very avid readers of the sports section, and I think most of us believe at this point that they deserve to be serviced.

My personal point of view is that I don't think gambling is going to go away. You can arrest neighborhood bookies and crack down on major gambling rings but the guy who wants to place a bet on a game is going to find a place to do it. I think the only way is to take it away from organized crime by making it legal and letting the government regulate it. I don't think there is anything inherently wrong with gambling. Like drinking, smoking, eating, it can be abused. We have heard a lot of sad stories about the down and out gambler who loses his business, his home, his family. They make very compelling reading. But with all those stories, there are thousands of people who derive great enjoyment from making modest bets.

Somebody is going to address that market. Right now organized crime has recognized that market and is serving it. There is no reason the government can't do that instead.

Those who condemn newspapers for running betting lines point to recent point-shaving scandals at

Tulane and Boston College. I would say that legalization of sports betting would prevent much of this. I am not as familiar with the Tulane situation as Boston College but in the latter case, and Ed McDonald detailed this very well in his testimony earlier today, the bettors placed their bets with several different bookmakers, and in any point-fixing scheme this is not unusual. In order to keep the bets down they must be placed with a series of bookmakers. Any large bet with a single bookmaker is going to arouse suspicion.

It seems to me if betting were legalized by the government and a thorough communication system were set up, be it by computer or whatever, it would be far more difficult to place a series of large bets on any single game without it becoming common knowledge. It would be riskier to fix games than it is now.

It could be the source of much needed revenue for states and cities, and in an era when tax cuts have meant a reduction in services in many communities, revenues from legalized gambling could be extremely useful.

I think sports gambling is here to stay. I think recognizing and try to control it and derive some

good out of it would be the only practical approach.

MR. HARMON: One question for Mr. Doria. I understand after the Boston College case surfaced, for a time the Boston Globe stopped printing point spreads. I wonder if you could elaborate on that and the reasons for it.

MR. DORIA: That is true. In the immediate aftermath of the Boston College scandal we had a series of discussions among the editors at the Globe and the feeling was perhaps we were talking out of two sides of the mouth. On the one hand we were talking about the ills of gambling and the other we were printing point spreads. We did that in 1980, I believe, '81. We received many complaints for taking them out of the paper. I don't have the numbers in front of me. After that we sat down again and reassessed the situation, and we could find no hard evidence that running this information in the newspaper had anything at all to do with the attempts by some to fix games and considering that, we felt we were serving a large number of readers by reinstating the running of this information in the paper, which we did.

MR. HARMON: Mr. Chairman, these witnesses are prepared to answer questions of the Commission.

COMMISSIONER GUSTE: I am William Guste from New Orleans. Aren't you going down there, Mr. Davis, very shortly for a meeting of your association?

MR. DAVIS: We were there last week for a special convention, sir.

COMMISSIONER GUSTE: I am sorry I wasn't there to welcome you to our city and state.

But I have a serious concern, and it is this: Each year your coaches descend upon the high schools and in effect bid for the best players with perquisites. Each coach is trying to offer more and more to lure that player to his college, to play for it. My question, Mr. Davis, not just to you but all your association members, is this: Isn't that the beginning of the erosion of the values of those young men? You begin the process by bidding for them. They then begin to consider themselves a commodity, their talent is a commodity that can be bought by the highest bidder. So later on when they then determine that they are going to sell that talent again, to shave points or throw a game, how can the coaches who have begun this process of eroding values complain?

MR. DAVIS: Mr. Guste, the coaches are as much concerned about what you have outlined as the

members of the NCAA are. First of all, sir, the limitation of financial aid provides an education for the young athletes, and this is essentially what we are offering that prospective student athlete, is an education if that person comes to our institution, to compete at our institution. There is a limitation to that. It is only board and room, books, tuition and fees. That's the limit. If a coach were to offer more that will be a violation of our rules, and if he does accept the offer that student athlete would be ineligible at our institution.

We have, sir, passed a major piece of legislation that prohibits anyone other than staff members from contacting student athletes for the purpose of recruiting off campus. We don't want boosters or any other people outside of those knowledgeable of the rules contacting those students.

So we have done everything we can. We are still developing additional legislation that will avoid just what you outline. The coaches cannot act as agents for students. We do have a system that offers to student athletes counseling within the institution regarding professional athletics, including a registration for agents. So we are very keenly

interested in that aspect. The perspective of play for pay is just abhorrent to what higher education stands for, sir.

COMMISSIONER GUSTE: How can you stop your alumni associations, and your boosters as you call them, from engaging in this type of activity?

MR. DAVIS: As Coach Carnesecca indicated, only through education, because these people are not under the control of my institution as chief executive officer.

COMMISSIONER GUSTE: That's the problem.

MR. DAVIS: I meet, sir, every quarter with the board of directors of my booster club and I publish at least annually an update of the rules of recruiting, hopefully that all people outside the institution will read and observe these rules. The President's Commission of the NCAA last December conducted a detailed survey of the presidents of all institutions in the NCAA, to ask what were their concerns in intercollegiate athletics, what are the solutions, and their concern is just as you ask. It is with the person outside the institution over whom we have no control. This is why, sir, we are speaking to the issue of gambling today, is because the institutions still have no control over

that.

CHAIRMAN KAUFMAN: Do you take any special steps with respect to the alumni?

MR. DAVIS: Exactly the same way, Judge Kaufman. The alumni, boosters --

CHAIRMAN KAUFMAN: What do you do with the alumni? Do you get in touch with each and every one of them or through their association, or just what?

MR. DAVIS: Through their association, the coaches meeting with alumni, groups. In my state coaches meet with every geographic chapter within the state. One of the measures we passed in New Orleans last week is an affidavit that will be required of each head coach in each sport to interview and discuss individually with those persons outside the institution that coach believes might have some interest in the student athlete or in financing the student athlete. As Coach Carnesecca indicated, if a person, an alumnus or a booster, starts to pay extraordinary attention to the student athlete or you know that the student athlete has gone to their home or some unusual connection, the coach should visit with that alumnus immediately, and that is what we intend to do with this affidavit.

CHAIRMAN KAUFMAN: Commissioner Hope.

COMMISSIONER HOPE: Mr. Doria, how do you make the line on the Boston Globe? Where do you get the information?

MR. DORIA: The line is disseminated by a lot of sources. Right now the Associated Press, which is the major wire service for most papers, runs a line that they get.

COMMISSIONER HOPE: Where do they get it?

MR. DORIA: It generally comes out of Las Vegas, where the line usually emanates from.

COMMISSIONER GUSTE: They get it from Jimmy the Greek.

MR. DORIA: That is true. The particular one that the Associated Press carries is not done by Jimmy the Greek, but there are several such lines available. The Chicago Tribune, New York Daily News syndicate puts out a line called The Latest Line, which is essentially the same material.

COMMISSIONER HOPE: I am going to need a little help from the staff here, but if I made a telephone call to Las Vegas to get the line in Las Vegas, is that legal?

MR. HUNTERTON: Commissioner Hope, at this

time you would not be violating any federal law unless it could be proven beyond a reasonable doubt that you were in the business of gambling, a quantum of proof which under the circumstances you pose would be impossible. So just as we saw yesterday when we got the line from that 900 service during Sergeant Herion's testimony, you could do the same thing in reverse.

COMMISSIONER HOPE: Do you have any way of testing whether the line that you publish is accurate? Do you have to follow up on it?

MR. DORIA: An accurate line, as opposed to what many people perceive it to be, is not necessarily trying to predict the outcome of a game. An accurate line is simply trying to get a decent number of the play on each side of the line. That is the bookmaker's job. He is trying to put out a line that will draw equal play.

COMMISSIONER HOPE: Is that the Boston Globe's purpose?

MR. DORIA: No. It is the purpose of any bookmaker. The bookmaker's idea is to establish a line that will draw equal play on either side. The bookmaker makes what is known as a vigorish on any bet. It costs you \$11 to make \$10 on a bet or 6 to 5,

depending. I don't know whether you want me to get technical on this.

CHAIRMAN KAUFMAN: Keep it as nontechnical as possible.

MR. DORIA: At any rate, if the bookmaker gets six bets on one side of the line and six on the other, he is going to make money. That is his goal.

COMMISSIONER HOPE: And if you get a lot of gamblers reading your paper you are going to make money, right?

MR. DORIA: That is probably true.

CHAIRMAN KAUFMAN: Am I right that the television sportscasters give a line too?

MR. DORIA: I don't know that they give it out in any sort of regular fashion but I am sure lines have been given out over the air, yes.

CHAIRMAN KAUFMAN: It seems to me that I have heard some sportscasters during a news program, where they are giving the scores of the games and so forth, predict what is going to happen tomorrow and that it will be Notre Dame by blank number of points, etc. Isn't that done?

MR. DORIA: Yes, that certainly does happen. That is true.

CHAIRMAN KAUFMAN: Commissioner Brewer.

COMMISSIONER BREWER: Mr. Davis, your rules as I understand them, as far as college athletes are concerned, prohibit giving them any kind of stipend. For example, for just plain basic living conditions, how do they buy their toilet articles and so forth? Most of these student athletes come from very poor families and your rules, as you stated, do not allow for them to provide for themselves, for their own basic needs if they follow the news, is that correct?

MR. DAVIS: Commissioner Brewer, the NCAA does provide that the student with a bona fide need who can obtain some kind of Pell grant or part of a Pell grant can receive up to \$900 per year, in addition to a full athletic scholarship. So that those students who do have a need, through a state need grant or a Pell grant, can exceed the normal stipend allowed for full grant.

Let me comment, sir, that we are very much aware that the financial condition of youngsters in intercollegiate athletics makes it extremely tempting for those persons to be influenced by gambling and by drug dealers. This is a high degree of concern to us. Our feeling is that if we can take care of the

financial needs of the student at least, either through the stipend, through bone fide work programs, either on or off campus -- we arrange for jobs during vacation time, for example -- and through the state need grants or Pell grants, we ought to be able to realize the financial requirements of virtually every student athlete. We do plan in January to respond to our chief executive officer's concern about that, by perhaps allowing for a stipend or more likely for more flexibility for work conditions on campus. But the main fact remains, sir, that those persons are adequately provided for financial aid in general. Those students that come from economic backgrounds initially that do not provide any assistance whatsoever coming as freshmen are extremely susceptible to just what we are talking about today, no question.

CHAIRMAN KAUFMAN: Thank you.

COMMISSIONER WUNSCH: Mr. Doria, you are advocating that gambling be legalized and be regulated by the government, yet yesterday and today we have heard from law enforcement experts testifying that legalizing gambling begets illegal gambling, brings in organized crime. What would you recommend, if that is not the solution according to law enforcement?

MR. DORIA: I didn't hear yesterday's testimony but if what they said is that legalized gambling begets illegal gambling, if there were no illegal gambling it would be difficult to beget it, I would think.

COMMISSIONER WUNSCH: We had cases of the lottery where illegal lotteries or illegal profits were made by organized crime from it. The testimony this morning were the problems that law enforcement would be forced to handle. Do you have any solutions to that?

MR. DORIA: I am not suggesting that legalizing gambling is going to make it go away completely, just as now there are state run lotteries, there are still numbers games, illegal games that do continue, although I would guess that the play on that sort of thing is far less than it used to be with the institution of a legal lottery. But I think it would cut it down considerably, I think it would reduce what I see to be the biggest problem as far as athletics are concerned, the potential to fix games and shave points. I think that would be reduced considerably.

COMMISSIONER HOPE: One more question of Coach Carnesecca. When you put your players in isolation before a game do you also shut off the

information that they could get from the Boston Globe or the various other wire services that publish the line, and if not, why not? And the followup on that is, do you know whether the line that is published in the newspaper affects their performance?

MR. CARNESECCA: Commissioner, it is pretty tough to completely isolate them. You can't put them in a vacuum. I think they read the morning newspapers, there is no doubt about that. And by 4:00 they should have read the newspapers. Usually they like to read about themselves. All we can do is hope as coaches to chip away. We are not going to solve the entire problem. All we do is chip away, make it as difficult as possible.

CHAIRMAN KAUFMAN: What you are saying is there is no perfect solution.

MR. CARNESECCA: Of course not. That's why we have confessions.

CHAIRMAN KAUFMAN: You have spoken as a good St. John's coach.

COMMISSIONER SCLAFANI: Mr. Chairman, I have a question. Mr. Doria, is collegiate sports betting legal in Massachusetts?

MR. DORIA: No, it isn't.

COMMISSIONER SCLAFANI: Then publishing the line you are providing a tool to foster illegality, isn't that a fact?

MR. DORIA: I admitted that in my statement, yes.

COMMISSIONER SCLAFANI: You don't do that for other crimes, do you?

MR. DORIA: Not as far as I know.

COMMISSIONER SCLAFANI: It is too bad actually that you weren't here yesterday because much of the testimony was quite enlightening relative to the interrelationship between legalized gambling and illegal gambling. But thank you for being here.

CHAIRMAN KAUFMAN: All right, gentlemen. We are very grateful to you. Thank you. It is an education.

MR. HUNTERTON: Mr. Cosell, would you come forward now, please.

Mr. Chairman, at this point we are going to shift and look at yet one more variation. Mr. Marshal, would you swear the next witness, please.

HOWARD COSELL,

called as a witness, and having been duly sworn,  
was examined and testified as follows:

CHAIRMAN KAUFMAN: Mr. Cosell, you are a  
member of the bar, aren't you?

MR. COSELL: Yes, sir. I never had the good  
fortune to try a case before you.

CHAIRMAN KAUFMAN: Tell me, are you admitted  
in the federal court?

MR. COSELL: Of course.

CHAIRMAN KAUFMAN: Admitted to the U.S.  
Court of Appeals?

MR. COSELL: No.

CHAIRMAN KAUFMAN: Why didn't you do that?  
You are a pretty expeditious fellow. You could have  
done it today, made your application across the street.

MR. COSELL: I am going to do that.

CHAIRMAN KAUFMAN: By way of preliminary  
statement.

MR. HUNTERTON: Mr. Chairman, we are going  
to look at another variation on the theme we have been  
exploring today. We are going to shift from sports  
wagering to an area overlooked by and large for many  
years by law enforcement, and that is boxing.

Our first witness in that area, Mr. Cosell, as your Honor has just indicated, is indeed an attorney. However, 35 years ago he found his way into broadcast journalism. For many, many years since then he has quite literally been the voice of boxing in the United States and around the world. Perhaps never has a sports journalist been so singularly identified with a particular form of athletic competition. However, for more than a decade he became increasingly critical of boxing, and in 1982 he broadcast, live, the Tex Cobb-Larry Holmes heavyweight fight, although he might use a word other than fight to describe it, and following the mauling that Holmes gave Cobb that night in Las Vegas, Mr. Cosell turned his back on professional boxing and has become its harshest critic.

He is currently reporting on sports via ABC Sports Beat, the only regular network investigative sports program.

Mr. Cosell, thank you for coming today.

MR. COSELL: Thank you very much for the introduction, Mr. Hunterton. This has been a laborious procedure for this Commission, and I do not seek to intrude unduly on their time. But having listened to the prior three witnesses here, might I just say a word

about that whole problem, because I have devoted so much of Sports Beat to the problem of big time college sports in the American society.

Mr. Carnesecca spoke truth when he said the problem is education. General Guste, I listened to your beginning questions with great interest, sir, because you were getting at the heart of the matter. The heart of the matter is not lodged in the NCAA and its rules. The heart of this matter is lodged in a problem far more sophisticated. It is the problem of education in this country, and the wonder of how in the world we ever got into the big time college sports process, because it is corrupt, rotten clear through, from the very beginning.

In this country we have developed the task, Judge Kaufman, to examine once and for all the real role of sports in the American society. That is the problem. Sports have gotten out of whack. When Dr. Amon Kelly abolished the college basketball program at Tulane, he not only did the right thing, he did the only thing. This, as you know, Judge, as you know, General, is one of the distinguished educators of our country, a man who ran the Ford Foundation. Tulane, one of the most selective universities in the nation,

of a cut with Yale and Harvard and Brown and Williams and Wesleyan and Swarthmore and Amherst, and in the great Stanford University on the West Coast, in terms of Rhodes scholars. And yet this school was infected, as it had to be. Why? Because sports are out of whack in this society. The emphasis upon sports is totally distorting the real purpose of a college or university, which is education. I didn't hear the gentleman from the NCAA talk about all of the postulates that we have in the sports syndrome in this country, each of which is a natural concomitant of the next, that the game is sacred, that winning isn't everything, it's the only thing, something the late Vincent T. Lombardi never said, that all athletes are role models, to the point where they become surrogate parents in this society, though they are not remotely qualified for this role.

That we must have big time college sports, and winning, it is a necessary Camelot to the daily travail of human existence. And now we have so titled the sports fan, making him a titled being, that we have a natural and probable consequence, Judge Kaufman, in the form of a dangerous phenomenon in the American society, which is fan violence. And as you, sir, I lived through an age where we could see the American

people in lynch tactics, and I contributed to a law review article at my law school back in the thirties, calling for a constitutional amendment to abolish lynching. I have learned first hand about fan violence. I have seen those crazed, rabid faces and I know what I am talking about.

And the overall problem I get back to is, it's time for education, yes, to put sports back in balance in America, the way it's done in the Ivy League, Stanford University -- and Dean McBride of Stanford Law School has stepped out of the room quite apparently -- has shown that it can work to combine proper athletic programs.

CHAIRMAN KAUFMAN: I might say, with no disrespect to you, he is not feeling well this afternoon, sir.

MR. COSELL: I am sorry, sir, because he has a truly great law school, as you know, and I am very proud of it. But that's where it is all at and I just wanted to put the record straight.

It is a sad thing to hear a member of the print medium come before you in the face of all the testimony you have already received and say blandly it's what the readers want, which he said. That's like

saying if you have a child who only wants candy as his diet, give him candy every day. And the kind of attitude spoken there produces mobocracy, nothing more, nothing less. That is all I have to say on the subject.

The problem is to put sports back in balance in this country, and it is a big problem. How it got out of whack is a whole other story.

CHAIRMAN KAUFMAN: Could you just add to that any suggestion you might have as to how to put it back in perspective.

MR. COSELL: Sir, I have wrestled with that for the last 15 years of my professional life. I have done the very best by my precepts that I can, with the forum I have had. You face a terrible opponent when you do those things. You face three networks who themselves are deeply interested in sports promotion, and the moneys that can accrue therefrom, if they can get sufficient ratings. And you face in my opinion a print medium that is absolutely dedicated to the promotion of sports and laissez-faire in it. It serves their purposes.

That is a very hard group to beat, which leads me to boxing. When I did walk away from professional boxing I was supported by every

responsible medical group in the entire world, by education, by sociological groups, by medicine. By morality and conscience and ethics. I wouldn't be so crass as to talk about money in specific terms, but I voluntarily gave up huge amounts of money, moneys that I never dreamed I would even approach making when I was kid growing up on Eastern Parkway in Brooklyn, voluntarily, and I was vilified viciously by one medium, and that was the print medium.

Now, sir, the American Medical Association through the auspices of Dr. George Lindberg, who is the editor of the American Medical Association Journal, called boxing obscene, went on national television with me, labeled it for what it was. The American Pediatrics Institute did the same thing, and then doing the same thing was the American Neurological Association. When you get that kind of support, Judge, you know you are on the right side of the road.

I think I have qualifications to talk about sports given to very few in this country. That is egotistical on its face but it is factual and I would like to quickly put into the record what my qualifications are, despite the very nice words you had to say about me, Mr. Hunterton.

MR. HUNTERTON: Go ahead, Mr. Cosell.

MR. COSELL: In the first place, I do not speak in any respect for my company, the American Broadcasting Company. I speak only as an individual. Their business policies frequently differ from my own thoughts. I have no right to speak on their behalf.

I have been a sports broadcaster for 32 plus years, Mr. Hunterton, all of those spent in the employ of the American Broadcasting Company. From 1956 until Thanksgiving Day weekend 1982, I called more championship fights than any other broadcaster alive. I called the boxing competitions at the Olympic Games in Ciudad de Mexico Mexico in '68, in Munich in '72, in Montreal in '76 and in Los Angeles in '84. We did, of course, boycott the '80 games. In all I have called more than 2,000 fights.

At the request of the then Attorney General Griffin Bell of the United States, I lectured before the entire Department of Justice in the Great Hall on sports, the law and the society. I have been, Judge, a keynote speaker on the same subject before the American Bar Association annual convention in 1978. I have been a visiting member of the Yale faculty over a span of six years, delivering a fully accredited undergraduate

seminar on sports, the law and the courts. A national scholarship has recently been established annually in perpetuity in my name at Brown University, that is dedicated to journalism and communications. Within the past fortnight I was in Israel. There was dedicated in my name, and my bride's, a new physical education center at the Hebrew University in Jerusalem spread over 18 acres and the four campuses of that great world-class university. As the Congressional Record shows, I have testified again and again and again before appropriate Senate and House committees on matters pertaining to sports, and in many cases specifically professional boxing. I am in fact one of the most frequent lecturers on college campuses and before state bar associations in this country. I have also testified before the commission on sports created by President Gerald Ford. Thus, my qualifications for my appearance here today.

Now to the question of boxing. It is a very hard thing to tie organized crime directly to professional boxing. Unlike the situation which existed in boxing in the '40s and '50s, organized crime figures are not openly and brazenly in the forefront of its operation. But by its very nature this alleged

sport with its utter disorder, disarray, absence of uniformity in its administration, absence of regulation, leads inevitably to the conclusion that the whole business is ugly, unwholesome, unclean, fraught with effects inimical to the public interest.

There are many conditions existing in professional boxing which are indeed conducive to the participation of organized crime. In the interests of time I will cite just a few examples.

1. It is a fact that boxing flourishes in the two gambling capitals of America, Las Vegas and Atlantic City. It is hard to believe that this is by accident.

2. The recent Marvin Hagler-Thomas Hearns title fight in Las Vegas was one of the most heavily bet sports events ever. Legal bookmakers in Nevada, and I have spoken with them on the matter, estimate that \$20 million were wagered in that state. They further estimate that the figure can be multiplied tenfold to approximately \$200 million, the total national figure bet on that night. When such large amounts of money are bet on a fight, there is always the possibility of a fix or an attempt to fix the outcome, since there is only one contestant that you

have to get to. The history of boxing reveals in the past fighters have been gotten to.

3. The standards and guidelines regarding the registration of managers of fighters vary from state to state. Understaffed athletic commissions are rarely able to delve deeply into an applicant's past. Many times the person or persons listed as a boxer's manager are not the true owner. Boxing history is replete with examples of fighters from the preliminary bout level to world championship status who were controlled by underworld figures. Why, here in the State of New York, Judge, the basic requirement for becoming a manager is this simple: You pay \$30, you are granted a license.

4. In recent years the combination of print medium hype and indiscriminate television network bidding in hype have created an atmosphere which has led to world championship bouts and world championship title holders becoming so common as to be farcical. The Mexico-based World Boxing Council recognizes 15, 5, 10, 15 world champions, while its rival, the Panamanian-based World Boxing Association, also has its 15 world champions in the various weight divisions. The newest worldwide body, still another rump

organization, is the International Boxing Federation begun in New Jersey, run by a combination of New Jersey and South Korean interests. It recognizes 16 so-called world champions. Only two fighters, Michael Spinks and Marvin Hagler, are recognized across the board by all three, these rump organizations. Thus, at this ludicrous point in boxing history a total of 46 men can lay claim to world championship status. Further evidence of this multiplicity and cheapening of the world championship fights is that across the world in 1984 there were 89 so-called title bouts.

5. While regulation is lax or inefficient in nearly all of our states, there are still five states without any form, even at the municipal level, of boxing safety regulation or control.

6. Mismatches have abounded in recent years. Believe me, I am an expert on that. They are mismatches in my opinion so abhorrent that they could almost be labeled fixed or prearranged fights due to the disparity in talent of the fighters.

Now, in my introduction Mr. Hunterton mentioned Thanksgiving Day weekend in 1982 and the Larry Holmes - Tex Cobb fight. Since then, by the way, Cobb has been regaled as a kind of witness with an

inherent wisdom, and he is the one who is so bad that he got Howard Cosell to leave boxing. And they actually print things like that in the newspapers. It is an interesting discussion, isn't it? By the way, some day somebody will take a look all over again at the New York Times v. Sullivan, which I deeply believe in, Judge, as a matter of principle, but somehow in this country when it comes to a public figure there must become a reconciliation with responsibility and freedom of the press, in my view anyway.

But 1982 was only reflective of the disaster of boxing. That was the year that Duk Koo Kim of South Korea was killed by a kid named Ray "Boom Boom" Mancini. Alexis Arguello was destroyed by Aaron Pryor. He lay there prostrate, unconscious for three minutes. I know Arguello. I did his greatest fights. I did one in Rimini, Italy and another in a near hurricane in Bayamon, Puerto Rico, against a man called the Snake Man, fellow called Escalara. It pained me to see him and worry about his very physical being. And you could go on and on in that month alone. Now today Larry Holmes fighting the likes not only of Cobb, Scott Frank, Marvis Frazier, David Bey, on and on and on, all dutifully carried by the television networks,

whichever can get them. In one case as a bald, open, notorious open conflict of interest we have the National Broadcasting Company, with the man who makes the matches, then proceeds to announce them, and the defense of that network is, well, he criticizes the fights. Ever hear of anything like that, Judge? This man makes the matches and then allegedly comments on them. Don't make those matches. That's the simple answer. They are abhorrent.

7. We have examples all the time of young men being knocked out in one state, and without regard to their health or safety, being allowed to box in another state, and very quickly, sometimes under name aliases. Example, Mark Pacheco, a fighter from Reno, Nevada, knocked out in Portland, Oregon, and fought in New York just 43 days later. He fought and was knocked out in New York very quickly but he fought in violation of a ban by the Portland city commission. The man on that commission who put in the safety ban said this is what must be controlled and if the commissions won't control it, which they don't, what are you going to do?

The saddest case maybe of all is that of the former Olympic gold medalist. I saw him win the title. I cared about the kid. They called him Sugar Ray. His

name was Seales. He fought in presumably the best regulated states in the country in a boxing sense, New York, Nevada, California and New Jersey, despite serious eye injuries, at a time when he could be deemed legally blind and now is totally blind. I quote from the world renowned eye specialist, Dr. Richard Chenowith, by coincidence the eye surgeon for President Eisenhower. He operated on Mr. Seales April 2, 1983. I asked Dr. Chenowith how such states passed Seales to keep fighting. His answer to me on national television, ABC Sports Beat, was that Seales was passed, and I quote, "because of inadequate boxing standards and inadequate testing conditions to enforce those standards." Furthermore, the New Jersey Commission on Investigations has documented the many other lapses and inadequacies of that state's boxing control board.

Oddly, the Commission's report cited time and again then head of the New Jersey Boxing Commission, now still the acting head, Robert Lee -- he is still there -- boxing is alone among the major sports in its total absence of an athletic union or of any meaningful pension plan.

So while trying to cope with blindness Mr. Seales is also bereft of any financial aid. There was

a benefit run for him in Seattle. It didn't do very well.

Just recently, and this happens all the time, former worldwide heavyweight champion Matthew Saad Muhammad filed for bankruptcy.

You all know the story, told so many times, of Beau Jack, and it applies to the vast majority of fighters. No, it doesn't apply to Floyd Patterson. It will not apply to Larry Holmes. But that hardly makes the whole overall picture right, not at all. It intensifies the wrongness of it.

All this has gone on for so long that I finally gave up my efforts to push for the creation of a federal control system for boxing. Boxing's ills are now so deep, so widespread, and I came to the conclusion that America should follow the lead of Sweden and Norway, that here in the United States we should also abolish boxing.

I am absolutely convinced medically -- quite apart from the moral grounds where you have the only sport in which the intent of one man is to do bodily harm upon another -- quite apart from that, I have done vast research on this matter, and I would refer you to

a gentleman who is considered by many to be the greatest brain scientist in the world. His name is Dominic Popora. He is the dean now of the Albert Einstein College of Medicine. Prior thereto he was the dean of the Stanford University School of Medicine. The lightning rod that triggered the whole medical movement among the groups I have already alluded to was of course the tragic case of Muhammad Ali. One will often hear it told, Dr. Popora will tell you chapter and verse, as he did again on national television, what happened in that case. Medically it is called dementia pugilistica.

One will often hear today it argued that abolition of boxing will lead to its being conducted on barges on the Mississippi River or maybe a cave somewhere in Montana. Hardly an argument even worth the attention of any cogent or prudent man. People will want to fight, people will want to see fights. The plain fact is if boxing were outlawed a severe blow would be struck at its financial basis. It would be nearly impossible to maintain the training and support of the fighters.

Often you will hear or read that it is the way out of the ghetto. The way out of the ghetto. How

absurd. A tiny handful ever succeed. The way out of the ghetto is in our sociological and educational processes. The greatest athlete, the most important influence in my life time preached that everywhere, in Harlem, in Washington. The man about whom Martin Luther King told me there never would have been a civil rights movement in this country if it hadn't been for him. I speak of Jackie Roosevelt Robinson.

And then look today at Arthur Ashe. He goes around giving the same lessons, and still the apologists tell you it's the way out of the ghetto.

In conclusion I would state that proof of a direct link between organized crime and boxing is difficult to establish, but it is an activity, as I have shown, rife with so many ugly elements, lack of standards, regulations, the gambling aspects on which organized crime has been known to feed and thrive in other fields. I think it is fair to say we don't need it, it's not right for our country.

Thank you very, very much.

CHAIRMAN KAUFMAN: Thank you. That is an eloquent statement indeed, and a moving one. I wonder if I may address just a few points to you so that I can clarify in my own mind what you are saying. Do I

understand that you favor the abolition of boxing in the United States?

MR. COSELL: I do now, yes, sir.

CHAIRMAN KAUFMAN: Do you favor it because of its violent nature or because it is a means by which criminals can do their handiwork, or both?

MR. COSELL: I favor its abolition on moral grounds, on medical grounds and on grounds, as you have just stated, sir, that it is filled with so many unwholesome elements. I think that its linkage to organized crime, while I can't prove it directly, is there and fundamental to its existence.

CHAIRMAN KAUFMAN: One last query. I have been a federal judge now for so long I don't even want to think of it. It is '36 years. And before that, the federal DA's office.

MR. COSELL: Judge, you didn't know me then. I was clerking, but I clerked for Myron Green, one of the great criminal trial lawyers.

CHAIRMAN KAUFMAN: Did you? A very able lawyer, very able lawyer. I had a law partner the few years I was in practice and I am quite sure you knew him, Edward P. Egan.

MR. COSELL: Sure. He was once the boxing

commissioner of New York State.

CHAIRMAN KAUFMAN: That is what I was going to get to. He was chairman of the New York State Athletic Committee. He was out of Yale, if you recall. He was a Rhodes scholar. He was a Phi Beta Kappa. He was an Olympic participant, on the Olympic team, so forth.

I had my slight education at that point about boxing from hearing Egan and the tales he had to tell. I wonder. Generally the impression I got was that in the main boxing had to continue because of its revenue, its revenue to the state, its revenue to so many other people. But it was very difficult, if not impossible, for a boxing commission or a commissioner to control. Do you share that view? By control I mean to keep it honest.

MR. COSELL: I don't think you can keep boxing honest, no. Judge, the standards of a civilization are inherently destroyed by boxing. Shortly there is a man going to be regaled. He is going to be installed into the Boxing Hall of Fame. A movie of relative savagery was done on his life. He is a beguiling man, in an earthy, illiterate way. His name is Jake LaMotta. He dumped a fight to a man named

Fox. They are going to put him in the Boxing Hall of Fame. Who voted him in? How is this possible? Okay, so Pacino makes a movie playing Jake LaMotta. Is this what our civilization is about? Our civilization is about a government of laws, Judge.

On April 28, 1967 I stood at 4800 San Jacinto Street in Houston, Texas, the federal Customs building, and a man named Muhammad Ali refused to take the step. In a matter of moments, literally, I was there, a very educated fellow from Dartmouth College, an all-American football player named Dooley was then the boxing commissioner, within a matter of moments Ali had been stripped of his title, duly earned, a property right, and his license to fight, the manner in which he earned his living. There had been no grand jury presentment, no arraignment, no indictment, no trial. Due process of law hadn't even begun. It was done in America in boxing, and it was regaled in the print medium.

I am proud to say at least that ABC, we kept him on the air as a commentator. I took him up to the United States Military Academy, personally. When finally Judge Walter Mansfield, whom you remember, of the Southern District here in New York found that the

14th Amendment, equal protection under the laws, had been violated because the same commissioner was licensing military deserters to fight -- that's one thing -- and the Supreme Court found for Ali, a government of laws was vindicated. But good Lord, that was done in boxing. Ed Egan was totally right. You can't control it.

You remember Judge Sylvester Ryan? Go back to 1956 when he broke up the octopus, the IBC, subsequently imprisonment for a chief officer, Truman Gibson.

It goes on and on and on. I want to know how the television networks can go on and on and on with it. And I want to know why in all of my years the print medium hasn't done anything to try to cleanse the thing, instead adopted a laissez-faire attitude.

Mr. Hunterton said I was the voice of boxing. Yes, I was. I was the voice of boxing for causes. My interest in boxing was provoked by a truly great boxing writer named Gary Hines, who now lives in retirement in Dorsett, Vermont, and I found great sacrifice and great courage in the men who fight for a living and on balance I still have that respect and even admiration for many who do.

My beginnings through Bel Hines were with a young man who was a sociological study, a kid who grew up in the Bedford-Stuyvesant area of Brooklyn, lived often in a hole in the subway, sent off to a school for troubled young people then situated in upstate New York, named the Wiltwyck School, then back and into a school in Manhattan again for disturbed children, going into a fleabag gymnasium known as the Gramercy Gym up at Union Square, up on the third floor where an erratic fight manager named Cus D'Amato had a wild dog.

Very interesting study, Floyd Patterson, who handled his money well, who deeply believes in boxing. He is one case, and I respect Floyd Patterson and I will always love him. Jackie Robinson took him down in those turbulent days in Birmingham, and in front of jeering whites the two stood there and drank from the water fountain that said "For whites only," and Patterson raised his fist. So yes, those things happen in boxing. But that is not an excuse for its continuance. It is uncontrollable, in my opinion.

CHAIRMAN KAUFMAN: Thank you very much. We will take questions. Any questions of the Commission?

No more questions from the Commission. I guess you have said it all. We are very grateful to

you, Mr. Cosell, and you have been very helpful. I take it you are going to continue in telecasting some boxing. You did the 1984 Olympics.

MR. COSELL: I did the Olympics contractually. Amateur boxing I have a different feeling about because of the people who run it. They are fine people with a deep and abiding concern but I don't think, Judge, that I can continue even with that any more. It is a hard decision for me because I respect those people so much.

CHAIRMAN KAUFMAN: There is always the law to come back to.

MR. COSELL: I am going over to register now, on condition that my first trial appearance --

CHAIRMAN KAUFMAN: Wait until I get over there and am sitting over there.

MR. COSELL: I will try my first case before you, sir, upon my return to the bar.

CHAIRMAN KAUFMAN: It will be on appeal. Thank you very much.

MR. COSELL: Thank you very much.

MR. HUNTERTON: Mr. Cosell mentioned the New Jersey State Commission on Investigation has been devoting a considerable amount of effort to this and I

would like to ask its executive director James Morley to come forward now. Marshal, would you swear the next witness, please.

JAMES J. MORLEY,

called as a witness, and having been

duly sworn, was examined and testified as follows:

MR. HUNTERTON: Mr. Chairman, the next witness is James Morley, the Executive Director of the New Jersey Commission on Investigation. Prior to his employment with that Commission he was a Deputy Attorney General in the New Jersey Division of Criminal Justice for two years. Since early 1983 the State Commission on Investigation has been investigating the boxing industry. The SCI has been of great assistance to the staff of this commission in developing this area and is a law enforcement and investigative organization which is truly in the front of this field and truly in front in recognizing the problem.

In addition to that, Mr. Morley has a very tough act to follow. With that, Mr. Morley, would you summarize for us your prepared statement which has been accepted, for the record.

MR. MORLEY: Thank you. Mr. Chairman, I feel, I guess, somewhat like the fighter who fights in

the fight that follows the main event, only because they have to fill in 14 more minutes of air time. But I think we have some useful and interesting information which will complement the remarks of Mr. Cosell.

First for the record I would like to note that two of the members of the Commission, William S. Greenberg and James R. Zazzali, have been able to adjust their schedules to join me here today and I mention this to point out the important role that this Commission is playing in the fight against organized crime.

This is the first time since the New Jersey State Commission of Investigation issued an interim report in March of last year, a report which we provided to this Commission and to which Mr. Cosell referred, which criticized our state's regulation of boxing, that we have made any public comment about our continuing inquiry. The reason for our decision to deviate from an SCI policy against discussing ongoing investigations is twofold. First, our investigation has confirmed the insidious presence of organized crime in boxing to an extent that merits instant public exposure, and second, these hearings here have made available a most appropriate forum for discussing

findings that call for federal remedies in cooperation with the states rather than state action alone.

As the SCI emphasized in its 1984 report, boxing in New Jersey has been plagued with problems that may never be adequately resolved at the state level. Our initial scrutiny stressed the weaknesses of a regulatory system which in the face of a gambling casino-spurred boxing revival had defaulted in its obligation to safeguard the integrity of an enterprise whose capacity for barbarism makes it extremely vulnerable to loss of public trust.

The SCI's interim report called for improved regulatory and fiscal controls over boxing exhibitions, including more professional ringside monitoring, more aggressive restraints against mismatches and other promotional misconduct and, most important, a more intensive effort to reduce a violent sport's debilitating impact upon boxers, chiefly brain damage and vision impairment. Although most of the SCI's 1984 recommendations for procedural and operational changes have been enacted and a much stronger regulatory system is gradually being implemented, we have strong doubts that even this administrative reform will suffice. As the SCI emphasized in 1984, and reiterates today, no

single state can possibly cope with the problems inherent in an industry whose operations cross state lines and whose economic success depends on regional and national, rather than local, audiences.

The need for some kind of a federally centralized mechanism to achieve any truly appropriate regulation of boxing is particularly demonstrated by the SCI's investigation of organized crime's impact on the industry. Because of time restrictions, I can only touch on certain pertinent highlights, with a promise that a detailed expose of this underworld incursion will be forthcoming soon as a public report. While the SCI can confirm at this point that organized crime is definitely a threatening intruder in the industry, we cannot now prove that any particular boxer has become a mob pawn, or that any particular boxing exhibition has been mob fixed, or that any particular promoter is operating primarily from funds derived from mob depredations. We have a well founded suspicion that such activities have occurred but, unfortunately, no evidential proof at this point. Nonetheless, I can say, based on testimony at the SCI to date by dozens of witnesses, that if the same mob presence we have found in boxing existed, for example, in professional

baseball or football, it would, I am certain, constitute a massive public scandal.

We have time to submit here only capsulized illustrations of organized crime's imprint on boxing in the New Jersey region. What follows is based on testimony at the SCI, buttressed by surveillances and audits of records by SCI agents and by data made available to us through the highly cooperative efforts of the New Jersey State Police.

I would like to limit my factual comments today to the two charts, and to describing the facts outlined on the two charts on the easels over there. I am first going to discuss the chart which is on your left.

One organized crime family associate who was interrogated at length is Barry Shapiro. By the way, these charts are also reproduced in the prepared statement, if you have that in front of you. Shapiro is a Philadelphia scrap metal dealer who is licensed in New Jersey and Pennsylvania as a boxing manager. Although he entered boxing as a neophyte in 1984, by the time he testified under immunity at the SCI in April of this year, he had, according to his own figures, invested as much as \$150,000 in his boxing

enterprise, which also includes a training gym in Philadelphia which is known as Champs Camp.

Shapiro told the SCI that the scrap metal business, which operates under the name of KDB Incorporated, which is owned 75 percent by his brother Kenneth and 25 percent by himself, finances his boxing activities. Just as a point of reference, you will recall that this morning Mr. Bannister spoke about Kenneth Shapiro's involvement in the Atlantic City area.

Kenneth Shapiro, according to state police, is a close associate of Nicodemo Scarfo of Atlantic City, the leader of the old Bruno organized crime family which operates in Philadelphia and throughout South Jersey. Kenneth Shapiro helps to finance his brother's boxing activities because, according to Barry, "He's a fight fan."

Barry Shapiro told the SCI that he has met Scarfo and has explored business opportunities with Scarfo's Atlantic City based construction company Scarf Inc. These negotiations were handled, through Scarfo's highly trusted confidant Philip Leonetti. Barry Shapiro also has business or social contacts with other mobsters in the scarfo, including brothers Salvatore and Lawrence (Yogi) Merlino, but insisted he knows only

from reading newspapers that the Merlino's, Leonetti and Scarfo are members of an organized crime family. Shapiro also told the SCI that when he was in the casino junket business about two or three years ago, he met Martin Taccetta, a Lucchese family associate. Martin is the brother of Michael Taccetta of North Jersey, a more notorious Lucchese soldier who asserted his Fifth Amendment privilege when subpoenaed to testify at the SCI. At his brother Kenny's request Barry Shapiro invited Martin Taccetta to his niece's wedding in 1984.

Another confirmation of Barry Shapiro's close relationship with the mob was his testimony that he went to Haiti on several occasions in the early 1980's to survey casino ownership opportunities for the Taccettas. The list of Barry Shapiro's underworld associates is as expansive as his boxing activities. He got to know the International Boxing Federation's heavyweight champion Larry Holmes well enough to travel with Holmes for more than four months. Holmes, said Barry, was "teaching me the game."

Now, in addition to a half dozen boxers under contract, Barry Shapiro has a cable company contract that calls for Holmes, after the champion's

retirement, to provide color commentary at fights at Shapiro's Champs Camp. This same Shapiro, who says he has gone to fights with the Scarfo gang's sycophant Jerry Blavat, also processed as many as 30 real estate deals through Scarfo's son Chris, who is a real estate agent in Atlantic City. This same Shapiro, who has played gin rummy with Scarfo mob associate and convicted felon Saul Kane, also owns 5 percent of cruiserweight contender Dwight Braxton, who trains at Shapiro's Champs Camp under the same trainer who handles Shapiro's fighters.

Obviously, Barry Shapiro's numerous and close social and business contacts with the mob demarcates him as a boxing manager who should be constantly monitored by boxing regulators because mob money and mob influence probably are at play wherever Barry Shapiro operates.

I would like to note here parenthetically, with some degree of emphasis, with reference to Holmes, Braxton and any other boxers named in this statement, we have no evidence at this time that they are cognizant of the organized crime associations of the individuals who have contracts with them.

Moving on to the second chart on the right,

another illustration of organized crime's presence in boxing concerns Alfred Certissimo, who is a former licensed boxing promoter and match maker who operates the Certo Custom Tailor Shop and the Italian Cove restaurant in Secaucus, New Jersey. Better known as Al Certo, this individual admits to extremely close ties with John DiGilio, a Genovese crime family soldier who has long been prominent in the Hudson County gambling and loanshark rackets. The late John Marrone, Jr., the son of a Genovese crime family soldier and ally of the DiGilios, was often featured on Al Certo's fight cards. Although Certo is not presently licensed in New Jersey as a boxing manager, he says he acts in that capacity for the highly rated middleweight boxer Mustafa Hamsho. Certo says he prefers to be considered as Hamsho's booking agent and handles all of his affairs at his tailor shop.

This place has attracted a swarm of known gangsters and associates, including, according to Certo's testimony at the SCI, the now imprisoned waterfront strongarm boss Tino Fiumara, a particularly powerful Genovese soldier, and and such other family crime members and associates as Michael Perna, who is allied with Michael Taccetta's Lucchese family group

bobbie Joseph (Pepe) LaScala, Frank Scaraggi, and of course and most often DiGilio and his chauffeur Robert Lake.

Speaking of Al Certo and his connection with Mustafa Hamsho calls to mind an even closer connection between the mob and a boxer. One of Hamsho's victories occurred in November 1982 when he defeated another blossoming boxer by the name of Bobby Czyz. A \$300,000 piece of Czyz was and still is owned by two North Jersey businessmen who have been identified by the state police as associates of the Lucchese crime family. These individuals, Andrew Licari of Livingston and Andrew Dembrowski of Bernardsville, both testified at the SCI. Licari testified about his long term relationships with known organized crime figures, including such notorious mobsters as Anthony (Tumac) Acceturo, a Lucchese capo who fled to Florida to escape an SCI subpoena, the Taccetta brothers and Joe Abate, another Lucchese capo who is known to the New Jersey state police as a mediator of mob disputes in Atlantic City.

Licari recalled in his testimony at the SCI that he and mob front Kenneth Shapiro discussed a possible real estate deal several years ago. So close

was the Licari-Dembrowski connection with Abate that according to Dembrowski the gangster borrowed at least \$10,000 from the funds of a company owned by the two men jointly.

According to Boxer Czyz's contract with Licari and Dembrowski, they are to get 26 percent of his earnings until November 9 of this year and 5 percent thereafter until 1991. The SCI has reason to believe that the money utilized to buy a piece of Czyz had its origins in underworld loanshark operations.

Before closing I would like to point out several aspects of the boxing situation in New Jersey that have become more definitive in recent months. First, gambling business in the late 1970's appears to have tapered off. One possible explanation for this could be the fact that the casino facilities in New Jersey are not large enough to accommodate crowds of such a size that fight promoters and television sponsors feel are required for a financially and theatrically acceptable extravaganza.

Second, the slowdown in major boxing action could explain why the SCI's inquiry to date has not been able to verify more than a presence of organized crime in the sport, as ominous as that presence may be.

Third, an explanation for the increasingly cautious intrusion of organized crime in boxing, at least in the New Jersey area, may well be the SCI investigation itself. We have been told this by both law enforcement officials and reliable underworld informants.

Some brief comments in conclusion. The New Jersey Commission of Investigation regards boxing as an extremely brutal sport, which perhaps explains its attraction for organized crime as a money making vehicle. In closing, therefore, we wish to urge the institution of certain basic regulatory controls over boxing if the sport must continue to exist.

More important, the SCI strongly recommends that the federal government assume, in cooperation with the states, primary regulatory responsibility. There should be a central federally supervised repository of data on boxers, managers, promoters, owners and all other participants in the boxing industry. A national passport system should be established to provide up-to-date accurate information on boxing credentials, physical condition and financial background of all boxers. There should be a national system of licensure for key industry personnel, from promoters to referees and even

seconds, with eligibility standards that would ban participation in the sport by anyone known to be, among other disqualifications, to be sure, a member or associate of organized crime.

We will naturally outline these and other recommendations in much greater detail in our forthcoming public report. We would be remiss, however, not to take advantage of this forum to project our belief in the absolute need for federal resolution of the boxing industry's many difficult problems, not the least of which is organized crime's influence.

Thank you very much.

MR. HUNTERTON: Thank you, Mr. Morley.

You mentioned people owning people as part of boxing, by which I take it you mean that the person has contractual rights to part of a fighter's income.

MR. MORLEY: That is right.

MR. HUNTERTON: And that is what the term "ownership" means in boxing?

MR. MORLEY: Right.

MR. HUNTERTON: New Jersey has been in the boxing industry a very long time and is, along with Nevada, one of the fight capitals of the United States, is that correct?

MR. MORLEY: That is right.

MR. HUNTERTON: Yet it is a fact, is it not, that there is no central repository of information in New Jersey that would tell you which fighters are owned by which individuals?

MR. MORLEY: That is right. Well, let me qualify that. At the time that we conducted our investigation and issued our report on the regulatory system in New Jersey, and that was March of last year, that statement that you just made was true. Between last March and the present, the regulatory system in New Jersey has been revamped substantially, and at the present time those kinds of ownership interests must be revealed if they are ownership interests in a boxer licensed in New Jersey.

Parenthetically, I don't know that anything approaching that stringent a regulation exists in any other state.

MR. HUNTERTON: Similarly, if by now it has been done in New Jersey I take it the state of the art in other states has not gotten to the point where there is even a simple declaration of ownership which would lead you on this trail that you put together.

MR. MORLEY: That is right. As I understand

it, the state of the art in other states didn't even approach the state of the art as it was even a year ago in New Jersey.

MR. HUNTERTON: So your finding of these contracts and associations was by your investigations and issuance of subpoena; you couldn't go to a logical starting point to find out who was involved in boxing?

MR. MORLEY: That is right. There was nothing in the records of the New Jersey State Athletic Commission, which we subpoenaed virtually in totality and analyzed for a year, that would give any kind of a hint of the existence of these relationships. Typically, the only thing you would find in a licensed boxer's personal file in the records of the commission was a so-called boxer-manager contract which more often than not was probably executed, if at all, by the boxer, and I think we have strong suspicion that most of the signatures were not the boxer's but, if executed at all by the boxer, were typically executed the night that he appeared in Atlantic City at the fight, probably somewhere between the dressing room and the ring.

MR. HUNTERTON: Let me put the same question to you at the level down from ownership, with respect to promoters and managers and seconds. Is there

anything approaching the kind of licensing test that you have in New Jersey, for instance, to be a casino employee, where you are required to have a certain amount of experience, training, education with respect to the type of function that you are going to perform, in this case managing a fighter's career and life? Are there any such requirements?

MR. MORLEY: It is my understanding that there is a fairly decent set of standards in existence in a few states -- California comes to mind immediately -- where it is necessary to pass certain examinations before you can become a second, which position is not the menial task that many think it is. These are people who are in effect paramedics in the corners of fighters, and in a few states, and including now New Jersey, there are requirements for examination to make sure that you are not practicing something short of the black art in the corner of an injured fighter.

MR. HUNTERTON: If we could take California as a model, as a general statement without being critical of any individual state or states, do the other states generally fall short of those kinds of safeguards?

MR. MORLEY: Yes, that is my understanding.

MR. HUNTERTON: Referring to the associations that you have found with respect to boxers and organized crime, I have had put before you two surveillance photographs that you have provided to us. Could you describe those for the Commission and then we will pass them across among the Commissioners, since they are really too small to be viewed at any great length.

MR. MORLEY: Both of these photographs were taken at Resorts International Casino Hotel in Atlantic City on March 14, 1983. This photograph here depicts, on the left in the hat, Frank "Blinky" Palermo, who was referred to in the statement which I submitted to the Commission, but I didn't refer to him in my oral presentation, who is a figure in the Bruno family in Philadelphia.

The gentleman with whom he is conversing was the then New Jersey State Athletic Commissioner Jersey Joe Wolcott, who has since retired. The gentleman partially hidden by Wolcott is Robert Lee, who at that time was Deputy Commissioner and is now the acting Commissioner in New Jersey.

The second photograph taken, as I said, on the same evening at Resorts International, depicts an

organized crime figure in conversation with a boxing manager and promoter. On the far left is Thomas DelGiorno. DelGiorno is a soldier of reportedly increasing influence also in the Bruno family in Philadelphia. He is here in conversation with boxing manager Carmine Graziano and boxing promoter Ted Menas of Elbaum & Menas Productions, a nationally known boxing production company.

Also seated at the table here with them is an individual known as Robert Stone, who has been observed by law enforcement authorities associating with members of the Bruno organized crime family.

Just parenthetically, on the same evening, earlier but before this photo was taken, the following people were also at the table with Mr. Amenis and Mr. Graziano: The late Edward "Broadway Eddy" Culture, a close associate of the Bruno family and notorious Philadelphia area gambler, and Robert Simone, a Philadelphia lawyer who has represented Scarfo Co. and other Bruno family members.

Let me say with respect to the photographs, I don't mean to suggest in any way that either the New Jersey officials or the manager or promoter who are in the photographs with the organized crime figures were

discussing anything illegal or were in any way involved or influenced by members of organized crime. What it does point out is a peculiar problem in New Jersey. Because of the environment of the bigger boxing events in New Jersey, that is, in the casinos, which take place in what are essentially dinner theater atmospheres, there is a lot of movement and casual byplay among the people who are at the fights. If the organized crime people are coming to the fights they are naturally going to come in contact with the officials and with the promoters.

That contact in and of itself is disturbing. It is also disturbing, I think, to the commission and to law enforcement authorities in New Jersey, that there exists boxing, an activity which is attractive to organized crime and attracts organized crime figures to the gambling casinos, which is a particular area of concern for organized crime intrusion in New Jersey.

MR. HUNTERTON: Mr. Morley is available for questions from the Commissioners.

COMMISSIONER DINTINO: Jim, first I want to thank you for your outstanding testimony and I do want to acknowledge the SCI commissioners Zazzali and Greenberg, and I appreciate their attendance here and

the rest of your staff.

Some questions. While I know you are a little bit hesitant as far as the organized crime associates, through your testimony and your statement you have practically named a Who's Who in organized crime in the state of New Jersey. You have practically covered every organized crime family and all the more notorious organized crime subjects, apparently, during your two and a half or two-year investigation, and you have shown a couple surveillance photos here and you have had a number of witnesses in before your commission.

Is there any doubt in your mind that organized crime has influenced or has influence in the boxing industry in the state of New Jersey?

MR. MORLEY: Colonel Dintino, there is no doubt whatsoever in the minds of the Commissioners that organized crime is attracted to boxing in New Jersey, it is associated with boxing in New Jersey, and that it is very interested in getting a foothold and gaining increasing influence in boxing in the state of New Jersey. As I said at the outset, we cannot, not because of any reluctance but this is simply a factual admission, we cannot at this point identify a boxer, a

promoter, a manager who is controlled, that is, his actions and his conduct are controlled by organized crime figures in New Jersey. But as I mentioned in the statement, obviously there are boxers, managers and other figures in boxing who obtained financial support and other services, if you will, from organized crime figures.

COMMISSIONER DINTINO: One of the photos that you displayed was a photograph of the ex-boxing commissioner Joe Walcott and the present acting Commissioner Mr. Lee, with the notorious "Blinky" Palermo, who has been known for years as a mob individual and a fight fixer. Wouldn't it seem odd to you that they would be seen even associating or having a conversation with this type of an individual?

MR. MORLEY: Yes, it certainly gives the Commission great pause. But the typical answer that the Commission receives from witnesses before it, and there is some exchange in the prepared statement to illustrate this, the typical response that we get from anybody in the boxing industry when we ask that person did you know, had you heard, were you concerned about so and so's organized crime connections, the typical response is I have no personal knowledge that this man

has done anything wrong, and what you read in the newspapers often has to be discounted or taken with a grain of salt. It goes beyond that. We had several witnesses before us who were former law enforcement officers, in both cases in the city of Philadelphia, and who had some involvement in organized crime investigations before they left the police department. These people were privileged not only to information which they read in the papers or the scuttlebutt which they heard around the boxing arenas and on the street, but also to the official surveillance reports of the Philadelphia police department and warnings from former fellow law enforcement officers. Still the answer was the same, I don't have any personal knowledge, he never did anything illegal in front of me, why shouldn't I associate with him.

In the Commission's view, that is an entirely unsatisfactory answer and something has to be done, if not on the state level -- and although we think it can probably be done in the state of New Jersey we don't know how many other states can take this step, and failing that on the national level -- to prohibit these kinds of associations and intimate financial relationships between boxing people and

members of organized crime.

COMMISSIONER DINTINO: Basically what your investigation uncovered was that at all levels, from the gym, promoters, managers, there is an association with organized crime individuals in the boxing industry, is that correct?

MR. MORLEY: That is absolutely accurate, yes.

COMMISSIONER DINTINO: Let me ask you this: What percentage of fights occur in the New Jersey area, namely Atlantic City, as far as nationally?

MR. MORLEY: I don't have those figures off the top of my head. I do know that early on in our investigation, which was beginning in early 1983, New Jersey was putting on more professional boxing matches than any other state, including California, New York and Nevada. There has been slippage in that leadership and in fact New Jersey may have vacated the leadership position at this point, probably for the reasons that I mentioned in my statement. But I think it would be fair to say that New Jersey is probably putting on well over 10, 15 percent of the professional boxing matches in the United States.

Part of the problem again is that many

states have no -- several states at least have no regulatory mechanism, so we don't even know what is going on in those states. I suppose those states could have professional fights at locations every night of the week and we would never know about it.

COMMISSIONER DINTINO: Did your investigation show that some of the promoters, managers, boxers in New Jersey fight in other states?

MR. MORLEY: Absolutely. Virtually every promoter that does business of any substance in Atlantic City is also promoting in another jurisdiction.

COMMISSIONER DINTINO: Did your investigation uncover any evidence that there was any association with organized crime individuals out of the state of New Jersey?

MR. MORLEY: We have clear suggestions that that is the case.

COMMISSIONER DINTINO: So it is your belief that organized crime is associated with the boxing industry nationally? I don't think there is anything unique about New Jersey.

MR. MORLEY: It is a problem that I think is common in the boxing industry nationwide. Obviously it is probably more of a problem in New Jersey simply

because we have more fights, and there is a lot of national exposure given to the fighters that are fighting in New Jersey.

COMMISSIONER DINTINO: Thank you.

COMMISSIONER ROWAN: May I ask, you mentioned that the casinos were in the forefront of encouraging boxing. Based on your investigation is that simply for economic benefit to the casinos or do you think the casinos are acting as a front for some of the organized crime?

MR. MORLEY: It is pretty clear and we are fairly well satisfied that the emergence of boxing in New Jersey in the casinos was as the result of a marketing decision. Rarely is there any gate of any size involved in putting on a fight in New Jersey. It is almost a distortion of the norm. Where normally a promoter would look to find an arena and then pay rents to the landlord in order to put on a fight, the Atlantic City casinos very often, and for a long time it was the prevailing practice, pay the promoter to bring the fight into the casino. The promoter gives up his tickets, the casino uses the tickets, sells a portion of them but primarily uses them as comps, compensatory services to high rollers. It gets

busloads of people to come in from Philadelphia.

Typically a Atlantic City fight card, unless it is a cable TV fight card, and that is where the economic advantage is to the promoter in that case, but if it is a nontelevised or incidentally televised card in Atlantic City almost every fighter on one side of the card is a Philadelphia fighter and the Philadelphia gambling crowd is comped or lured down to the casino on a particular night by the fight.

Typical, I think, of the casino industry, once one casino started doing it every other casino felt obligated to keep pace, and at one time virtually every casino was putting on several cards a month. That, as we have noted, has for many reasons fallen off. I have heard, not directly from industry officials but I have heard that there was some determination made on the Boardwalk that the crowd of people that was coming into the fights was not turning over the kind of drop on the table.

COMMISSIONER ROWAN: They were more interested in the illegal sports betting than they were in the legal table betting?

MR. MORLEY: That is entirely possible.

COMMISSIONER ROWAN: Thank you.

COMMISSIONER DINTINO: Thank you, Jim.

MR. MORLEY: Thank you very much.

COMMISSIONER HOPE: With that testimony we conclude today's hearing and we will reconvene tomorrow morning at 9:30 a.m. Thank you all very much.

(Adjourned to 9:30 a.m. June 26, 1985)

mh

PRESIDENT'S COMMISSION ON ORGANIZED CRIME

GAMBLING HEARING

New York, New York

Wednesday, June 26, 1985

The hearing in the above-entitled matter  
convened, pursuant to notice, at 9:30 a.m.

BEFORE:

Irving R. Kaufman, Chairman

MEMBERS OF THE COMMISSION:

Jesse A. Brewer  
Justin J. Dintino  
William J. Guste, Jr.  
Judith Richards Hope  
Philip R. Manuel  
Thomas McBride  
Edwin L. Miller, Jr.  
Barbara Ann Rowan  
Frances A. Sclafani  
Phyllis Teresa Wunsche

COMMISSIONER HOPE: I will now call the third day of the hearings of the President's Commission on Organized Crime to order.

Today's hearing will conclude the Commission's examination of organized crime involvement in gambling by focusing upon the ways in which organized crime is able to exploit and profit from legalized gambling. In the last two days we have explored some of these methods and we discussed yesterday how organized crime is able to infiltrate casino-related unions and use some of their huge gambling-related profits to corrupt public officials.

Today we will primarily examine how the casino's earnings are commandeered by organized crime. Nevada's casinos gross almost \$3 billion per year and Atlantic City has passed the \$2 billion level. This money is mostly in the form of small denominations of cash or, in the case of slot machines, coins. I might point out that approximately one half of the casino's earnings is from slot machines.

The mob is inexorably drawn to this money as an addict is drawn to drugs. Some of this money is diverted to the coffers of organized crime by being skimmed from the gambling tables before it can be

audited. These skimming operations are a longstanding practice, but the fact that they continue to yield millions of dollars in profits for organized crime today indicates that there must be more done by the casino industry and law enforcement officials to correct this very serious problem.

Today we will examine other ways in which legalized gambling yields profits for organized crime.

Criminal cartels earn millions of dollars from their involvement in casino junkets and they use the casinos as convenient conduits for their money-laundering schemes.

Our purpose is not at all to condemn legalized gambling but rather to find ways to prevent organized crime from continuing to profit from an industry that has always been a lucrative source of revenue for organized crime.

With that I would ask Mr. Hunterton to call the first witness.

MR. HUNTERTON: Thank you, Commissioner. Special Agent Corrigan, would you come forward and be sworn by the marshal, please.

RYAN CORRIGAN,

called as a witness, having been

duly sworn, was examined and testified as follows:

MR. HUNTERTON: Our first witness this morning is Special Agent Ryan Corrigan, who has been with the Internal Revenue Service for 24 years, 20 of those in Nevada. He is currently a group manager in the Service's Reno office. He was working on skim cases as far back as 1965 and is the man that Internal Revenue Service and other agencies call upon to explain casinos, their management and how they work.

This is an appropriate way for us to start this day, so we will ask ask you, Special Agent Corrigan, to enlighten us as you have enlightened policy makers in the Internal Revenue Service and the Justice Department many times before.

MR. CORRIGAN: Yes, sir. Could I have the lights dimmed?

I have some slides to show today that will relate to casino operations, which I took. The first picture, of course, is just in case no one has had the opportunity and enjoyment of participating in a casino. That is a picture of one, the action going on.

I would like to emphasize first of all that casinos are legal in Nevada and Atlantic City. I will refer to Nevada because that is where I work mostly.

We feel there is nothing immoral or illegal about operating a casino. It is the method people in Nevada choose as one of the major industries in that area.

It is, as was mentioned in the opening of this session, generating a tremendous amount of currency, 2.9 billion in 1984 from 145 class 1 casinos in Nevada. In addition, they have approximately 160-some class 2 casinos with lesser amounts. So the total net gambling winning is over 3 billion in that state.

I have this slide to demonstrate the manner in which casinos receive their currency on table games at least. The money goes down the chute, down the drop box as we refer to it.

I also have a chart right below the screen labeled "Casino illegal income," and the purpose of this chart is to place a label. We talk about skimming. However, that is not entirely a correct label. On one occasion I was talking to a casino owner, and referred to skimming taking place in his casino when I should have referred to embezzlement. The distinction I make with skimming is the label that we place upon the receipt of illegal income by the owners, by the control group of a corporation or by the owners on behalf of hidden owners. If employees of the casino are the ones

that are taking the money illegally, ripping off the casino, that is embezzlement. If there is an outside group without the knowledge of the top management or the employees that is theft.

We have had actual experiences where organized crime associates have used all three methods to derive income from the legal casinos. We have hidden owners and owners. Later witnesses will get into some of those cases.

It seems that once the controls break down in a casino, if, for example, there are hidden owners and skimming is taking place, employees are quick to recognize it, will get on the band wagon. In some cases employees have been rewarded for their silence and allowed to steal from the casinos. Also there are outside groups that are constantly trying to beat the casinos by whatever method.

This is also duplicated in your briefing book, but this is a brief summary of the gambling profit centers in a casino, in which the opportunity for skimming -- and I will refer to embezzlement, theft or skimming for simplicity -- would occur. We mentioned slot machines and I will talk about a couple of these areas as we go through, not every one. But

the slot machine area or coin-operated devices, because there are more than just the wheel-type slot machines involved, account for 1.5 billion in revenues or more than half in the State of Nevada of their gaming revenues. This is probably primarily responsible for the popularity of progressive slot machines.

Progressive slot machines, of which here is a picture, have an interesting characteristic. The casinos will place an initial amount on the meter -- you see where it says 158,000. I don't know what this might be but they might start it out at 25,000. These machines are a carrousel or a whole bank of machines, probably eight to ten, and as a player plays the machine the amount on the meter increases with each coin to a point where the jackpot, if any one of the machines hits the five 7's on the bottom line, the big jackpot will be paid out.

The interesting part of this is that the State of Nevada, at least -- I am not sure how New Jersey works -- requires the casino to maintain this jackpot as a trust fund. It does not belong to the casino, it actually belongs to the players and must eventually be paid out as a winning. So the casinos, at least in the past, have been somewhat anxious to pay

these out because it generated very good publicity.

We recently convicted a gang of slot cheats that preyed upon this very thing and were able to cheat the slot machines by use of wires, opening the doors with keys and various other methods, and we estimate perhaps as much as \$20 million in a three-year period was stolen from the casinos by this slot cheating gang. As best we can determine, there was no inside help. The leader of the gang was, in our opinion, definitely tied to organized crime interests in the Southern California area, and one of his confederates told us that when they went to Atlantic City to take off jackpots he had to get permission from an organized crime figure in Bayonne, although he didn't know his identity.

The industry, gaming industry as well as law enforcement officials, were astounded at the number of jackpots that this gang took off. We grossly underestimated their activity. We believe there are additional gangs still operating and we are attempting now to learn their identity.

There is a second method involving slot machines. It would involve skimming on the part of the casinos. Because of the volume of coins that slot

machines generate, they are measured by a very sensitive electronic scale rather than the counting machines. That is an example of one of the scales. The coins go in the hopper. The device in the center of the table electronically reads the amount of the coins. They can set it to the various denominations and the piece of equipment on the far right prints out a tape as to the count. Coins drop through the funnel into a room below where they are wrapped and sent back to the casino for reuse, for sale back to players.

We had one case involving the Stardust Hotel a few years back where we believe they altered the scale so that it would read a lesser amount and determined through statistical analysis that anywhere from 7 million to 20 million was diverted by undercounting the coins that went through their scale.

I will move on to the next area of skimming, which would involve the table games, and referring to table games, blackjack, craps, 21, baccarat, poker, the main games, and roulette, of course. These are the games in which the earlier slide showed where the money goes in the drop box. This is the drop box. Historically in Nevada, the easiest way to skim a casino is to take cash out of the drop box before it is

counted.

The state regulatory agency has very stringent controls on how these positions are to be handled, how they are to be counted and so forth, but unfortunately controls are put in place by people and people can be corrupted, so that even though there are very stringent controls we know in the past that these boxes have been opened before they are counted and the currency taken out. Again, that is the simplest method.

Another method on the table game that is quite frequently used is what we refer to as a fill skim. When the bank of chips on the game runs low they need to order more chips from the casino cashier's cage and they put them on the table. These chips are brought from the cashier's cage by a security guard and they have very stringent controls. This is one of the records used, the principal record used called the fill slip.

This was an actual example one of the casinos was generous enough to loan me, and you can see that it has five signatures on it: security, the cashier, the security guard, the foreman behind the game where the chips are put on, and the dealer in the game. This fill slip is then placed in the drop box.

In order to accomplish a skim, for example, on this one it is \$2,800. There may be only \$800 placed on the game or there may be nothing placed on the game and the fill slip dropped. This would create an artificial loss for that game and the equivalent amount of cash could then be taken from the cashier's cage. There is the bank of chips I was referring to. That is what is replenished.

In Nevada we currently have one case under indictment, not yet tried, in which the indictment specifies \$200,000 to \$600,000 a quarter was skimmed by the use of false fill slips. In that case, I believe, the -- or allegedly the signatures may be false.

I would like to mention one other area of -- before I go on, the employees of the casino that helped me out, I told them I would give them some publicity. This is the cashier's cage which I referred to. It is the central banking function of a casino and it is probably involved in any skimming operation. It would have to be involved in any skimming operation. Employees in the cashier's cage would have to cooperate with any money taken out. Chips have to be converted to currency and this is where it would take place.

I would like to go on to one other area

involving table games that recently arose in Nevada, and it is a practice that I think is becoming more common. It is called -- dumping games is the term we use, and that is where the dealer is in collusion with a player and will pay the player whether they win or lose, and then that money is later split. Depending on the amount of money involved, the number of people involved, we could have embezzlement, theft, or if the top management were involved, and in one case I have observed that, there would be skimming.

The interesting thing that just arose is that -- well, let me explain first a little bit. Most often that would happen on a 21 game and the dealer could give signals as to what the hole card is or change the odds in some way to favor the player.

In one operation that is now taking place in Nevada from time to time, a group has used some electronic equipment, notably a video camera with a miniature lens in the arm, and the dealer unwittingly, when they bury the hole card, if they are a little bit careless of it they can get a picture of the hole card on the video camera. It is transmitted to a van in the parking lot of the casino where a confederate can use stop action, identify the hole card, and then the value

of the hole card is transmitted back to the player at the game. The player at the game can't wear an ear phone because that would be suspicious and security would check them. So the method of receiving the signals from the van in the parking lot is through electronic impulses in the genital area. They have been quite successful in some cases. They have also attempted to count cards in the same manner.

Another area other than the casino profit centers that has been used for skimming is to have kickbacks or false expenses or fraudulent expenses in just about any way imaginable. I have prepared a very short list of some of the areas in which we have had actual cases where this has been done. It is by no means limited to these areas. Any expense imaginable could be falsified and the money returned to the casino.

A comment very briefly on one of these areas, the construction loan kickbacks. We have a graph. This represents one payment on a Teamsters loan for a construction of the Aladdin Hotel, one payment the agents traced from the pension fund through title, through banks, title contractors, subcontractors. I won't begin to attempt to explain all that but you can see by the flow chart used in trial that the process is

quite complex. We believe anywhere from \$800,000 to \$2 million was kicked back on that particular loan.

MR. HUNTERTON: Agent Corrigan, given, as you said, that all of the antiskimming systems, whether they are the casino's internal control system or a state regulatory system, are designed by people and people can be corrupted -- apparently this will be an ongoing process but given that, based on your experience what could be done that is not now being done to make this process of diversion to organized crime groups more difficult than it is now?

MR. CORRIGAN: We need to continue what we are doing now, and I suppose we in the field never have enough resources, although I don't want to get into that. I will let my superiors ask for more resources. I think that the thing that we could do to help would be to encourage continued cooperation with the state people. The slot cheating gang was a good example where the Internal Revenue Service, FBI, and the state gaming cooperated and were quite successful. I would like to see us continue with that type of operation.

From the Internal Revenue Service standpoint, we have a real problem with the disclosure laws. We were able to circumvent that to some extent in the slot

cheating investigation by the use of grand jury. Then that also has its limitations.

I would like to see us able to exchange information freely with the Gaming Control Board. We have currently a very good working relationship with the Federal Bureau of Investigation and their use of title 3. That is a very important tool in the casino investigations.

Other than that, it is a very slow, difficult process. Skimming operations are very expensive. In order to detect skimming you have to be there when it is happening in some cases. For example, on a drop box skim probably the only way -- not the only way, but the best way to detect it is to actually count the money that goes into that box, and that is very expensive.

MR. HUNTERTON: You would do that with surveillance?

MR. CORRIGAN: Yes.

MR. HUNTERTON: Could you explain how that would be done, what sort of manpower would be required if you wanted to actually know how much had gone into a box so that you could compare it with the official count?

MR. CORRIGAN: We would have to have an agent acting as a player, or a number of agents, actually, there for the entire eight-hour shift to count the money that went into the box. We have done that in the past and have been successful. However, that is only the first step, then again, and that is the very expensive part. The next step is to determine who is responsible and who is actually taking the money out. What we do is, once we have the count with the drop box we wait until the records are prepared and we can ask after the tax returns are filed to look at the records of that day, and if the records of the casino recorded are less than what we counted we know the money was skimmed.

MR. HUNTERTON: Can you give us an example, either real or hypothetical, whichever is easier for you, of a specific instance where you had information and were prevented by the Tax Reform Act from sharing it with either the Bureau or the state authorities, and thereby slowed down this type of investigation?

MR. CORRIGAN: Without naming names at the moment, I have information that skimming may be taking place at a certain casino and cannot tell the Gaming Control Board in detail what is happening.

MR. HUNTERTON: You didn't get that off anybody's tax return, that is intelligence information?

MR. CORRIGAN: We got that through our own surveillance, yes.

MR. HUNTERTON: But you are forbidden by your understanding of the law to share that?

MR. CORRIGAN: Yes, sir.

MR. HUNTERTON: Commissioner Hope, Agent Corrigan is available for questions.

COMMISSIONER DINTINO: Agent Corrigan, you mentioned that slots are over 50 percent of the win in Nevada and I believe they are the same in New Jersey, and you described a group of slot cheats that ripped off, you said, the casinos for \$20 million. I know it is an unfair question but can you give some kind of ballpark figure as to how many of these jackpots are actually ripped off by organized crime and other slot cheats?

MR. CORRIGAN: I can repeat, sir, what one of the members of the gang told us who testified. It is his belief that all large jackpots are taken off by slot cheats. My own opinion is I don't think it is that drastic.

COMMISSIONER DINTINO: But it is high.

MR. CORRIGAN: But I underestimated in an earlier investigation what was taken off also. I can give you an example of that. When we started the investigation we knew that, or as we got into it we knew that there were 13 that we knew for sure. Some of the gaming people that worked with us had leads up to 50. I was doubtful.

When the slot cheat testified for us, the first question I asked him was how many slot machines did you "take off," is the term they used for stealing. He says, "I can't count them." I said, "Well, 50 to 100?" He said, "More." "200?" "More." The number he took off was in the hundreds and he literally could not remember the number that he took off.

He also told us that while he was in the process of taking off slot machines he saw other gangs, sometimes in the same casino, taking them off.

COMMISSIONER DINTINO: I want to follow up on that. You stated that that money in those jackpots are in trust. Basically that is the players' money, not the casino's money. So in essence the casino is not being ripped off, the consumer is being ripped off, is that correct?

MR. CORRIGAN: That is correct, yes.

COMMISSIONER DINTINO: One more question. As you showed the various methods of skimming, in your experience who commits the skimming? Is organized crime involved in the skimming operations?

MR. CORRIGAN: The experience that I have had is that that is most often the case. If the owners are going to skim a casino it is because of an organized crime influence with hidden owners who are organized crime connected, and they have to pay them their mortgage, as we refer to it. So that if skimming is going to occur the money most likely will go to organized crime, wherever.

COMMISSIONER HOPE: Yes, Commissioner Miller.

COMMISSIONER MILLER: Just to get this straight, the crimes that you have described are committed primarily by members of organized crime, is that correct?

MR. CORRIGAN: The influence of organized crime. The people who actually perform the skimming are the front owners or managers or the control group of a corporation in Nevada doing it at the request -- I would put that request in quotes -- of organized crime, who most likely have a hidden ownership.

COMMISSIONER MILLER: So it would be fair to

say that the crimes that you have described here are committed primarily by either members or associates of organized crime?

MR. CORRIGAN: Yes, sir, that is our experience in those casinos. Where we have been able to determine skimming has taken place in the past it was definitely committed by organized crime figures.

COMMISSIONER MILLER: How successful has been the government's prosecution of skimming cases?

MR. CORRIGAN: We have convicted quite a few people in recent times on some of the cases involving the Stardust and Argent Corporation. There are some under indictment involving Transsterling. We have had convictions in the Aladdin case, and going back in time, back to '72, the Flamingo case. I think some later witnesses will have a list I saw a little earlier of all the prosecutions. But we have been somewhat successful in recent times.

I have also been involved in some investigations that have not been successful, that I knew for certain that skimming was taking place, was unable to identify the individuals doing it with any specificity, and the problem that we run into, that if we have lower level employees that we can identify that

are doing things improperly, rather than the owners, it then becomes embezzlement and is a wash for tax purposes for the casino. So we have gained very little by doing that.

COMMISSIONER MILLER: Would you say that your success rate in prosecution has improved as time goes by?

MR. CORRIGAN: I think in recent years we have had very good success, yes, sir. We have improved. In the time that I have been in Nevada we have certainly improved. We have had a string of very good successes in recent years, including the Stardust, the slot cheating gang, the Aladdin, our most current cases.

COMMISSIONER MILLER: Is there any recommendation that you would have, based upon your experience, that would improve the investigative abilities and the prosecution of those cases?

MR. CORRIGAN: As I say, we in the field are always looking for more resources, more prosecutors. That is a problem today, I think. The staffing of prosecutors especially, I know that I could use more assistance in that area. Other than that, it is just using the tools that we have, more of them, to track down the leads that we have.

COMMISSIONER MILLER: Thank you.

COMMISSIONER HOPE: Commissioner Manuel.

COMMISSIONER MANUEL: Agent Corrigan, you have given us an excellent statement on how money is skimmed or stolen within the casino, but I notice that you did not mention several things that I think are important, namely, the operation of junkets and how markers are made and collected within casinos. I wonder if you could take a moment to address that problem of how money can be stolen or how casinos can be ripped off by junkets, and especially as it relates to the collection of markers.

MR. CORRIGAN: There are a couple ways, and you are right, sir, I did not go into the credit skim. I did go into the fill slip skim. The opposite of that is a credit skim, most often used in connection with markers. That is where the casino actually sells chips to a player on credit. In order to accomplish a skim they simply do not place the credit slip in the drop box and it is not counted. Therefore, what was a sale of chips to a player would actually appear to be a loss, gambling loss.

The second part of that on markers is the collection of markers. They frequently, if there is a

skim taking place, will write off markers as a bad debt when in fact they have collected them. Of course the large junkets with the high rollers are mostly credit players, most often where that would occur.

COMMISSIONER MANUEL: What are some of the methods used to collect markers and who do casinos employ to collect markers?

MR. CORRIGAN: I was involved in one case in the collection of markers in Detroit, and I was familiar with Detroit because at one time I worked on the Strike Force there, and the people employed to collect the markers were known associates of organized crime; in other words, certain names in Detroit are known to be associated. They used some of those people to collect the markers.

I know of no threats that were actually made in the case that I worked, other than the fact that they used their name, they were well known, and the player who had the marker outstanding knew very well who was making the collection.

COMMISSIONER MANUEL: Who employs the collector? Is it the casino or is it the junketeer?

MR. CORRIGAN: It can be either. In some cases the casino would be responsible for the junkets

and their own markers and in some cases the casinos would have the junketeer responsible for collecting the markers.

COMMISSIONER MANUEL: Can a casino legally enforce that debt relationship? In other words, if a man who signs a marker for a great deal of money leaves the hotel, leaves the State of Nevada, can that casino collect that debt legally?

MR. CORRIGAN: No, not outside the State of Nevada.

COMMISSIONER MANUEL: Must it employ outside collectors to do that?

MR. CORRIGAN: Pardon me, sir?

COMMISSIONER MANUEL: I say, must it employ outside collectors to get that money?

MR. CORRIGAN: They usually do that, yes.

COMMISSIONER MANUEL: And are those collectors, based on your experience, often connected to organized crime?

MR. CORRIGAN: Yes, they are, and in some cases they are employees in the casinos of Nevada, who we feel are very close to organized crime, if not themselves organized crime, that make the trips around to collect markers. I know without naming names that

that has happened.

COMMISSIONER MANUEL: Again based on your experience, what happens to the money that they collect?

MR. CORRIGAN: Very often the marker could be, begin written off as a bad debt or, in the case where a credit slip was never dropped, may never have appeared on the books to start with.

COMMISSIONER MANUEL: Can you give the Commission some idea of the volume of markers in a normal casino operation? In other words, how much credit is extended to people in terms of total play?

MR. CORRIGAN: Well, the best example I can give is one that I investigated in which we were unsuccessful. In a year's time we were able to determine that there was a \$3 million skim from credit alone that didn't appear on the books. What appeared, I am not certain. That was probably 10 percent of what they took in. This is a guess, sir.

COMMISSIONER MANUEL: Would you say based on your experience that junkets are sometimes, if not often, controlled and directed by members or associates of organized crime?

MR. CORRIGAN: Sir, I am not too familiar with the junkets that are formed in other states but I

know that that has happened. I don't know the frequency, sir.

COMMISSIONER MANUEL: Finally, just in conclusion, would you say that junkets and credit scams as they relate to markers are a great vulnerability to casinos and casino operations and vulnerable to penetration by organized crime?

MR. CORRIGAN: Yes, sir, I would say that.

COMMISSIONER MANUEL: Would you say that that vulnerability is maybe just as great as all of the schemes that you explained to us from inside the casino?

MR. CORRIGAN: With one exception. We are more successful at investigating a credit skim because of where the chips are purchased, if we can identify the credit players, than we are a couple of the other methods. For example, with drop box skim or a fill skim we have to be there when those take place, just about have to be there or have someone there or have someone tell us about them.

With the credit skim we have been very successful in investigating that by identifying the players and interviewing the players as to where they purchased their chips. If they purchased them from -- in other words, if they are on the books as a credit

player, in order to skim the casino would have to say that the chips were purchased at the cashier's cage, which very rarely happens. If they are not on the books and we are able to trace a payment from someone for a marker, obviously that would be income.

We can ask the credit players, those that are on the books, if they purchased their chips at the pit or at the cage, and if their answer is "I always bought them in the pit" and there is no credit slips, that is one of the areas that we can do an after-the-fact investigation.

COMMISSIONER MANUEL: How does Internal Revenue Service go about determining or how does the Gaming Control Board go about determining whether the markers that are declared uncollectible and therefore written off as bad debts are not actually skimmed, that has been perpetrated out of that casino?

MR. CORRIGAN: The markers written off as bad debts were actually bad debts?

COMMISSIONER MANUEL: Yes.

MR. CORRIGAN: The only way we do that is to investigate, contact the players themselves to see whether or not the payment was made. We verify the bad debts.

COMMISSIONER MANUEL: Do some casinos write off more bad debts?

MR. CORRIGAN: I am sure they would, yes, sir.

COMMISSIONER MANUEL: What would be the range for a year for a normal casino in terms of writing off bad debts?

MR. CORRIGAN: Sir, I really don't know that.

COMMISSIONER MANUEL: Couldn't give a ballpark figure?

MR. CORRIGAN: No, sir, I really couldn't.

COMMISSIONER MANUEL: But that is a practice of writing off bad debts?

MR. CORRIGAN: Yes, sir.

COMMISSIONER HOPE: Commissioner McBride.

COMMISSIONER McBRIDE: I just have one question, Agent Corrigan. The embezzlements, the thefts, the skims, the tampering with the coin machines are all state crimes.

MR. CORRIGAN: Yes.

COMMISSIONER McBRIDE: This is basically a gambling operation authorized by state law, regulated by the state gambling casino commission. What is troubling me is why we have such a sizable federal

enforcement presence and activity, and very successful, I might add, and a need for more resources when the operation is basically state regulated, the lion's share of the tax revenues go to the state. Why doesn't the state do what you are doing?

MR. CORRIGAN: That is a good question, sir. In the past we have not always had close cooperation with the Gaming Control Board, and those cases that will be discussed by another witness in a little bit with some specificity were developed by federal agents, without the cooperation of the state people at that particular time.

The slot cheating gang we just got is an exception to that. The Gaming Control Board members changed, their philosophies changed. The federal government's philosophies changed and we entered into this last year a period of cooperation, I think. The Control Board members have changed again. I have met all of them and I have high hopes that we can work together again, continue to work together, and I think that the posture and the climate is now that we can. This has not always been true. I think the federal government does have some interest, from our own taxing standpoint, in enforcing these laws.

There is another facet also, and believe me, I have the highest respect for the game control agents and the current board, and they are very competent people. But they are limited in their investigations pretty much to the State of Nevada, whereas the federal agencies can cross state lines quite rapidly. For example, on this slot cheating gang they centered their staging area in Sacramento, California, across the state lines. We were able to, from Reno go to Sacramento and conduct search warrants, whereas the state just didn't have the power to do that.

COMMISSIONER McBRIDE: I agree there is a federal role both in protection of federal tax revenues and in cooperative investigation, particularly where there are interstate ramifications, but as I said at the outset, my concern is that if the state is going to set this up and benefit from it, that they should bear the investigative enforcement burdens proportionately.

Thank you.

COMMISSIONER HOPE: Yes, Commissioner Rowan.

COMMISSIONER ROWAN: I wanted to ask you to talk to us briefly about money laundering, whether the money laundering is the same as the credit skim that you were talking about or can it be accomplished

through the credit skim.

Then I wanted to ask you what the effect on law enforcement is when so many retired federal law enforcement agents go to work for the casinos.

MR. CORRIGAN: I will address the first question about money laundering. No, it is not the same thing as the credit skim. I suppose the casino could be considered to be laundering their own money on a credit skim or concealing it. The laundering aspect is where the casino's cashier's cage is used as a bank and the source of the funds is disguised by running them through the casino.

COMMISSIONER ROWAN: No records kept?

MR. CORRIGAN: No records kept, yes. Well, that has changed recently. I have high hopes for the current legislation and the State of Nevada is going to enforce the currency reporting requirements, and I have great expectations that that is going to help us.

The second part of your question was?

COMMISSIONER ROWAN: Retirement of federal law enforcement officers who go to work as security directors, et cetera, for casinos. Is it beneficial or does it have a negative effect?

MR. CORRIGAN: Probably a neutral effect.

Their loyalty lies with their employer. It has plusses and minuses, of course, and their loyalty lies with their employer. The minuses, of course, if we are going to do surveillance in a casino we could be recognized by law enforcement officials. The plusses are that we know some of these people and they can expedite things, obtain records and cooperation for us. So depending on the individual it has worked both ways.

COMMISSIONER ROWAN: Thanks.

MR. HARMON: May I ask a question, Madam Chairman.

You mentioned, Agent Corrigan, that expenses are a way of skimming and phony complimentary services may be a way to skin. For example, just to give some idea of the magnitude of complimentary services, we have information that the Golden Nugget casino in Atlantic City on a gross revenue of \$278 million paid out complimentaries in excess of \$60 million, for a profit of over \$4 million in the year 1984.

Could you explain to the Commission what complimentary services are and based upon your experience the reasons casinos extend those complimentaries?

MR. CORRIGAN: In the casino business,

complimentary dinners, show tickets, rooms, are like most businesses would give out a cup of coffee. To encourage high rollers the casinos will comp or make their room complimentary, no charge, their hotel room, sometimes their air transportation to the city, meals, showroom entertainment, and that is really a relatively minor expense compared to the amount of money that the player would gamble and lose. So they look at it as encouraging those high rollers to play at their casino.

MR. HARMON: How do you use complimentary services as a way of skimming, in very general terms?

MR. CORRIGAN: If you actually received money for the showroom or the meal and put it in your pocket and wrote it off as a complimentary, that would be a skim.

MR. HARMON: For tax purposes, and again speaking very generally, how do casinos treat these complimentaries on their tax returns?

MR. CORRIGAN: They treat them as an expense. They could do it two ways. If they show that the room is a revenue item and then offset that with a complimentary expense, the two would offset, of course, no profit. Or they could just show them as a wash.

MR. HARMON: Thank you, Chairman Hope.

COMMISSIONER HOPE: If there are no questions we want to thank you very much for your time and your many years of dedication. Thank you for appearing today.

MR. HUNTERTON: Will Detectives Kisby and Seitz come forward, please. Will the marshals swear the witnesses, please.

WILLIAM KISBY and GREGORY SEITZ,

called as witnesses, having been

duly sworn, were examined and testified as follows:

MR. HUNTERTON: Seated to the left of the Commission's table is William Kisby, Detective Sergeant with the New Jersey State Police, who has been employed with the State Police for 15 years. Since 1977 he has been assigned to the Casino Intelligence Unit, Intelligence Services Section of the State Police.

Seated to the Commissioners' right is Detective Gregory Seitz, who has been with the State Police 16 years and with that same Casino Intelligence Unit since 1982.

These two detectives have come here in happy coincidence with Commissioner Manuel's expressed interest in junkets because that is exactly what they are going to tell us about.

Detective Kisby.

MR. KISBY: Thank you. Good morning.

Since 1982 I have been a supervisor of the Casino Intelligence, Special Projects in Atlantic City. My assignments have included the project involving junkets in the gaming industry. During this assignment with the casino intelligence unit an undercover investigation was undertaken involving a licensed junket operator with Detective Seitz posing as a licensed junket operator from 1983 to 1984.

Basically the casino junket activity is a legitimate marketing used to entice gamblers to visit gaming establishments. In New Jersey, the Casino Control Act establishes regulations to govern this activity which is basically an arrangement, the purpose of which is to induce any person selected or approved on the basis of his ability to satisfy a financial qualification obligation or has a willingness to gamble and to come to a licensed casino hotel for the purpose of gambling, for which any or all of his costs of transportation, food, lodging, entertainment or other services, items of value for said person are directly or indirectly paid by the casino.

The casino junket operators feel that the

junket activity is the lifeblood of a successful casino operation since the casinos must be able to continually attract preferred customers or high rollers, as they are generally referred to, to generate income. In order to effectively implement and continually maintain this player base of preferred customers, the casinos allocate large portions of their operating budgets to the marketing program to accomplish this goal. The amount the casinos allocate is generally second only to salaries for the entire casino per month.

This marketing program involves air and bus junkets to the casinos and it also utilizes limousines and/or helicopters for transportation of small groups of high rollers, which are called sprinters. For this service the junket operator is paid a commission or in some cases a salary by the casino. However, at times he also may receive compensation directly by the patrons in collecting per-head fees.

The junket operators can deal directly with the casino marketing department. However, the junket enterprise sometimes coordinates the activity of several agents. It is through this enterprise that the scheduling of proposed junkets is controlled and the agents desiring to send gamblers to a casino must deal

through that enterprise.

There are typically two ways in which the junket enterprise coordinates the transportation of gamblers to the casino. In one case the casino will pay for the transportation of the gamblers by paying the air carrier or bus operator directly. In the other case the casino will pay the enterprise a fee and the enterprise is required to provide the transportation, and variations of this occur from casino to casino.

On the charts to my right, the markings in yellow are entities or individuals that recently came under indictment in an 89-count racketeering indictment in September of 1984, involving junket activity. This primarily dealt with bus junket activity in Atlantic City.

The markings in blue are entities or individuals that we presently have under investigation, and we have an active grand jury going on in those cases at this time, which do have interconnections to the bus operators that were under indictment.

The chart up above indicates the network of the organized criminal activity and the various cities throughout the country, particularly east of the Mississippi, that they control. Through our

investigation we determined that they indicated they controlled approximately 65 cities in 25 different states. This junket activity not only ran into New Jersey, into four particular casinos, but also ran into at least five casinos in Nevada and four in the Caribbean, simultaneously.

The chart to the top right indicates on the left side of it the way we feel has the most integrity in a junket system. Basically you have the patrons dealing directly with the casino by dealing with a licensed key employee of that casino, therefore holding the casino accountable directly for that activity.

The situation to the right, you have the casino being able to pay the air carrier or the air broker directly, but once the junket enterprise is interjected into the system he acts as a middleman, or a siphon for organized crime. The patrons will pay this per-head fee, generally to either licensed or unlicensed agents or agents of the junket enterprise, and that cash never actually goes into the books of the junket enterprise and is siphoned off to organized crime.

A lot of times the overbilling of the air carrier, who is not licensed in most cases, will overbill

the junket enterprise and the junket enterprise acting in concert with the air or bus carrier will pay the overbilling and the money will be laundered out through the air carrier or bus carrier.

Fortunately, we witnessed just such a case in New Jersey and it was learned through an undercover investigation that four casinos were in fact utilizing junket enterprises that were affiliated with an unlicensed junket enterprise associated with the Bonanno crime family. When the marketing costs were compared with the win ratio statistics for all Atlantic City casinos from April 1983 to June '83, it was obvious that these four particular casinos had exorbitant marketing draws compared to their low win ratio.

The chart to the bottom right indicates one particular casino that they ran into. The licensed operator realized in one year \$13 million gross. The overbilling to the air carrier was over a 12-month period for 30 trips a month, \$3,000 per plane, for a total of in excess of \$1 million. And the kickbacks that the junket operators bringing fights in had to pay was \$3,000 per plane, which came from the per-head fee they charged the patrons getting on the aircraft. That

again was 30 trips a month times 12 months, of \$3,000 per trip.

At the bottom, the superbuss activity which also was part of the same network, an average of 226 superbusses per month times \$200 per superbuss in kickback, for a total of \$542,000, bringing a total of a year's income of \$15 million for one particular entity. This is at one particular casino, and as I earlier indicated, they had access into ten different casinos in Nevada and the Caribbean.

An undercover junket investigation, code name Operation Eagle, was commenced in 1982. Detective Seitz was assigned to participate in this investigation in an undercover capacity, posing as a licensed junket operator. Detective Seitz obtained a junket enterprise license which enabled him to communicate with licensed as well as unlicensed operators doing business in Atlantic City casinos.

As I earlier indicated, at the initial phase of the investigation Detective Seitz was directed to operate into Caesar's Hotel casino, since the intelligence information analyzed had indicated that kickbacks were being paid to individuals with criminal records who controlled the dates allocated by the

casino for the junket bookings.

As a result of that, the 89-count indictment was returned on 11 individuals and three corporations in September of 1984, and a copy of that indictment has been provided to the Commission.

MR. HUNTERTON: Commissioner Hope, we have a copy of the indictment for the record, with the list of defendants on the face page. It is headed State of New Jersey v. Albert Corbo, et al.

Go ahead, please.

MR. KISBY: A second investigation into the casino air junket activity was actually begun simultaneous to portions of the investigation. The initial thrust of the air junket investigation involved approaching casino marketing directors to determine their criteria for junkets and to attempt to actually operate junkets into Atlantic City.

After approaching five marketing directors it became apparent that Detective Seitz would not be successful in utilizing this direct approach. On one occasion he was directed to another junket representative who the marketing director indicated controlled the entire state for the casino. When Detective Seitz spoke with the agent, the agent

demanded \$75 per head for any trips Detective Seitz wished to operate from his designated area.

Detective Seitz then sought introductions to those who were actually providing a bulk of the transportation for the junket patrons to see if he could use their contacts and influence to gain access into one of the casinos. He also met with an officer of an air carrier company and a transportation broker who allegedly handled all the unlicensables, individuals who could not obtain licenses due to criminal records.

He then met with an unlicensed operator who actually controlled a network of 65 agents in 25 states that operated junkets worldwide. They not only controlled several cities and numerous licensed junket operators but also had influence over those who provided the transportation for these junkets. This control was based primarily on the ability of these unlicensed operators to obtain large portions of the budget awards for junket activity from the casino executives.

The payments for junket activity went to the front of the junket enterprise or the "beard," set up by the illegal network. Even though the cash flow

initially came from the casino to the licensed enterprise, inflated billings provided a conduit to siphon off funds to those who provided the transportation, since they were not licensed and could not be investigated due to exemption rulings.

Many of the air carriers were already licensed by the Civil Aeronautics Board or the Federal Aviation Administration. Therefore, they did not have to submit to a gaming investigation as well.

Per capita fees charged by junket agents dealing with the network were also a source of income. Without a kickback payment of approximately \$2,500 per plane or \$200 per bus, the agent could not do business.

This description of illegal junket activity depicts primarily one massive network coordinated by one specific crime family through an illegal junket enterprise in another state. However, it should be noted that several other organized crime groups operated through the network and were not required to pay the per-head fee charge.

Intelligence information gathered during the investigation revealed that some of the junket operators are involved in other types of criminal activity, for example, prostitution, narcotics

distribution, especially cocaine, loansharking off their credit lines, and illegal collection of casino markers.

The investigation ultimately led to the identification of five organized crime operations or families in addition to the Bonanno family who were involved in the operation. These were the Bufalinos of Northwest Pennsylvania, the Gambinos of New York, La Rocca of Pittsburgh, the Scarfo/Bruno faction of Philadelphia and South New Jersey, and the Patriarca family of New England.

Other organized crime groups operated through the network when they wanted to use a casino that the network controlled. However, they also had the ability to use other casinos because of the relationships that were developed with casino employees at the other casinos through their associates.

A survey of all Atlantic City casino operations from March '83 to November 1984 was conducted to determine the amount of business junket agents associated with this network were doing. We had each casino submit to us a list of all junket agents they dealt with and we compared them to the network.

The analysis revealed that there were 800

licensed junket operators in New Jersey and that only a quarter or 200 were actually doing business. Of the 200 that were actually doing business, 90 or 45 percent of those were associated with a network.

Further, it was determined that even some of the remaining agents were associated with the organized crime families operating outside the Bonanno network. Some agents had actually obtained their access to the casino as a result of personal relationships that they had with casino executives formerly from Nevada.

It should be noted that every casino in Atlantic City utilized some of these agents in one way or another. That is not to say that the network operated into every casino but agents affiliated with the network did operate into every casino. The minimum affected casino utilized at least 22 percent of those agents and the most affected casino operated utilized 77 percent of those agents.

The second survey was also conducted relative to the air carriers between November '83 and October '84. The survey revealed that 77 airline brokers were on the Casino Control Commission master vendor's list but only 17 had actually filed for licensure.

A total of 46 airlines received a total of \$17 million during this period, and of that \$17 million three of the companies associated with the network realized \$7.2 million of that money, or approximately 43 percent.

In conclusion I would like to say that organized crime is heavily involved in the junket industry and has been for the past 25 years. Organized crime has allocated territorial rights to various junket agents nationwide for casino junket activity under their control. This infiltration of legitimate business affects interstate trade and commerce because it forces legitimate operators to pay kickbacks to organized crime for dates to operate junkets to a specific casino under their control or suffer economic harm.

Thank you.

MR. HUNTERTON: Detective Kisby, we will turn to Detective Seitz now to discuss the air carrier, second phase of the operation. Before we leave, though, your investigation indicated, did it not, that individuals involved in this junket investigation were found in all of those states indicated in yellow, correct?

MR. KISBY: Yes.

MR. HUNTERTON: That included Kansas City, did it not?

MR. KISBY: Yes, it did.

MR. HUNTERTON: Did you come across an individual in your investigation named Carl Caruso?

MR. KISBY: His name has surfaced and that is under investigation.

MR. HUNTERTON: I would like the Commissioners to note that Mr. Caruso will come up somewhat more prominently with the next panel of witnesses.

Detective Seitz, in your undercover capacity did you have occasion to discuss operating junkets to Atlantic City with an unlicensed junket operator who was involved in this network that Detective Kisby has described?

MR. SEITZ: Yes, I did.

MR. HUNTERTON: Were there certain areas that he told you you would not be allowed to operate from? Were there boundaries and limits?

MR. SEITZ: Yes, he did.

MR. HUNTERTON: What were those limits?

MR. SEITZ: He mentioned that they came out

of 65 cities. There were specific areas that were already being operated from individuals within the network, and specific areas, namely the New England area, he advised me, quote, not to fool around in.

MR. HUNTERTON: Was there someone else involved, a coordinator? Did you talk with an unlicensed operator who coordinated these junkets in Atlantic City?

MR. SEITZ: Yes. He advised me to contact his associate who was located in another state and maintain the organizational map of what cities and hotels they were going into.

MR. HUNTERTON: So in short you were being directed both geographically in who you could deal with and being told personally who you could deal with, correct?

MR. SEITZ: That is correct.

MR. HUNTERTON: I would note for the Commissioners' benefit that since this part of the investigation is still being developed Detective Seitz is required to be somewhat vague in terms of names and location, but he will show how this investigation developed.

This is the phase of the investigation that

involved air carriers, and Detective Kisby mentioned five organized crime families involved in the illegal junket business in addition to the Bonanno family.

Taking them one by one, did you meet with associates of the La Rocca organization from Pittsburgh?

MR. SEITZ: Yes, I did.

MR. HUNTERTON: And the Patriarca family from New England?

MR. SEITZ: Yes, I did.

MR. HUNTERTON: And the Cavalcante family?

MR. SEITZ: Yes, I did.

MR. HUNTERTON: Were you wearing a body mike? Were these conversations recorded?

MR. SEITZ: Yes, I was.

MR. HUNTERTON: The Cavalcante associate that you met with, describe, please, how he was related to the Cavalcante family.

MR. SEITZ: He was a cousin and a close associate of a reputed capo in the Cavalcante family who also became involved in this operation.

MR. HUNTERTON: Did these people, both the organized crime types that you talked to and the air carrier types, did they talk about their problems and operational difficulties with you?

MR. SEITZ: Yes, they did.

MR. HUNTERTON: What was the general tenor of those conversations?

MR. SEITZ: The air carrier had lost a contract in Atlantic City as a result of being forced out by the company, namely, the Bonanno family.

MR. HUNTERTON: Did he express a reason why he felt he had been forced out?

MR. SEITZ: Yes, because they were already utilizing another airline.

MR. HUNTERTON: The air carrier that lost the contract and the Cavalcante associate, they met each other?

MR. SEITZ: Yes, they did.

MR. HUNTERTON: And you were present?

MR. SEITZ: Yes, I was.

MR. HUNTERTON: What was the substance of that conversation?

MR. SEITZ: The Cavalcante associate advised the air carrier that for a payment of \$10,000 he would send people out of town to resolve the matter and that their airplanes would be in the air in two days. He indicated they were the strongest people in New Jersey and it was their state and no one should do anything

without their permission. He also indicated that the Bonanno family should not have such a dominant position in Atlantic City because New Jersey was Cavalcante territory. And he also indicated that after payment of \$10,000 the air carriers would become part of the family and they would have no further problems in Atlantic City.

MR. HUNTERTON: We have subpoenaed portions of Detective Seitz's undercover recordings. Are we prepared to play that section now? Before you do it, I would like to ask you, Detective Seitz, just tell us in a nutshell what it is we are going to hear.

MR. SEITZ: You are going to hear a segment of the tape from the Cavalcante individual, and he is going to give them an overview of what can be accomplished by the family in New Jersey.

CHAIRMAN KAUFMAN: Mr. Hunterton, it has been suggested that there is really no necessity to play the tape if you can read the transcript.

MR. HUNTERTON: Very well, your Honor.

Detective Seitz, would you read that portion of the transcript which is associated with that tape.

MR. SEITZ: Yes. "The days of James Cagney and George Raft is over. Today is called, you have

this territory down here, you're responsible. Do this and it's done. That's how it's taken care of. The same way out of state, you call someone up, they go see someone and the problem is resolved. No one drags anybody, no one gets hurt. They're just told what to do and they respect them and they do it. And that's the way it is. There's no bodies left around and they ain't going to come back down on you later on. Nobody needs this kind of problem. No one is going to fool around with your license in Atlantic City or anything like that. It will be done like any other corporate business is done. They're are subsidiaries all around and you just call up that subsidiary and they take care of the deal. They call you back in a couple hours. I went there, explained to them and that's the way it's done. And if a little pressure has to be applied it's applied where it hurts them. If they are getting gas deliveries, they don't get gas deliveries any more. The Teamsters just don't go there no more because the Teamsters are part of us. And whatever the reason is, they stall and stall and no one will go. That's the way it happens. The laundry, the food."

The air carrier made a quote: "You mean almost like what happened to us?"

Answer: "Yeah, they pulled the plug, exactly what happened to you. They told you to get out of town. Now you know you might not get out of town this week but you'll know next week you better be out of town."

MR. HUNTINGTON: Thank you, Detective Seitz.

COMMISSIONER MANUEL: Excuse me. Who was talking on the tape?

MR. SEITZ: That was the Cavalcante family associate, yes.

MR. HUNTERTON: Both of the detectives are available for Commissioner questioning.

CHAIRMAN KAUFMAN: No questions.

COMMISSIONER MANUEL: I just want to ask, does the State of New Jersey allow a player to gamble in a casino on credit?

MR. KISBY: Yes, they do.

COMMISSIONER MANUEL: What has been your experience with respect to the ways that casinos can collect on that credit? How do they go about doing that?

MR. KISBY: I can only relate it to the junket activity because I did get involved with one particular situation in which a junket operator from

New York area was actually involved in going and collecting the marker money, before the markers actually went into collections, and brought it into the cage in the casino to be deemed marker money without the patron actually doing so, which is against regulations, to my understanding, and this was done with the knowledge of the security, cage people and marketing people at that casino.

COMMISSIONER MANUEL: Do you regard the process involved in the collection of markers to be a vulnerability of casinos to organized crime?

MR. KISBY: I think that it may be a greater problem in Nevada than perhaps in New Jersey, based on the regulations.

COMMISSIONER MANUEL: That is what I was getting at. Thank you.

CHAIRMAN KAUFMAN: If there is nothing further, the witnesses will be excused with the thanks of the Commission.

MR. HUNTERTON: Mr. Parsons and Mr. Wassenaar. Would the marshals swear the next two witnesses, please.

CHARLIE PARSONS and RICHARD WASSENAAR,  
called as witnesses, having been

duly sworn, were examined and testified as follows:

MR. HUNTERTON: Seated to the Commission's right is Charlie Parsons. He is currently the Assistant Special Agent in charge of the FBI's Kansas City office. For five years prior to assuming that post he was the organized crime supervisor in the Bureau's Las Vegas office. Earlier in his career he taught gambling technology at the FBI's Academy. He taught state, local, federal and foreign police officers and gained extensive experience in the area of illegal gambling working as an agent here in New York City. Special Agent Parsons is also a lawyer.

Seated with him is Richard C. Wassenaar, Assistant Commissioner for Criminal Investigations of the Internal Revenue Service. As such he is the Commissioner's principal adviser for all Internal Revenue Service criminal investigative activity. Prior to assuming that post Mr. Wassenaar had supervisory responsibility for Internal Revenue Service criminal investigations in the western United States, which of course included Las Vegas.

Mr. Parsons, I would like to begin with you. To your right and at the top of the chart array is a chart labeled "Casino related prosecutions involving

organized crime in Las Vegas." In sum, it shows that since 1971, beginning with the indictment of Meyer Lansky, and to date, some ten casinos in Las Vegas in some 20 different cases involving 60, 70 or more defendants have been demonstrated, those casinos have been demonstrated to be infiltrated and influenced by seven different organized crime families around the United States.

Having been directly involved in a number of those cases and familiar, at least in some measure, with most of the rest, I would like to start with the general question, from which we will get more specific. What have we learned from this modern history of the LCN in Las Vegas which we can apply to future regulatory actions in policing that activity?

MR. PARSONS: First of all I would like to say that the chart reflects only those cases that have gone to indictment. It does not reflect those cases where we had what we felt was solid intelligence information, or even beyond that about every LCN interest. It also does not reflect a lot of ancillary cases where because of LCN presence in Nevada, more traditional things such as illegal gambling, loansharking, burglaries, even, were committed by the

LCN.

As far as lessons learned, Mr. Hunterton, I guess the one lesson, looking back on it with some perspective, is that the LCN has had a primary source of revenue since Bugsy Siegel, really, in the Nevada gaming industry, and they are reluctant to let go of that source of revenue. It is like their lifeblood.

Although we have had with Internal Revenue Service and other agencies quite a bit of success, particularly since about '78, I don't think it is a time for law enforcement or the State of Nevada to sit back on its laurels and say we have solved the problem. There have been a lot of false periods over the years when that has happened, and when Howard Hughes came into the state people said, "Well, our organized crime problems are over because Mr. Hughes is not organized crime. We no longer have license in Las Vegas," and the cases which occurred after that, I think, lend weight to the fact that that is not the case.

So I think we need very vigorous law enforcement and regulation for the future, I think that is the one lesson, and at the front door when a person is applying to become a casino owner or licensee, I think that is the easiest point to stop this

infiltration of organized crime. Otherwise it becomes the state's responsibility, federal law enforcement responsibility, to commit tremendous resources, electronic surveillance, what have you, in order to show that this person is organized crime or is skimming, or whatever the case may be. I think that that is the long term answer.

I would like to also point out because of this chart and other things that we are going to discuss today, I think to be fair to the State of Nevada and to licensees there, that we are not saying there is a hood behind every slot machine in the state. There are licensees, honest people in the gaming industry who have been very cooperative over the years with us, and I don't want to paint with such a wide brush to paint those people. That would be grossly unfair. I think I should say that.

But I think that the people in the state are realizing that it is not in their interests to have this hood image, this mob image which has been popular over the years, and as a matter of fact some tourists come to the state looking for the hoods. They want to see one. I think the citizens realize it is in their interest to get rid of that reputation, to have a clean

industry, to try to diversify the economy.

This image of LCN in Las Vegas has been very detrimental in obtaining loans for expansion within the gaming industry and also encouraging other industries to come into the state, and I think that the loss of revenue to both the state and federal government is now being realized by the citizens who are the ultimate victims in all of these skims or scams that we have been discussing today.

MR. HUNTERTON: Let's follow up on the revenue item which has been the subject of earlier questioning by some of the Commissioners. You are familiar with charts 75 and 76, are you not?

MR. PARSONS: Yes, sir. It's been quite a while since I have seen them, but yes.

MR. HUNTERTON: The red line in 76 and the red vertical bars in 75 represent the performance of various games at a casino which is currently involved in criminal litigation, so we have taken its name off of this chart. The blue line represents what they should have won at blackjack generally on chart 76, and on chart 75 the other colored lines or bars rising vertically alongside the red line, or the suspect line, if you will, represent the industry norm and the

performance of some comparable casinos.

With that backdrop, Agent Parsons, could you explain the type of revenue that is lost and what sort of percentages are involved here?

MR. PARSONS: Just very simply, not to get very complicated, the blue line is a hypothetical figure of what the 21 table should have obtained.

MR. HUNTERTON: That is on chart 76.

MR. PARSONS: On chart 76. This is subject to fluctuations because, while it is a game of chance and skill, over a period of time there should be highs and lows, and you will notice on this chart that the red line, which was the actual win by this particular casino, never once approached the blue line. In a casino where there was no scam or skullduggery involved, those lines would cross and they would come at least somewhere close to the industry norm. So very simply, everything between that red line and that blue line is skim.

This particular one was a fill slip scam which Agent Corrigan discussed a moment ago, where the signatures were all fraudulent on the part of the dealer. The slips were put into the drop boxes but the chips were never brought to the table, and substantial

amounts of money over this period of time, which is about eight quarters, I think, were skimmed out of this particular casino.

MR. HUNTERTON: You may have already in part answered the next question. Obviously money is an important part of the LCN's interest in Las Vegas and in the casinos. What are the historical origins? What are the factors that continue to lead the mob back to Las Vegas?

MR. PARSONS: They were sort of, if you will, the founding fathers out in the middle of the desert. Bugsy Siegel, who is very well known, built the Flamingo Hotel, which I should point out is now owned by the Hilton Corporation, so I am talking 1940 really, with moneys from Meyer Lansky, Frank Costello, the Giordanos, which are all historical LCN, and those were the first hotels built on the Las Vegas strip. As you are aware, Mr. Siegel was killed June 4, 1947 when these new owners were not happy with his management of the facility.

In addition to that, the people initially brought into the industry were chosen and it was the only place to go because they had the requisite experience from illegal sawdust joints across the

country, such as Montana, Kentucky, various places like that. So these were formal illegal casino people who were the initial recruits into Las Vegas.

A more current means for this control and why it has lasted all these years, I think, is the role of the Central State Pension Fund. I don't think you can understand these cases or where the moneys went that were skimmed to the various LCN families in the Midwest, Chicago, Cleveland, Kansas City, Milwaukee, without understanding the role of this fund. It is very difficult for a person who wants to build a casino or maybe improve one to obtain legitimate funds. That is changing somewhat these days. But what happened is they found out there was this one place they could go, and at that time a man named Jimmy Hoffa had control of them, to get money for casino ventures, and the introductions would be through some middlemen, and they would get loans from this fund at very low interest rates, and there was a hidden tax or hidden interest on this loan, which is the result -- this blue line and this red line we are seeing on the chart. The money went back through skim by courier to the LCN families, and the four cities I named, I don't think is a coincidence, is where the trustees for the Central

States Fund were located, who were controlled by various mob leaders in those cities.

MR. HUNTERTON: At the risk of oversimplifying years and years of investigation by the Bureau and the Service and others, is there a single instance, a single piece of evidence which could be called the piece of evidence about the mob's influence in Las Vegas, the smoking gun, if you will?

MR. PARSONS: Yes. That is a common law enforcement term. Our smoking gun in this series of investigations, which was code named Strawman -- and the reason for the code name is that we felt there is a titular owner of these certain casinos but the mob was the real owner and the straw man would change from time to time but the mob stayed.

We had a conversation, court authorized microphone in the basement of a lady named Josephine Marlo in Kansas City. She was a neighbor of Nick and Carl Civella. Nick was the head of the Kansas City outfit, as it is called. Carl is also a member and his brother.

They chose this basement for their meeting to avoid electronic FBI surveillance. Fortunately it didn't work. We had the microphones in the basement. It is a five-hour conversation and a number of topics

are covered in these five hours. It is a fascinating tape and if the Commissioners ever want to read the entire transcript it is a blueprint on skimming in the State of Nevada and the mob's association with it.

The first meeting was just with Nick Civella, and they discussed hitting an individual by the name of Carl Spiro. By hitting I mean killing. They had tried in May '78 and were unsuccessful and he was paralyzed and in a wheelchair, and they were now trying to figure out how to kill him.

They were joined later by Joe Agosto of the Hotel Tropicana casino in Las Vegas; he was their man in Las Vegas. Joe Agosto ultimately became a government witness and testified in the Tropicana trial in Kansas City, and died shortly thereafter.

They were joined a little after, after they had discussion with Joe Agosto in private, by an individual by the name of Thomas, who was subsequently convicted in the Tropicana case.

I think it is important to note during this tape at the time of this meeting, Carl Thomas was a very respected member of the gaming community. He was a very wealthy individual, he owned the Bingo Palace casino, he owned the Slots-O-Fun casino. Here he is in

Kansas City in the basement with the head of the Kansas City family, giving him a virtual lecture on skimming and telling him of his successes over many years in many different establishments in Las Vegas. It is one of the best tapes in my experience in law enforcement as far as the quality of the conversation and the diversity of the subjects covered.

MR. HUNTERTON: Mr. Chairman, I would also note that the quality of the tape recording is very high in this instance, and with your permission we have boiled the five hours down to about eight minutes.

CHAIRMAN KAUFMAN: And you say the quality is high?

MR. HUNTERTON: Yes, sir.

CHAIRMAN KAUFMAN: Because the quality we have heard these last few days have been very bad.

Commissioner Rowan, would you have any objection?

COMMISSIONER ROWAN: Let's try it.

MR. HUNTERTON: In addition the Commissioners will find a verbatim transcript of these tracts following the transcript of Agent Parsons' testimony in their briefing book.

(Tape played)

CHAIRMAN KAUFMAN: There is a lot of noise in the background. I don't believe it does justice really to what you are trying to establish here. I think it should be stopped.

MR. HUNTERTON: Mr. Parsons, would you leaf through the several pages of the transcript and pick out a few of the exchanges between Thomas and the others that highlight what the tape stands for.

MR. PARSONS: I will try to summarize some of this to save time.

CHAIRMAN KAUFMAN: Do whatever you think is right. If you want to read it all, read it all.

MR. PARSONS: That would be pretty time consuming. In the first part of the conversation they are discussing a moratorium. The moratorium was put in place by the Kansas City mob, Nick Civella, and the moratorium was on the skin.

Since May of that year an individual named Carl Caruso, who was just mentioned by the prior witness, had been taking skim moneys on an airplane from the Tropicana to Kansas City, on roughly a monthly basis, and they were concerned that there was an unauthorized skin, that there were individuals in the Tropicana stealing who weren't supposed to be, and the

only way to track this was to cut out all the stealing, both authorized and unauthorized, hopefully, for a period of time to see what the bottom line would be. They concluded after this moratorium, and this was one of the purposes of this meeting, to reinstitute the monthly trips of Mr. Caruso bringing the skim money to Kansas City.

They are talking about going in the cage before the count team comes to put the fill slip in or grab the cash. This has become known in Las Vegas, going into the cage and taking the money out of the drop box, as the "Thomas method" of skin. It is the very simplest, it is the best as far as not leaving a paper trail for the Internal Revenue Service or us to try to follow. All it requires, and Mr. Thomas goes into this, he says, "They must have the security chief. They need a security guard sitting outside that cage who doesn't necessarily have to know exactly what's going on in there, but not care, and to watch their backs." Mr. Thomas uses that phrase. And Agosto agrees, "Yeah, to watch their backs."

Then they are talking about the locks on the drop boxes and the comptroller and various gaming regulations which are very stringent about these keys

to these drop boxes and how they can circumvent that. Agosto even mentions the regulation. That is Regulation 16.

Thomas is saying, "They got to get back there. When you go back in the count room, you go back in the back, there's a mirror. Okay, you hide from the glass, plus you are blocking the camera off," which is another security measure. They are talking really how to circumvent all the controlling mechanics in the gaming control of the state. He is an expert witness.

The next segment, the same individuals are talking and Thomas is explaining, "You see, the cashier is with us. You follow me? You grab the cashier's keys from the cashier. That's the guy we got in the cage." Mr. Corrigan testified a moment ago about in some instances, in some types of skim it is necessary to have the cage in on it. "We take the key, open the box and snatch the money. What they have been doing in the past, which is very dangerous, is the fill slips. You make a fill for 10,000, you make a fill for 7,000, and then you got to get back there and get the fill slip in the box. But see, Tropicana hasn't had that much cash in the past to snatch. So you put the fill slip in there and instead of taking 10,000 black chips,

they take 10,000 cash. That's why they need the cashier, to get the money. Once the drop starts going up, and just grab the cash like this, there is no record of anything. But he has got to get the keys unless we go some other way."

He is talking about one of the other myriad ways to skim. I did an informal survey once and came up with 250 ways to skim a casino and since then there have been 50 more invented. Thomas could probably help me.

"You can't do it in the Trop. The best way in the Trop is the slots."

Here is a man who used to work in the Stardust, who I think we will discuss a little bit later, or the other witness here will, about the slot skim and the amount of revenue.

"Up until the scam in Argent everyone was making money.

"Agosto: That's true."

Then the next segment they are talking about the mechanics and some individuals named Shepard and Caldwell who are casino employees, who are part of this conspiracy, who ended up being indicted in the Tropicana case.

I will just skip through this.

MR. HUNTERTON: What was Mr. Thomas's final advice on skimming after reviewing the different methods?

MR. PARSONS: The final one is that you should keep changing your technique. You hit the fill slips for a little while, then you back off, you hit the slots for a while and people start to notice the drop in revenues, so you keep moving around using the different techniques. But he particularly likes the drop box method because of the lack of a paper trail, and it is one they had used for many years successfully. There are segments in this five-hour conversation where he brags about doing it right under the nose of the Gaming Control Board and doing it in another casino and another casino. He had been in the industry for a number of years.

MR. HUNTERTON: If you used that rotating method, the blackjack chart, Exhibit 76, would be much more difficult to read and the pattern would not be anywhere near as apparent because the lines would indeed be meeting, as you said before, correct?

MR. PARSONS: That is right. If they were taking Thomas's advice, and this is a different casino,

a more recent case, then this would not be so clear and you would say maybe that's just a normal variance, we lost that month, which can happen, or lost that quarter.

As a matter of fact, here is the quote: "But my concept of this place is you hit the boxes one month," talking about the drop boxes going into the count room. "You pull up, you give these guys a break, hit the slots the next month. Hit the boxes and the slots. You never set a pattern. If the guy notices the variances are off on the slot machines, the next month the variances are up." So he is lecturing the LCN on how to skim.

MR. HUNTERTON: Has the Bureau ever actually seized this skimmed cash?

MR. PARSONS: Yes. In this particular case I mentioned Carl Caruso. We were aware through wiretaps on pay phones and various other places of skim being brought back to Kansas City on a monthly basis. When the case was brought down on a number of warrants, February 14, 1979, agents from Kansas City office stopped Mr. Caruso at the airport. His nickname, by the way, during all these conversations, was "The Singer," Mr. Caruso. Mr. De Luna was there too. They instructed him to empty out his pockets. They had a

search warrant for his pockets and his luggage. He reaches in this pocket and pulls out \$40,000 in cash, fifties and hundreds with rubber bands, then he reaches into this pocket and pulls out another 40,000. So it was \$80,000 that was seized and later introduced at trial.

MR. HUNTERTON: During this same trial to which you have just made reference, in addition to these tape recordings was there written documentation introduced into evidence about who was participating in the skim and how much it was worth?

MR. PARSONS: Yes. Fortunately for the government Mr. De Luna was a very conscientious individual. He was a member of the Kansas City mob and very trusted. But just in case anyone ever asked him if he spent 10 cents of the mob's money on personal gain, he had the records to show that he had not. He made meticulous records of minor expenses on some of his trips to do with this skinning operation. He would list his cab fare. It was like doing a voucher for the government. He would list money he used in pay phones. If he took his wife on a trip he would have separate entries to show that was personal expense.

Fortunately for us he kept those records and

on that same day, the evening of the 14th and the morning of the 15th, we were able to get those records at his residence. The Internal Revenue Service analyzed just those records and came up with an estimate of \$2.3 million that had been skimmed in a roughly three-year period from January of '76 to December of '78.

MR. HUNTERTON: I would like to direct your attention to another instance of a seizure of at least similar importance regarding Frank Balistrieri and we will now move from Kansas City up to Milwaukee. Would you describe the proceeds of that search.

MR. PARSONS: This was a related investigation in which we also used wiretaps, telephone and microphone. In March of 1980, March 5 of 1980, to be exact, we searched Mr. Balistrieri's office and found \$200,000 in cash in his safe.

Also in that safe were several other documents, one of particular interest in a case that is now pending, which this document gave Balistrieri's sons, who are both attorneys, by the way, a ten-year option to purchase one half interest in two Las Vegas casinos, which were major, thriving casinos at that time. At the time this document was executed, these

casinos were worth 65 to \$70 million at least. For the sum of \$25,000 his sons could buy half interest in these two casinos.

MR. HUNTERTON: Mr. Chairman, an extract of the Balistrieri's option to buy half interest in both of the casinos that Allen Glick ostensibly owned has been extracted and is Exhibit 71. You will see it bears Glick's signature and the Balistrieris'.

So in effect for, was it 5 or \$10,000 they paid Glick for the option?

MR. PARSONS: I think it was \$10,000.

MR. HUNTERTON: For \$10,000 they bought the right to buy half of \$70 million of casinos for 25,000, an extraordinary deal.

MR. PARSONS: Well, I think so. I would take it in a moment.

MR. HUNTERTON: Returning now, meanwhile, "back at the ranch" or the Central States Pension Fund, did Allen Glick have any negotiations with respect to the Central States Pension Fund that are related to this extraordinary document?

MR. PARSONS: I don't want to go into a great amount of detail on that. I have to pretty much stay with the public record because that case is under

indictment and hasn't yet gone to trial. But I would just point out to the Commission on that document, the date of the document was June 15, 1974. Nine days later, on June 24, 1974, the Central States Pension Fund gave Mr. Glick a loan of \$62,700,000. It is just quite a coincidence that this document was signed and nine days later he obtained the loan from the Central States fund.

MR. HUNTERTON: One more question. We won't play the tape, but during this search of the Balistreris on March 5, 1980 when the cash was found and their option on the two Las Vegas casinos was found, there was a bug running in their office during the search, correct?

MR. PARSONS: Yes. The microphone continued to run during the search and then after the search.

MR. HUNTERTON: And after the agents had left Mr. Balistreri, the boss of the Milwaukee LCN and his two sons, the option owners, got together and did something of a post-mortem, did they not?

MR. PARSONS: Yes, damage assessment or recomputation of what had happened that day, yes.

MR. HUNTERTON: With specific reference to their loss of \$200,000, would you summarize their

references to that and in particular their last quote regarding who had the burden of proof in this instance.

MR. PARSONS: You have to remember the two sons are attorneys. I question their legal skills and the advice they are giving their father here. But John says, "Did we make any outrageously stupid mistake?"

Joe says, "No, we didn't do anything outrageously stupid. But now is the time we start using our favors with guys like Shenker and guys like -- now is the time we need a guy like Shenker. There is no one better, search and seizure."

For the benefit of the Commission, Morris Shenker is a world renowned attorney who years ago represented Jimmy Hoffa and most recently and during the time this conversation occurred was the owner and president of the Dunes Hotel Casino.

"Hey listen, they came in today with 30 agents. It's time we bring out the big guns too."

"We can't walk around. If they're going to play by the book all this stuff is suppressive. They're fruits of an illegal search. The document was in a sealed, it was in a safe, it was in an envelope, the envelope was sealed. They opened it, they saw it and they took it. It had something to do with

exclusive option to purchase shares of Argent corporation."

"You got witness to that?"

"Yes."

"They took it anyway. My office, look, there were 13 companies listed, they got everything, anything to do with Argent."

Now, what is the head of the Milwaukee LCN family doing with Argent to start with?

"Nothing to do with any of the companies listed."

"It was a fishing, and it is (unintelligible)."

"All the money in the safe, all in sealed envelopes."

Then Frank sums up, the head of the family: "Might take us a while. They're going to have to prove that come from the skim."

And I guess we will have to prove that.

MR. HUNTERTON: Commissioner Wassenaar, I would like to turn to you for a few moments and draw the Commission's attention to Exhibits 74 and 73, the two to the far right of this array of exhibits, and I would note that both of these documents were also found on March 5, 1980 in Balistrieri's safe. Exhibit 74 is

an extract from five pages of handwritten notes found in the safe and Exhibit 73 is a piece of Allen R. Glick's personal stationery.

Beginning with 73, Commissioner Wassenaar, someone has written on Allen Glick's stationery the notation "Slots -- J. Vandermark," indicating, as we later learned to be the case, that J. Vandermark was in charge of all slot machine operations for the Argent Corporation. With that backdrop would you tell the Commissioners about the Internal Revenue Service case that emanated from the fact that Vandermark was in charge of the slot machines.

MR. WASSENAAR: The document shown on Exhibit 73 shows the responsibilities which had been given to four individuals within the Argent organization, and as you can see it is on a note pad containing the printed name of Allen R. Glick. Allen Glick was the registered sole owner of the Argent Corporation. The Argent Corporation controlled four different casinos: the Stardust, the Fremont, the Hacienda and the Marina.

In late 1974 Frank Rosenthal was a convicted felon who was put in charge of casino operations for the Argent Corporation. He then employed George J.

Vandermark, a known slot cheat, as the executive in charge of all slot operations for the Argent group.

A plan was then devised where the coin scales were adjusted to underweigh the coins by approximately 30 percent. Agent Corrigan previously touched on this particular scheme. These excess coins, or the skinned coins, were then placed in an auxiliary booth next to the regular change-making facility on the casino floor where these coins were then exchanged to patrons or customers who had bills and wanted coins to play the various slots. The large bills exchanged in this process were then placed in an opening in a locked drawer. George Vandermark and one of his associates were the only persons who had the keys to this particular locked drawer. It is interesting to note that this part of the skim took place during the regular business hours of the casino while it was in full operation.

As Agent Corrigan indicated earlier, the Nevada Gaming Commission employed two statisticians to conduct independent studies, statistical analyses, to determine what the gross revenues should have been from this universe of slots over an 18-month period, and compared that projection with the amount actually

recorded by the casino. In this 18-month period of time these two independent statisticians projected the difference, ranging from 7 million to \$20 million over what was recorded in the casinos as revenues generated from the slots, compared to what should have been generated from this activity.

Their study results were presented in trial, were introduced as evidence during the trial, and when these experts were asked as to the probability of the recorded amounts in the casinos as being correct, their response was that the probability of the recorded amounts being correct would be approximately 1 in 2 billion.

Vandermark was subsequently indicted on income tax charges. However, before the trial Vandermark fled the jurisdiction of the United States, was last known to be in Costa Rica and is currently considered to be a fugitive.

MR. HUNTERTON: Mr. Parsons, in the context of the gambling hearing would you care to place any odds on our ever seeing Mr. Vandermark again?

MR. PARSONS: None to none.

MR. HUNTERTON: Turning to Exhibit 74, the handwritten notation is "Southwest Ad -- January bill

\$380,000." What did that come to mean and what investigation did that symbolize?

MR. WASSENAAR: This relates to another Internal Revenue Service investigation involving the Stardust Hotel. This involved a major fictitious advertising campaign by the Stardust which was just another scheme to skim large dollars from the casinos. This scheme was fairly sophisticated in that apparently legitimate appearing documentation was provided, both to the Stardust and to the other companies that were involved, which made it appear as though these expenses were correct. The individuals at the Stardust had made arrangements with an individual by the name of Jerry May who controlled a company known as Southwest Advertising.

MR. HUNTERTON: That is the Southwest Ad reference there, is that correct?

MR. WASSENAAR: That is correct.

Jerry May had made arrangements with a company known as K reel Printing Company to prepare fictitious invoices and double billings for Southwest Advertising. These invoices were then billed to the Argent Corporation and checks were issued to Southwest Advertising for the alleged payment of these

advertising expenses.

Part of the fictitious documentation that was provided to prevent the Internal Revenue Service, the FBI or any other investigative agency from learning the true nature of these transactions were such -- in addition to the fictitious invoices being provided, they went beyond that. They obtained false billings from five out-of-state newspapers. Billings made from these five out-of-state newspapers to Southwest Advertising. They even made arrangements with a local newspaper to have what is known in the newspaper circles as a tear sheet, which in essence is a sample of the advertising that was generated during this activity.

Certainly sufficient documentation did prove to be fictitious or phony that would lead a normal auditor to believe that in fact the expenses were legitimate and that the expenses were made for a legitimate business or company purpose.

We noticed that the advertising expenses went up dramatically about this point in time, and certainly the 350, \$380,000 as reflected being the January's expenses relating to advertising, was certainly out of line with prior advertising expenses

incurred by the Stardust where their normal annual advertising was probably only 25 or \$50,000 for an entire year. But with the documentation that was generated it made it exceptionally difficult for us to first of all establish that this documentation that was given was indeed fictitious because it was layered at several different levels.

The checks then that went from the Stardust to Southwest Advertising for the alleged payment of these advertising expenses were then converted by Southwest Advertising into cashier's checks. The cashier's checks were made payable to fictitious identities and all these cashier's checks were then negotiated at the Argent casinos for currency.

It is interesting to note that on the reverse side of the cashier's checks there was absolutely no indication whatsoever in terms of the identifying documents provided by the individuals who cashed the checks, and I suggest to you that if you have even tried to cash a \$25 check at a casino you would be expected to provide credit card information and driver's license, and those identifying documents would be recorded on the reverse side of the check. None of these \$380,000 in cashier's checks that were so

negotiated at the Argent casinos contained any indication relative to the documents provided.

CHAIRMAN KAUFMAN: Would you say that this falls into the area of money laundering as well?

MR. WASSENAAR: Yes. I think this is probably a classic example where they not only skimmed but they had the opportunity of laundering those skimmed receipts as well.

One of the vehicles that they had, your Honor, to facilitate this, not only the skimming but also the money laundering aspect, is that the casino has its own bank, and that bank is the cashier's cage, and they were then able to convert currency or cashier's checks to currency, and once that conversion is made it of course does not leave a real good auditable trail for the Internal Revenue Service or the FBI to pursue and follow.

In this particular case Jerry May, who was the principal behind this particular scheme, was found, was subsequently found guilty of income tax evasion and is currently serving a five-year prison term.

MR. HUNTERTON: Several of the cases, of the more recent ones on the summary of casino-related prosecutions, are income tax evasion cases. That is,

we are doing skinning cases through the income tax laws, correct?

MR. WASSENAAR: Correct.

MR. HUNTERTON: What have they had in common with respect to how much money is skimmed versus how much we find sticking to the defendant?

MR. WASSENAAR: This is one of the more difficult aspects of our investigations. In many cases with the cooperation of the Bureau we are able to determine sizable amounts of skim. In a couple of the cases we mentioned before we are talking about \$750,000 and in the slots, skim amounts ranging from 7 to 20 million. In the 7 to \$20 million skin, we were only able to show that Vandermark, the principal who was directly involved in the skin, kept in that period of time a little bit in excess of \$200,000. As a result of our extensive investigation we were not able to find \$7 million or \$20 million worth of currency that he was still in possession of. We were able to come up with evidence he kept in excess of \$200,000. The obvious inference is that the balance went on to someone else. One of the more difficult aspects is to be able to trace the money of the individuals who are directly involved in this skinning operation, what they do with

the surplus. They obviously have to pass this money upward or to someone else.

MR. HUNTERTON: Thank you.

Agent Parsons, returning to you, has all this investigative heat put a stop to skimming?

MR. PARSONS: No, I wouldn't say that. After the Tropicana case and the Argent investigation we again began an investigation into the Stardust and Mr. Glick's successor, named Allen Sachs. I should say that Mr. Sachs is not under indictment today but there is no question and it is probably correct that he was a target of the investigation. We did end up indicting a number of individuals who were employees of that corporation, and indeed indicted the Stardust Hotel casino as a corporation, and that case is pending trial at the moment.

MR. HUNTERTON: Your Honor, we have a videotape, without sound, of the skim being moved from a casino courier to a Las Vegas contact to a Chicago courier. At the Chairman's pleasure we will either play that or move on.

CHAIRMAN KAUFMAN: All right.

MR. HUNTERTON: Would you tell us what we are about to see, Agent Parsons.

MR. PARSONS: Hopefully you are going to see an individual named Robert Stella who is a vice president of the Stardust, meeting in a parking lot with a made member of the Chicago LCN and a former member of the Las Vegas LCN. This is a parking lot in Las Vegas, Nevada.

MR. HUNTERTON: Mr. Stella has just pulled in in the car on our far left. You can see the silhouette of his head. That is Mr. Ponto reaching in, is that correct?

MR. PARSONS: That is correct. That is just a grocery bag rolled down like are used in this part of the world, only this contained cash, we believe.

MR. HUNTERTON: Then in the next sequence of events, what would happen?

MR. PARSONS: This would occur on a monthly basis, approximately, every Tuesday in the parking lot at approximately the same time. On the following Sunday an individual from Chicago named Joseph Talerico, a member of the Teamsters Union by the way, would meet Mr. Ponto, who had received the package from Mr. Stella. We had attempts to do Title III coverage in the parking lot and were unsuccessful, which is something that later I would like to mention about, Title III.

MR. HUNTERTON: That is Mr. Talerico in the white baseball cap and that's the bag?

MR. PARSONS: That is the bag and according to our investigation we believe there is approximately \$200,000 in that bag going each month to the head of the Chicago LCN family.

MR. HUNTERTON: Was Mr. Talerico ever observed meeting with Aiuppa?

MR. PARSONS: Yes, on one occasion. We surveilled this for a number of months and established the pattern. As a matter of fact, we got so we could predict what Sunday this would occur on. Mr. Talerico would leave Chicago, fly someplace such as San Diego or L.A. -- vary his pattern -- under a phony name, rent a car, drive to Las Vegas, meet on Sunday morning for a 10 or 15-minute meet. Besides this exchange of packages he would have a 10 or 15-minute meeting with Mr. Ponto, then drive back to San Diego or L.A., get on a plane, change clothes and get on this large suit that we believe was capable of holding a lot of hundred dollar bills, and fly back to Chicago. Once we were successful. After staying on him for a number of days in Chicago, he came out of his house, climbed over a fence, drove around for several hours dry cleaning

himself, checked into a local motel and the next morning he got up very early and met with Mr. Aiuppa in a parking lot. It is our belief that that is where the money went.

MR. HUNTERTON: After the indictment to which you have made reference was returned against the corporate entity and the individuals, what action did the State of Nevada take and of what historical importance is that in the evolution of this process?

MR. PARSONS: The State effectively took control of the casino. There was a statute, a recently enacted statute that they took advantage of. This statute was passed after the Aladdin case, which is listed up there, in 1978, U.S. v. Goldberg, which I might point out to the Commission your deputy counsel prosecuted. They had such problems, the State of Nevada, with the Aladdin after the revelations in that case they initially tried to force them to sell it to a legitimate owner, and months and months passed and it was not sold. The State finally felt they had no recourse but to actually close the casino and put all these employees out of work, which is a very drastic step, particularly in a state where that is your own primary industry. As a matter of fact, they did close

the casino and a federal judge named Harry Claiborne reopened it. The Court of Appeals held that Judge Claiborne had no right to do so.

After this series of events involving Aladdin, they passed the statute which gave the State the power to appoint people to go in and run the casino for the State in order to not take that drastic action of closing the property, and they did that in this case and eventually forced the sale of the Stardust Hotel to new owners. That happened fairly recently.

MR. HUNTERTON: Two last questions, Agent Parsons. We have heard for the last couple of days at least one school of thought that illegal gambling is a victimless and nonviolent crime, and we have presented evidence in opposition to that. With the exception of Mr. Vandermark, who although technically still a fugitive is in all probability dead, what do you have to tell us with respect to the violence which may or may not be associated with LCN influence in legalized gambling?

MR. PARSONS: Our intelligence information, there have been a number of gangland slayings directly related to the LCN's attempts to maintain their source of revenue and the hidden interest in the casinos. I

to trial on that very issue. I would rather not get into that, if I could.

COMMISSIONER MANUEL: Agent Parsons, it is obvious from your testimony and from the documents you have exhibited here to the Commission that organized criminals, bosses of organized crime move through fronts or associates, is that correct?

MR. PARSONS: That has been my experience, yes, sir.

COMMISSIONER MANUEL: Could you tell the commission how the FBI defines an organized crime associate? What criteria do you use to document someone with that nomenclature?

MR. PARSONS: It is not a pure science. The easier ones to identify are the actual members of La Cosa Nostra, and we think over the years with the wiretaps, with cooperating witnesses, that we have a very good handle on who the members are and which of the 25 or 26 cities they come from, who their capo is, who their boss is, and so forth.

For each member, we estimate, roughly there are ten associates, if you are trying to come up with some handle on the number. The closeness of association will vary. Some people are very key. I

mean, we have all read our entire lives about Meyer Lansky, for example, who was not a member of La Cosa Nostra. He was from the wrong ethnic group and could never be a member. Yet he had tremendous power and influence over the years. There are a number of associates in Las Vegas who have run casinos and perform key functions such as skin, who are very close associates. Then it branches out. It is not a science. We try to look at the relationship and what they do in the business sense.

MR. HUNTERTON: That being the case, how does the owner of a legitimate casino in either Las Vegas or Atlantic City go about identifying the people that they should keep out of that city?

MR. PARSONS: I think it is difficult. I think they have to rely on the Gaming Control Board or DDM in New Jersey, who have more expertise in this area, who do backgrounds, at least on key employees. My experience in the State of Nevada, very few people are considered key employees, unfortunately, and that is an area I think the State needs to look at and address, and at least there is some background or approval by the State.

Where they can use the resources of law

enforcement there is a built in problem with the casino owner coming to us and saying should I hire Joe Blow. Under the Privacy Act, which is a five-year felony, if I tell that man that he is a made guy in whatever family I have just violated the Privacy Act, or we have an investigation going, because this is not for law enforcement purpose under the statute. So it is a real problem. The federal government can't legally give intelligence information to the casino owners even though it may all be in good faith, in an attempt to hire clean individuals.

COMMISSIONER MANUEL: My last question is, we have heard throughout this hearing from several witnesses that the legalization of gambling is a desirable thing and may be the thing to control organized crime in the field of gambling. I would like for you and Mr. Wassenaar also to comment on whether you think this Commission ought to recommend legalized gambling, number one, and number two, whether you feel that legalized gambling in a broader sense is the key to controlling organized crime in this field.

MR. PARSONS: First let me say, as the gentleman from New Jersey said yesterday, I am a law enforcement official, and this is really a legislative

decision as to policy toward gambling, whether it should be legal or whatever. I would just like to point out, though, in considering whether or not it should be legal or not, some of the problems that I see. I think for the gentleman from the Boston Globe to just glibly say we should just legalize it is a very simplistic approach to a very difficult problem. I have worked with legalized gambling for many years, and illegal. Legalizing is not going to solve the problem.

We have legal sports betting in Nevada. We have legal gambling. It has not wiped out illegal gambling. We have tremendous amounts wagered in the state illegally with bookmakers, in spite of the fact that you can go to a number of different locations and legally place a bet with the sports book.

Experience with OTB while I was in New York, and I haven't been here a number of years, but my experience with that was when they were discussing whether to have OTB there were two promises made to the public. First we are going to derive great revenue for this, for a very good purpose, whatever, what have you. That is a very good purpose if the state wants to do that. The second one that I will quarrel with is, we will also wipe out organized crime. I think the two

purposes are self-defeating. If you are going to legalize gaming for revenue that is legitimate but it is not going to wipe out crime.

If you want to go into competition on horses or whatever you want to call it, you have to be competitive. In this city a payoff on a payout is roughly 650 to 1. True odds are 90 to 1. If you want to put in a system and pay 300 or 350 to 1 you would wipe out the illegal people but you wouldn't make a profit.

The next policy for your consideration would be should the state be involved in this and is it going to increase the amount of gambling done by the American public. I submit to you that most people don't deal with bookmakers, contrary to what you may have heard. My neighbors don't. There are tremendous sums spent on bookmaking, don't get me wrong. But if you look at individuals, I have never bet with an individual bookmaker. I think you will get people who take advantage of the system because it is legal. So I think, and I don't know what the percentage is, a much higher percentage of people are wagering in this country and that is a sociological question which I won't attempt to address but I think it should be

considered when you look at this problem.

I would also point out that some of the legalization has benefited the illegal horse bookmakers and the illegal numbers operators. For example, in Nevada if I am a sports bookmaker and I am heavy on one game or other, I can go to the legal sports book and lay off. If I am a sports bookmaker in New York City and I am heavy on a particular loanshark, I can go to OTB and lay off. I can operate on a phone out of the OTB parlor and I am sure the New York City Police Department can tell you this has happened in many states. The winning number is now on TV in the evening. This now becomes the number established by the illegal. Before they used a system using paramutual results. So there has been some aid.

Besides creating new customers, which is my primary concern, there is also some practical benefit that can be derived from the legal bookmakers. So I wouldn't glibly say let's legalize it. It is not our decision in law enforcement but they are factors to be considered.

MR. WASSENAAR: I would like to reemphasize the point that the legalization of gambling might create the incidence of gambling and would do little or

nothing to deprive organized crime from that activity but might give them the opportunity to spread their territory from two territories to perhaps fifty.

CHAIRMAN KAUFMAN: Gentlemen, we are very grateful to you and I think the public generally, if I may presume to speak in their behalf, owes both of you a debt of gratitude. Will you tell the Director on my behalf that I think he is most fortunate to have you working in this area, and that goes for you too and your superiors. It has been a great education for most of us.

I wonder if I am being impolitic if I say it has been a great education to stay out of Nevada, but at least Las Vegas because at least for me, I have gathered that gambling being its principal occupation that you are not able to vouch that any one of these operations is run 100 percent on the legal side. Am I right on that?

MR. PARSONS: Well, sir, there are some legitimate operators and that is the point I wanted to make earlier. I don't want to present a distorted picture, and Mr. Wynn, who owns a casino, will come in in a moment and look at that chart and say my gosh. I think it is changing in Nevada. I think the

cooperation with the State and the Gaming Control Board, I think they have a lot of problems, they don't have a wiretap statute, which I think is absolutely essential, they don't have enough resources and it is tough to regulate an industry when it is your primary source of revenue. But there are some very decent law abiding people out in the desert, your Honor.

CHAIRMAN KAUFMAN: I don't doubt that.

What percentage of the casinos would you say are being operated in a perfectly legal way?

MR. PARSONS: I am sure there are minor infractions in a number of them as far as abiding by the regulations and so forth. It would be very hard to come up with a percentage. What I can say with some authority, these casinos we have shown definitely to have organized crime ties. It is pretty hard to come up with a percentage.

CHAIRMAN KAUFMAN: Thank you.

MR. PARSONS: Thank you for having us, your Honor.

MR. HUNTERTON: Thank you, gentlemen.

I will take advantage of this time, your Honor, to say with the next witness, whom I will identify when he is brought out, we will move slightly

away from the issue of skinning and look at the issue of the peddling of influence by LCN members within casinos. Although not directly related to the removal of money from casinos by the LCN interests, it is indicative of the insidious and deep influence of these elements.

Are the marshals ready?

FRANK CULLOTTA,

called as a witness, having been

duly sworn, was examined and testified as follows:

MR. HUNTERTON: Mr. Chairman, the witness who has been sworn is Frank Cullotta. The reason for the screen and the replacement of the television cameras is that since 1983 Mr. Cullotta has been in the Witness Security program. He has confessed to a wide variety and number of crimes and he has testified before federal and state grand jury and trial juries for the government since he became a protected witness. He entered the program in Las Vegas, Nevada.

Mr. Cullotta, you are from Chicago originally, that is correct?

MR. CULLOTTA: That is correct.

MR. HUNTERTON: When did you move to Las Vegas?

MR. CULLOTTA: May of 1978.

MR. HUNTERTON: Did you discuss your intention to move to Las Vegas with anyone?

MR. CULLOTTA: Yes, I did.

MR. HUNTERTON: Who was that?

MR. CULLOTTA: Tony Spilotro.

MR. HUNTERTON: Why did you discuss wanting to move to Las Vegas with Tony Spilotro?

MR. CULLOTTA: You had to have permission to move out there.

MR. HUNTERTON: Why do you have to have permission?

MR. CULLOTTA: Because he was overseeing the gambling interests out there, the casinos.

MR. HUNTERTON: On behalf of who?

MR. CULLOTTA: The Chicago outfit.

MR. HUNTERTON: By that you mean the Chicago Mafia?

MR. CULLOTTA: That is correct.

MR. HUNTERTON: What was your relationship with Mr. Spilotro?

MR. CULLOTTA: I worked for him. He was my boss.

MR. HUNTERTON: You are not a member of the

Chicago outfit, are you?

MR. CULLOTTA: Yes.

You are. Was Mr. Spilotro?

MR. CULLOTTA: Yes, he was.

MR. HUNTERTON: What do you mean when you say that you worked for Tony Spilotro?

MR. CULLOTTA: I committed burglaries, murder, extortions from dope dealers, ran messages back and forth to the casinos, collected juice money.

MR. HUNTERTON: Of this litany, of this long list, what was your main occupation?

MR. CULLOTTA: I was a burglar.

MR. HUNTERTON: You were not involved directly in the transportation of skim money from Las Vegas to Chicago?

MR. CULLOTTA: That is correct.

MR. HUNTERTON: How many burglaries did you and your crew commit in Las Vegas?

MR. CULLOTTA: Well over 200. Not in Las Vegas but throughout my lifetime.

MR. HUNTERTON: You know of the Stardust Hotel, do you not?

MR. CULLOTTA: Yes, I do.

MR. HUNTERTON: Did you go to the Stardust

frequently once you had moved to Las Vegas?

MR. CULLOTTA: Quite often.

MR. HUNTERTON: Why?

MR. CULLOTTA: I had to deliver messages there, bring messages back to Tony Spilotro. I fenced jewelry in there.

MR. HUNTERTON: The proceeds of the burglary sometimes you would take to the casino?

MR. CULLOTTA: That is correct.

MR. HUNTERTON: For the Commissioners' benefit, some of the individuals involved have yet to go to trial in that case so I will not pursue the fencing of stolen property inside the casino.

I want to focus now on the messages, Mr. Cullotta. What kind of messages did you take into the casino?

MR. CULLOTTA: To get people jobs in there, to get people fired, to get people barred out of there.

MR. HUNTERTON: You say messages to get people hired. You mean Mr. Spilotro would tell you to get messages to people in the casino to hire John Smith?

MR. CULLOTTA: That is correct.

MR. HUNTERTON: Would Mr. Smith be hired?

MR. CULLOTTA: Yes, he would.

MR. HUNTERTON: Do you remember a specific instance of this?

MR. CULLOTTA: Yes, I do.

MR. HUNTERTON: How many such instances?

MR. CULLOTTA: A few times.

MR. HUNTERTON: How about people being barred? What did that mean? Why were you carrying messages about people being barred?

MR. CULLOTTA: One particular time there was a guy, he was hanging in the poker room. He was supposedly a stool pigeon, and Tony found out about it and he told me to go to see Lou Salerno and have the guy barred, and I did.

MR. HUNTERTON: Barred would mean he could no longer go in the casino so he couldn't gather information to snitch to the government, right?

MR. CULLOTTA: That is correct.

MR. HUNTERTON: Who is this Lou Salerno that you just mentioned?

MR. CULLOTTA: He was the casino manager of the Stardust.

MR. HUNTERTON: And in the casino world the casino manager is the guy who actually runs the whole show, right?

MR. CULLOTTA: Yes.

MR. HUNTERTON: So you would talk directly to him with your messages from Spilotro?

MR. CULLOTTA: All the time.

MR. HUNTERTON: Did you also take messages back out from Mr. Salerno to Mr. Spilotro?

MR. CULLOTTA: Yes, I did.

MR. HUNTERTON: What was the nature of those communications?

MR. CULLOTTA: One particular time one of the employees was acting up. He was gambling on his breaks and you are not allowed to do that when you are working in the casino, and Lou Salerno asked me to bring a message back to Tony Spilotro pertaining to this man.

MR. HUNTERTON: What was the message?

MR. CULLOTTA: That this Freddy Alleman was doing this. So I brought the message back to Tony and told me, after thinking about it he told me to go back and tell Lou Salerno to just tell the man very firmly that he had to stop doing this, if he continued there would be no help for him, he would be out of his job.

MR. HUNTERTON: Did Mr. Salerno want to fire this fellow Freddy Hellerman?

MR. CULLOTTA: That is correct.

MR. HUNTERTON: But he had to check with Tony through you to do that?

MR. CULLOTTA: That is correct.

MR. HUNTERTON: And Tony said no, just give him a stern warning.

MR. CULLOTTA: That is correct.

MR. HUNTERTON: Who is Freddy Alleman? Is he from Chicago?

MR. CULLOTTA: That is correct.

MR. HUNTERTON: He has a brother named John?

MR. CULLOTTA: That is correct.

MR. HUNTERTON: Who is John Alleman?

MR. CULLOTTA: He is a hit man in Chicago.

MR. HUNTERTON: He is in jail?

MR. CULLOTTA: Yes.

MR. HUNTERTON: Mr. Salerno, he is from Chicago?

MR. CULLOTTA: That is correct.

MR. HUNTERTON: Does he have a brother?

MR. CULLOTTA: Yes.

MR. HUNTERTON: What is his name?

MR. CULLOTTA: Bobby Salerno.

MR. HUNTERTON: What did Bobby Salerno do

for the Chicago outfit?

MR. CULLOTTA: He was a hit man also.

MR. HUNTERTON: Why didn't Mr. Spilotro and Mr. Salerno communicate about hiring and firing and barring and warning directly? What did they need you for?

MR. CULLOTTA: It would have been impossible for Tony to go into the casino because he was in the black book, plus he couldn't meet Louie Salerno by his house because if they got made it would throw a lot of heat on the casino.

MR. HUNTERTON: You just used the phrase "Tony was in the black book." What does that mean?

MR. CULLOTTA: The gaming commission barred him out of all the casinos.

MR. HUNTERTON: He wasn't allowed in?

MR. CULLOTTA: That is correct.

MR. HUNTERTON: And they were also afraid with the surveillance that was used on Spilotro, they didn't want Salerno to be seen with Spilotro?

MR. CULLOTTA: That is correct.

MR. HUNTERTON: When Mr. Salerno would send these messages out asking for Spilotro's permission to do something, was Tony the last word?

MR. CULLOTTA: No.

MR. HUNTERTON: What would happen with this business with Freddy Alleman or any of the other instances? What would happen when you would carry Salerno's request back to him?

MR. CULLOTTA: One particular occasion when it come to fire this man Pat Gallo, I brought the message back to Tony and Tony told me to check it out. When I checked it out I returned back to Tony with the message and Tony told me to go back to Lou Salerno and tell him to fire him. So within that period of time, I don't know if it was a day or two, he received a message from somebody else. He didn't want to be to Jack Cerone, he said.

MR. HUNTERTON: Who is Jack Cerone?

MR. CULLOTTA: He is a boss in the Chicago outfit.

MR. HUNTERTON: Why didn't Tony want to go to Jack Cerone to work out this problem?

MR. CULLOTTA: Jack is a little hot headed and he just didn't want to go there.

MR. HUNTERTON: Did you get the idea that maybe on some other problems he had gone to Jack Cerone?

MR. CULLOTTA: Yes, I did.

MR. HUNTERTON: Who else in the Chicago outfit, who lived in Chicago, unlike you and Spilotro, who else would Tony contact about casino problems?

MR. CULLOTTA: I have seen him talk to Joe Lombardo and James Turello, Turk.

MR. HUNTERTON: That is Turk Turello and Joey The Clown Lombardo?

MR. CULLOTTA: That is correct.

MR. HUNTERTON: That is the same Joe Lombardo who was convicted along with Joe Allen, is that correct?

MR. CULLOTTA: That is correct.

MR. HUNTERTON: And Turk Turello is dead now?

MR. CULLOTTA: That is correct.

MR. HUNTERTON: And each of these people you have mentioned, Cerone, Lombardo and Turello, are all bosses in the Chicago outfit?

MR. CULLOTTA: Yes, they are.

MR. HUNTERTON: Mr. Cullotta is available for questions from the Commission.

CHAIRMAN KAUFMAN: I have no questions. Thank you.

MR. HUNTERTON: Thank you, Mr. Cullotta. Marshal.

COMMISSIONER ROWAN: Mr. Chairman, let me ask a question before he goes.

Were there people performing the services that you performed in other casinos in Las Vegas?

MR. CULLOTTA: I really don't know that.

MR. HARMON: Mr. Chairman, in close to the final segment of the hearing the Commission will turn its attention to another area which causes organized crime to have an interest in casinos. That is the ability to launder profits and proceeds of criminal activity through those casinos.

We have asked as our first witness to testify on that score Commission Investigator Thomas Sheehan, who I would ask to come forward and be sworn by the marshal.

THOMAS SHEEHAN,

called as a witness, having been

duly sworn, was examined and testified as follows:

MR. HARMON: Mr. Chairman, Investigator Sheehan, before becoming an investigator with the President's Commission, has served with the Drug Enforcement Administration in various capacities for almost 20 years, including various overseas. Prior to joining the Drug Enforcement Administration he began

his career in law enforcement with a state law enforcement agency in Massachusetts.

Investigator Sheehan, does organized crime have an interest in casinos other than making profits by way of skimming, which we have heard already about here this morning?

MR. SHEEHAN: Yes, they certainly do. Casinos also serve another purpose for organized crime and it is perhaps just as important a purpose. Increasingly, organized crime has used casinos like private banks to launder the proceeds of narcotic trafficking. The potential for this kind of --

CHAIRMAN KAUFMAN: Mr. Harmon, may I suggest that you ask leading questions and let's get to it right away, without a statement.

MR. HARMON: Yes, Mr. Chairman.

Investigator Sheehan, as of this point in time are casinos required to file currency reports, that is, currency transactions in excess of \$10,000?

MR. SHEEHAN: They are. As of May 7, 1985 casinos have been required to file CTR's, currency transaction reports. Those casinos in Atlantic City file directly with the Department of the Treasury while those in Las Vegas first file with the State of Nevada.

COMMISSIONER ROWAN: Mr. Chairman, let me ask a question before he goes.

Were there people performing the services that you performed in other casinos in Las Vegas?

MR. CULLOTTA: I really don't know that.

MR. HARMON: Mr. Chairman, in close to the final segment of the hearing the Commission will turn its attention to another area which causes organized crime to have an interest in casinos. That is the ability to launder profits and proceeds of criminal activity through those casinos.

We have asked as our first witness to testify on that score Commission Investigator Thomas Sheehan, who I would ask to come forward and be sworn by the marshal.

THOMAS SHEEHAN,

called as a witness, having been

duly sworn, was examined and testified as follows:

MR. HARMON: Mr. Chairman, Investigator Sheehan, before becoming an investigator with the President's Commission, has served with the Drug Enforcement Administration in various capacities for almost 20 years, including various overseas. Prior to joining the Drug Enforcement Administration he began

MR. HUNTERTON: Can you give the Commission some estimate of the extent to which these currency reporting transactions have increased over time?

MR. SHEEHAN: Yes. In 1983, for example, as reported in the Commission's report to the President, The Cash Connection, 535,000 CTR's were filed by financial institutions. The Internal Revenue Service states that in 1984 there was a 40 percent increase, that is, to 707,000 CTR's. The IRS estimates that over 1 million filings will be made in 1985. That is a 100 percent increase since 1983.

MR. HARMON: Casinos that are operating in Atlantic City, are they subjected to a greater threat by money launderers than those that appear and are existing in Las Vegas?

MR. SHEEHAN: Yes. According to statistics from the Department of Justice in 1984, 37 percent of all the heroin investigations nationwide conducted by the Organized Crime Drug Enforcement Task Forces were initiated in the two regions contiguous to Atlantic City.

MR. HARMON: So that the casinos in Atlantic City are very close to the heroin markets in the United States, and does that account for this threat?

MR. SHEEHAN: They are indeed.

MR. HARMON: In general terms could you explain to the Commission, very generally, the nature of schemes used to launder money?

MR. SHEEHAN: Basically there are three laundering techniques that are utilized. This information comes from analysis conducted by the Drug Enforcement Administration. The first technique is quite simple. It is the exchange of small bills into larger denominations, thus reducing the weight and the size of the bills, making them more transportable. These bills are usually the proceeds of street trafficking operations, narcotic trafficking operations.

The second method is somewhat more intricate. It involves casinos as banking operations. A client would give a casino money, the casino official in turn would invest the money or retain the money for safekeeping or wire the money to offshore accounts or provide loans back to the client.

A third method involves the use of two casinos. That is to transfer funds from one client to another. An example of that would be that a client in the United States of a casino would give the money to a casino in Las Vegas or Atlantic City, to be designated

for a specific account. This money could then be transferred outside the United States to another casino who could issue credit in an appropriate amount to whoever controls the account.

MR. HARMON: You have recounted here in some detail that a heroin trafficker named Peanuts King from Baltimore, who laundered money through Resorts International, deposited money, apparently gambling, followed by checks to Peanuts through entities which he designated, which were thereafter invested for him.

I would like to draw your attention more particularly to a money laundering scheme at the Golden Nugget and other schemes in Atlantic City and ask you to describe that one for the Commission, please.

MR. SHEEHAN: This is a recent investigation conducted by the Drug Enforcement Administration and the Internal Revenue Service. It resulted in indictments in the Eastern District of New York and those indictments are still pending. It involved over \$3 million in cash from heroin and cocaine sales being deposited in cashier's cages at the Tropicana, the Caesar's World, Bally's Park Place and the Golden Nugget. According to the indictment again, which is pending in the Eastern District of New York, Giuffrida

and his conspirators conspired to support a heroin importation network by utilizing an international system of money laundering.

The system worked this way: Small amounts of heroin cash were converted into large denominations in the casinos. In turn, the heroin cash was transported to places outside the United States, including Bermuda, Canada and Switzerland.

The conspiracy was initiated in the spring of 1982 when Antonio Turano and several other accomplices counted a large amount of money. The first apparent movement of heroin cash took place on May 28, 1982, when Anthony Castelbuono, a Harvard-trained lawyer who used the alias of Anthony Cakes and Tony Cakes, transported approximately \$1 million in cash to Atlantic City, New Jersey.

I have a chart over here which displays the subsequent deposits made by Castelbuono and his accomplices. The majority of this money, over \$2.5 million, was deposited in three transactions on three separate days at the Golden Nugget, beginning November 26, 1982, the day after Thanksgiving. As that chart reflects, the first deposit was \$1,187,450. Five days after the last transaction at the Golden Nugget on

December 16, 1982, one of Castelbuono's accomplices deposited approximately \$1 million in an account of the Credit Suisse bank in Switzerland, an account also used by the Pizza Connection conspirators to launder money in 1982.

You will recall in February 1985 the Bank of Boston pled guilty to currency reporting violations for failing to report currency received from Switzerland. In 1982 Credit Suisse shipped more unreported cash to the Bank of Boston than any other Swiss bank.

MR. HARMON: Has the Commission heard testimony on earlier occasions concerning the laundering activities of Gaetano Giuffrida?

MR. SHEEHAN: We have indeed. The Commission on two occasions has heard of the money laundering activities of Giuffrida. At a hearing in March 1984 Giuffrida and Antonio Turano were identified as customers of Eduardo Orozco, now convicted of laundering \$97 million in drug money through the Deak-Perera foreign exchange firm in New York.

In October '84, when the subject was Asian organized crime, the Commission heard how Giuffrida and Turano used banks to move money through Switzerland. Their contact in Hong Kong was likewise identified.

Mr. Turano was found murdered on March 3, 1983 in Queens, New York and Giuffrida has recently been prosecuted and found guilty in Italy for trafficking in 80 kilos of heroin in the United States. Incidentally, this heroin was seized January 31, 1983, less than five weeks after the last transaction at the Golden Nugget.

MR. HARMON: What do you think in your view does the Giuffrida money laundering demonstrate?

MR. SHEEMAN: There are a number of lessons to be learned from this experience. The first one is the versatility and sophistication of one money laundering operation which used foreign exchange firms, banks, casinos in New York, Atlantic City and Switzerland. The second one is that it is absolutely necessary for organized crime to have access to financial institutions of all kinds. The third lesson is the crucial role played by financial institutions in closing their doors to the money laundering. This is necessary if we are to be successful in the interdiction of flow of cash in the covers of organized crime.

MR. HARMON: For what reason has Stephen Wynn, the Chairman of the Board of the Golden Nugget,

been asked to testify here today?

MR. SHEEHAN: Mr. Wynn is the Chairman of the Golden Nugget and he has been asked to explain what measures casino operators can take to make it more difficult for organized crime to profit from casinos. He has been asked about practices, called for by this Castelbuono/Giuffrida laundering activity as well as measures to comply with the Bank Secrecy Act.

The staff of the Commission continues to believe that the impetus for internal antilaundering measures must come from the top in the form of a clear, articulated management policy.

MR. HARMON: Investigator Sheehan, has the Commission earlier heard from another chairman of the board whose institution was used by this same Giuffrida laundering network?

MR. SHEEHAN: We have documented testimony from Nicholas Deak, Chairman of Deak-Perera, in November 1984 at the cocaine hearings, in response to questions of a deposit that was laundered through his firm in New York on October 5, 1981.

I would like to quote from some of that testimony. Mr. Harmon asked Mr. Deak:

"Would you consider it suspicious, in your

many years of experience, for somebody to bring into your company a deposit of \$3,405,000, weighing 230 pounds, consisting of 13,300 one dollar bills, 6,200 fifty dollar bills, 79,900 twenty dollar bills and 17,000 ten dollar bills?"

Mr. Deak responded: "I would consider that suspicious, of course."

Mr. Harmon continued: "So it is correct, Mr. Deak, as you sit here today, wherever located in the world, that he could expect to be turned away if he presented the kind of deposit that I described, 230 pounds in the amount that I have described and in the kinds of denominations that I have described, because that is the conscious policy of you and your company?"

Mr. Deak responded: "I don't think they will be turned away. I think they will be reported."

MR. HARMON: Mr. Chairman, Investigator Sheehan will answer any questions that the Commission wishes to pose.

CHAIRMAN KAUFMAN: I have none. I don't think anybody else has. We thank you very much. Keep up your good work, please.

MR. HARMON: Would Mr. Wynn please come forward.

Would the marshal please swear the witness.

STEPHEN WYNN,

called as a witness, having been

duly sworn, was examined and testified as follows:

MR. HARMON: Mr. Wynn, it appears that you are accompanied by counsel and I would ask counsel to please identify themselves.

MR. WYNN: If I may introduce my colleagues. They are all officers of the Golden Nugget. They are staff members of mine who are incidentally also counsel. Mr. Alfred Luciani on your left, former Deputy attorney general, and a former prosecutor. His job is to work in the regulatory area of my company as well as in the development of new properties.

Marilou Marshall is Vice President of Golden Nugget, former staff attorney for another Presidential commission that investigated gambling policy in America. She is Special Counsel, inhouse counsel and Vice President of the Golden Nugget.

On my immediate right is Shannon L. Bybee, Jr. He is Vice President of Community Affairs. His background in the State of Nevada includes being a member of the Nevada Gaming Control Board for a number of years.

I have asked them to come today with me so that we might help expand the answers to any questions that the Commissioners might have at the conclusion of our presentation. Having introduced, I hope that is to your satisfaction.

MR. HARMON: If it is satisfactory with you, it is satisfactory with me, Mr. Wynn. Has the marshal sworn the witness as of this point?

MR. WYNN: Yes, he did, sir.

CHAIRMAN KAUFMAN: Were you about to say something else?

MR. WYNN: Yes, sir, I was.

CHAIRMAN KAUFMAN: Go ahead.

MR. WYNN: I came here today at the invitation of Counsel Hunterton because first of all I had prior knowledge of Mr. Hunterton's work with the Organized Crime Strike Force in Las Vegas and, like a lot of people in the gambling industry, a good deal of respect for Mr. Hunterton's accomplishments. When he explained to me what the Commission's purpose was, it was easy to anticipate that the course of events would involve the presentation of witnesses such as Mr. Cullotta that was here earlier.

I was not particularly delighted to find

myself or any of my colleagues present during a colloquy involving people of this caliber. Nevertheless, the purpose of the Commission in our view was valid and admirable and afforded us an opportunity to participate in a process that could result in an improvement of the situation and could lead to progress.

Earlier this week you have had some very, very distinguished people here. I watched on CNN as Professor Skolnick helped open the proceedings here in New York. He is, I am proud to say, a very good friend of mine.

In his book "The House of Carus" Professor Skolnick makes a point that the gaming industry is the pariah industry and it is very clear today what he means by that. There is a great deal of difference between the legalization of gambling and the legitimization of casino gambling. One process, the legalization, can be done in a matter of months or weeks, and as the voters cast their ballots it is therefore instantaneous.

The second process, that of legitimization, of an industry gaining respect and credibility in a community, is a far more subtle, far more delicate process involving a long time. It is quite easy to

derail. It is a technical and specialized business. It requires special and technical knowledge. We are constantly the subject of media hype and consequently --

CHAIRMAN KAUFMAN: You help a little bit in that respect, you must admit. Are you now giving your guests more towels?

MR. WYNN: Having done the commercials I couldn't very well say no to Stanley Hunterton.

The second reason I came today was that I hoped to be able to participate in helping the Commission further its purpose, if it leads to legislation. We know that organized crime is disruptive to the social order. So is bad legislation equally disruptive to social order. There is only one answer for this, and that is focused, concentrated attention, painstaking, boring, sometimes not satisfying or black or white. But the only answer is cooperation from our industry and law enforcement.

I would like to make one other point, sir, and that is that I appear here today as the chairman of my own firm. My colleagues and I speak for ourselves. Although we may be regarded as licensees in both jurisdictions I must make it clear that I have no portfolio to speak for other public companies that are

similarly engaged in gaming.

I have submitted to you an outline, a prepared statement. I hope that you have read it. I would like all of the things in my prepared statement to be included in my opening remarks today.

I think there are three areas, but to summarize the constructive and positive aspects there are three areas that I think offer room for improvement and progress. First of all, to improve and to increase and to intensify the dialogue between law enforcement and the gaming industry, that can only be helpful. There can be no trust or respect between any two bodies without proximity and exposure. Distance is very destructive. Not knowing the other side is very destructive to this colloquy, if not rendering it impossible.

When Mr. Hunterton spoke to me he said, "What areas of organized crime have touched the Golden Nugget, in your experience?" I said the most obvious and recurring area is an area that this Commission has touched upon in great detail, with witnesses from the Labor Department. We have never had an incident involving criminals in our union negotiations, yet I have sat in negotiations in the midst of culinary

negotiations a few years ago and watched the very same week on television an NBC white paper, in which National Broadcasting Company made very severe allegations, buttressed by Labor Department officials, that the culinary union was infiltrated and controlled by organized crime.

We have all witnessed the evidence that has been presented about Local 54, the culinary workers union in Atlantic City, New Jersey. So if there is any one area where organized crime seems to have gotten very close to my company it would be in the area of labor, and that is a problem because only recently law enforcement have asserted and obtained any kind of federal fiat to extend their jurisdiction over unions. Purveyors, corporations, licensees are all subject to the jurisdiction of the regulatory agencies. I think that unions, which have serious relationships with casino hotels, should not be exempt from that jurisdiction.

I think that vendor licensing has been very helpful in allowing us to know with whom we are doing business. I think that is very positive. Although sometimes the process has become even cumbersome, we are attempting with the help of the regulatory agencies

to streamline it.

But more importantly, as I think we are going to get into today when I know Mr. Harmon is going to ask me questions, there is this area of information. We must not be confused with a law enforcement agency. We are not a law enforcement agency and we cannot be presumed to have knowledge of people that the FBI possesses. To assume so is unfair.

CHAIRMAN KAUFMAN: Let me ask you at that point. We have been hearing something similar from the banks, particularly since these gentlemen have gone into the laundering question and we put out our report on laundering and they don't like it and they say they are not a law enforcement agency and they have no responsibility or obligation to even advise a law enforcement agency when they are suspicious of a deposit or a depositor. Are you taking the same position?

MR. WYNN: Absolutely not. I am not sure what the legal responsibilities of banks are, Judge Kaufman. I know that gaming companies have a specific responsibility in this case to exercise a much higher degree of due diligence. I am going to demonstrate to you graphically how that happens.

We had a staff witness come here detailing the Castelbuono case and two and a half million dollars of money laundering. I was treated to the newspaper stories, money laundering in Atlantic City hotels. We take tremendous pride in the way we conduct the business of my company. We are a family and we have self respect. And there was the Golden Nugget in the New York papers as part of a money laundering scheme for heroin, yet.

It is interesting to note that the indictment and the language contained in the indictment was released to the press, repeated here but released to the press, before, sir, not after the investigators came to find out what actually happened with Mr. Castelbuono. At the risk of spoiling some of this I have come here today to confuse you with the facts.

CHAIRMAN KAUFMAN: Not to confuse us with the facts, to give it to us. That is what we want.

MR. WYNN: You are going to hear a different story about the Castelbuono case. I am against money laundering. So is any sane human being against drug trafficking and the results of it. But the Castelbuono case is going to be a very good example of how complicated this issue really is and how a lack of real

communication and technical knowledge of the workings of a casino is necessary by law enforcement before they take a position. I am going to introduce a number of things into evidence for the Commission's enlightenment. Then I will review them.

First of all, six hours of videotape instituted by us in our surveillance department the first moment that Mr. Castelbuono set foot in the casino. There are more but it would be interesting for you to start with this first six hours. You can see a money launderer in action. I am going to submit a report prepared by our chief of surveillance, Mr. Sabino Carone, for 20 years a specialist in the field. From the time we broke ground I had Sabino work for us, using the methods and the contacts that he had in this world in view of the Privacy Act, to inform the Golden Nugget and protect and execute its responsibilities, which are clear under New Jersey law, and to conduct itself in such a way as to foster respect for the regulatory procedure. This is Mr. Carone's report prepared at the direction of the casino when Mr. Castelbuono first checked in. I am going to review each separately.

MR. HARMON: May I ask a couple questions,

Mr. Chairman?

CHAIRMAN KAUFMAN: Sure.

MR. HARMON: Do any of those tapes show you, Mr. Wynn, meeting with Anthony Cakes?

MR. WYNN: No. These are the first six hours of Mr. Castelbuono playing at the Golden Nugget.

MR. HARMON: So none of these tapes show you meeting with Anthony Cakes, is that right?

MR. WYNN: No.

MR. HARMON: Is the memorandum you have referred to dated December 2, 1982?

MR. WYNN: Yes, it is.

MR. HARMON: Thank you. We are aware of that. You may continue.

MR. WYNN: You have this memorandum?

MR. HARMON: Yes.

MR. WYNN: I brought it. I wasn't sure.

MR. HARMON: I appreciate it.

MR. WYNN: Where did I put my glasses? Here.

Secondly is an additional report prepared by Mr. Luciani and directed to Director Thomas O'Brian of the Division of Gaming Enforcement. This report is dated April 2, 1985, this past spring, but what I am doing because of the way it comes out of our records,

it also contains all of the logs and the company records of the movement of cash in and out of deposit and at the tables in the form of markers and other withdrawals by Mr. Castelbuono and his party. That is also here in evidence.

What this shows, sir, is this: On November 27 -- there was a reference to May by the last witness -- November 27, 1962, Mr. Castelbuono came to the Golden Nugget late in the evening, early in the morning, and deposited, introduced himself and deposited large amounts of cash. As he came with these -- we didn't know until we finished counting it -- five and a half, six hours -- every alarm and buzzer and bell, our system, which is designed -- long before the Treasury regulations. We have procedures that if anybody came with small bills we isolated them. All our bells and whistles went off at once and the system began to work in Mr. Castelbuono's case.

I am going to demonstrate how the system worked. Executives in the company were notified that an extraordinary event was taking place, a man had entered the casino with an enormous amount of money. This may not have happened at a bank in Boston or New York but it happened at the Golden Nugget.

The money was counted and Mr. Castelbuono was told that the money would be isolated until it was clear that he had come to gamble and not to make change. We don't do that. That's fine, said Mr. Castelbuono, I came to gamble. And he walked over to a table. After they had counted the first \$300,000, before they had counted any of the rest, he went to the baccarat table and these videotapes we immediately started, because they were alarmed at Mr. Castelbuono, immediately surveillance was ordered to tape every move Castelbuono made in the casino. These are the first six hours, our first exposure.

It is important for you to understand this is the first time we saw him. We are now in a position to make our first judgment. What are we dealing with here? Is this some crazy person who thinks he is going to turn small bills into big bills here or have we got an eccentric gambler, which is not unusual in our environment. So these tapes show you the first encounter.

He went to the table as fast as we could count the first amounts of money and started playing, average bets of 10 and \$20,000 a coup. A coup is one hand of baccarat, takes approximately 40 seconds. I

will repeat that, 10 and 20,000 a decision, 60 decisions an hour, sometimes. He played feverishly and steadily.

At the end of the first six hours, when we had barely finished counting the balance of funds which he asked to continue his gambling activity, he has drawn \$360,000 and lost it. These documents will prove that, as well as verification of our table counts for those evenings, sir.

What else happened with Mr. Castelbuono? He was notified by the President of the hotel, the General Manager -- remember, he is now talking to a man who walked in and lost \$360,000 and has \$800,000 on deposit -- "Mr. Castelbuono, don't attempt to do this here again. Coming in here with this kind of currency has disrupted our organization. We are not prepared to do this. You are a gambler, sir, we appreciate that, but we are not prepared to do this again."

CHAIRMAN KAUFMAN: Who told him that?

MR. WYNN: Mr. James Wesson, the general manager of the place.

Mr. Castelbuono said, "No problem, I just want to gamble." He continued to gamble, as I say -- and the dates, I was not on hand for each of these

things.

CHAIRMAN KAUFMAN: Mr. Wynn, by this time were you able to get some background on this fellow?

MR. WYNN: We immediately asked Sabino Carone to check out this fellow. At this point he just wanted to play for his money. But we decided to institute our own investigation and that is the November 22 memorandum of Mr. Sabino Carone.

MR. HARMON: Mr. Wynn, if I could interrupt you, you were personally involved in giving the okay in the first place to accept the money of this fellow Castelbuono, is that it?

MR. WYNN: No.

MR. HARMON: Were you notified at the time that Castelbuono showed up?

MR. WYNN: I was notified that he was in the building and that this event was in progress.

MR. HARMON: Who notified you of that?

MR. WYNN: It was late in the evening. I don't remember. It could have been any one of two or three people. It could have been Mr. Wasson himself, Mr. Meyerson, Mr. Moore, the casino people.

MR. HARMON: You are describing a system that worked, Mr. Wynn. Who was the person in that

system whose responsibility it was to ensure that a launderer and a launderer's money was not accepted at the Golden Nugget, as of that time, November 1982?

MR. WYNN: Let me make very clear, Mr. Harmon, I am not the person in the system. I am the Chairman of the parent company. I happened to be in the building that night and I am the one relating the story. The system of segregating currency until we see what is going on is a procedure that is first of all instituted at the casino cage. A customer comes in and wants to deposit cash, he goes to the cage.

MR. HARMON: Who was it that told you that Castelbuono had shown up and what did that person tell you?

MR. WYNN: I say, I can't recall who specifically told me.

MR. HARMON: What in words or substance were you told by whoever it was that told you?

MR. WYNN: There is a fellow down here who wants to play for cash who has boxes of small currency.

MR. HARMON: And that caused the bells and whistles to go off in your mind, is that correct?

MR. WYNN: Sure.

MR. HARMON: And you suspected that this

person could be a money launderer?

MR. WYNN: Yes.

MR. HARMON: Was part of what was told you that he had small bills?

MR. WYNN: Absolutely.

MR. HARMON: What was it about what was told you that caused you to suspect right at the outset that he was a money launderer?

MR. WYNN: The very fact of the existence of a player with large amounts of small money is suspect in our mind. Any reasonable, rational person would have reacted the way we did, with suspicion and caution. Furthermore, we are not private individuals, we are licensees in New Jersey, and we have an obligation to behave in a certain way. Whether it is spelled out specifically in some Treasury regulation, we felt it was our duty to immediately isolate and focus upon this unusual occurrence, because this is not what usually happens.

MR. HARMON: So you acknowledge then as a casino owner a moral responsibility to ensure that narcotics money is not placed through or accepted by the Golden Nugget, is that fair enough, sir?

MR. WYNN: No, Mr. Harmon. You have just

had three or four generalizations implicit in that question.

MR. HARMON: Moral responsibility, is that the generalization that you find difficult?

MR. WYNN: I want to slow you down, if I may. As a casino owner, I have not a moral, but I have a very legal, responsibility to see that my business is conducted in a proper fashion. What proper fashion means is subjective interpretation in many cases. It is clear to me and it was to the entire staff of the Golden Nugget when Mr. Castelbuono first came that when a man walks into a building with boxes full of small currency that there immediately ought to be preemptive protective measures taken to first of all find out who he is, what is his intention, is he in fact attempting to change small bills into big bills, and what generally is going on. If that is his intention we are going to stop him and not let him do it.

MR. HARMON: Let me perhaps present the view of another Chairman of the Board for your thought. On March 12, 1935, William Brown, the Chairman of the Bank of Boston, testified before the Senate and he said this:

"We must also recognize that bankers have the moral and ethical obligation to assume greater

responsibility for compliance with the law and regulations and for identifying possible illegal activity occurring in their midst. Financial institutions must be willing to take an active role in insuring that they do not serve as conduits for the proceeds of crime. As Chairman I take responsibility both for our past failings and for assuring that no such failings occur again."

Do you reject this kind of moral responsibility, which has been accepted publicly by the Chairman of the Bank of Boston?

MR. WYNN: Of course not. Not only do I accept it, I don't know what the occasion for that fine prepared statement by the Chairman was, but I am here and I am going to attempt and I am going to prove to you that we in fact did that with Mr. Castelbuono.

MR. HARMON: Before I ask the question, Mr. Wynn, was there any advance notice to any employee or executive of the Golden Nugget that Castelbuono was intending to come to the Golden Nugget that night?

MR. WYNN: Not to my knowledge specifically.

MR. HARMON: So you had no knowledge of that?

MR. WYNN: No, I did not, Mr. Harmon. I knew nothing of Castelbuono until I was notified that

this event was in progress.

MR. HARMON: Just so you understand, the occasion for that testimony of the Chairman of the Bank of Boston was in support of the Commission's money laundering recommendations.

Is there something called --

MR. WYNN: Excuse me, Mr. Harmon. I wasn't through with the Castelbuono incident. There are significant facts that I would like to continue explaining.

MR. HARMON: Please continue, Mr. Wynn.

MR. WYNN: Mr. Castelbuono, again, please try to put yourselves in our position. The man comes in, puts small money on deposit, immediately starts gambling at a level that would indicate that he would need a million dollars, and in fact experiences a loss of over 30 percent of his money. We make the decision at this point that he is indeed a gambler. We tell him again that he shouldn't come in with small bills. But as he leaves after this two or three-day stay in which he loses all his money, we give him back hundred dollar bills because having lost the money it was clear that he was not a money launderer. We obviously acted on instinct based upon information.

We also asked Mr. Sabino Carone to do a report which I will share with you in a moment. The contents of the report is that Mr. Castelbuono was a thoroughly upstanding citizen, that he had graduated from Fordham and was from Harvard Law School magna cum laude. No arrest record --

CHAIRMAN KAUFMAN: I wonder what course they gave him in Harvard that taught him these things.

MR. WYNN: He leaves our casino with \$800,000 in wrapped \$100 bills. We have made a determination based on the evidence and pretty good due diligence that this is not a money launderer, but an attorney who is a very heavy gambler.

What happens next with regard to our instincts and this judgment that we had to make without any negative information about the man? We have him come back within a week and proceed to play again and again, and, sir, instead of 2-and-a-half million dollars in deposits he puts back the same money, never comes back with small bills again, comes back with \$100 bills wrapped in Golden Nugget and Tropicana bills, the same money.

What happens in the space of the next few weeks, he loses the million dollars, loses the million

dollars. I repeat that. If you include the money he lost in Las Vegas he loses \$1,150,000. If that's money laundering it is an extraordinary scheme.

Do we institute investigative inquiries about all our customers? No. But because we recognize a moral responsibility as well as legal responsibility, we employ people like Sab Carone, Marilou Marshall, Shannon Bybee.

You had an FBI agent, Mr. Storey, testify here this week, was interviewed for a job with the Golden Nugget by Sab Carone, to come and work with us, because he is the kind of man we are looking for. He decided to go on to Washington. But we did do not employ these procedures because we are unmindful of the responsibilities. We are a business whose inventory is cash.

CHAIRMAN KAUFMAN: May I ask you one question. Just shift from money laundering. I think you will agree with me that organized crime or the mob or whatever you want to call it has an affinity for gambling and casinos.

MR. WYNN: An affinity as opposed to other activities, sir?

CHAIRMAN KAUFMAN: That is right.

MR. WYNN: With all respect, your Honor, we don't know that. Because we don't investigate Tiffany's and Saks Fifth Avenue and Van Cleef & Arpels we don't know how much business they do there.

CHAIRMAN KAUFMAN: No, I am not asking you what you know. That would be unfair. But you are in the industry. Is that the talk in the industry? Is there an awareness in the industry?

MR. WYNN: I am afraid I am having trouble understanding the question. When you say affinity, we cater in New Jersey to as many as 10,000 people a day.

CHAIRMAN KAUFMAN: Let me ask you another specific question and I will be finished with the area. How many years have you been in this business?

MR. WYNN: 15, 14.

MR. HARMON: Have you ever had an occasion when a representative of organized crime has attempted to either intimidate you so that he could get some part of your operation --

MR. WYNN: Never.

CHAIRMAN KAUFMAN: Never?

MR. WYNN: Never.

CHAIRMAN KAUFMAN: All right.

MR. WYNN: Nothing even closely resembling

anything like that has ever happened to me.

The Castelbuono case doesn't read in fact the way it was presented here a few moments ago. I am not passing judgment on Castelbuono's individual morality, but in this particular case I was not satisfied either.

Castelbuono -- I got to meet him -- said, "I understand you're very charitable. Every Christmas I rent out at Madison Square Garden most of the Ringling Brothers Barnum & Bailey Circus for kids from an orphanage. My business is a government securities, government commodities firm. Besides being an attorney I really run the Government Securities Practice Trading Company and my commodities trading firm."

He says, "But I am really interested in kids and I take all the kids to Ringling Brothers Barnum & Bailey Circus, and I know that you own a bus company at the Golden Nugget. Since you are a charitable person, would you help us in letting me use some of the buses to transport the kids from the orphanages?"

Big customer talking to me with a valid and proper request. I said, "Absolutely, what a nice thing. I will be glad to help you."

He said, "Let me check it out." I said, "Tell

you what, Tony, I will come over and meet with you. What's your office address?" I did not need to go to Castelbuono's office in order to satisfy myself about the buses. I could have sent any number of people. But I was fascinated about the case because the initial arrival of this individual at the Golden Nugget still bothered a lot of us.

So I went to Turtle Bay Towers and I saw his business. I saw his people, I saw him trade 50 or \$60,000 worth of silver and get confirmations on his machine in my presence. I became convinced that Mr. Castelbuono was indeed a government securities trader and a commodities trader. Mr. Carone confirmed that he was indeed a lawyer. And we were fooled.

Two years later we read in the New York papers that he is indicted and charged with participating in a scheme to launder money in the importation of heroin, a despicable activity. Because we are a casino company we do not receive the benefit of the doubt by anybody in the media, Mr. Harmon, and it is painful because my company is 5,500 fine people. We have nothing in common with Cullotta or heroin importers.

I suppose that some of this kind of media

exaggeration is going to have to be accepted by us as going with the territory, but I for one think that as painful as it is to be submitted to this kind of stuff, that the only chance we have got is to run our business diligently and participate in these colloquies so that we can separate fact and fiction. That doesn't mean we will always be right or always make the right decision. We are like everybody else. We make mistakes. We don't use perfect judgment. But we are trying.

MR. HARMON: Just to clarify a couple points so we do correctly understand the way in which casino businesses operate, is it correct that a person can come into a casino with a certain amount of cash, go to the cashier's cage and in effect open up an account by a deposit of cash in the way that Castelbuono did?

MR. WYNN: Yes, sir.

MR. HARMON: When a person opens up this account he can draw upon it in much the same way that a person can draw upon a checking account or some other kind of bank account?

MR. WYNN: Most assuredly.

MR. HARMON: So that, for example, by way of illustration, if somebody came in, assuming this is a million dollars, makes a deposit into his account of a

million dollars, what he would receive in return is chips of one kind or another, and if we assume for the purposes of the example that each one of these chips represents a half million dollars, is that the way it works, correct?

MR. WYNN: Yes, sir.

MR. HARMON: The choice for a player, somebody that is given these chips, is two with them, correct?

MR. WYNN: Yes, sir, he can hold them or cash them back.

MR. HARMON: Get his account credited as a result of cashing them, give them to somebody else, correct?

MR. WYNN: Yes.

MR. HARMON: If he gives them to somebody else there is no record of that in the casino, correct?

MR. WYNN: Right.

MR. HARMON: So there are really no records in the casino by which a person can look to see whether or not a person has in fact won or lost or given the chips to somebody else. Right or wrong?

MR. WYNN: Wrong. Mr. Harmon, I am not going to let you do that. I mean, you just described a

potential conceivable happening but that's not the way it works.

MR. HARMON: Were you there when --

CHAIRMAN KAUFMAN: Let him finish.

MR. WYNN: You held up the money and said this man deposits a hundred dollars which this man is free to draw on. We are not fools. We recognize the potential for the scenario to develop just as you just described it and asked me to answer yes or no and I did. Except recognizing that scenario, because it is elementary in its deception, we have procedures. When a man deposits cash in the casino, he draws the money down at the table, sir. That's how he has to do it, at the table. He goes over to the table, he asks the pit boss, I have a cash deposit, I want to pay at this table. When the first cash deposit withdrawal is made, let's say the man has a million dollars on deposit, and he goes to crap table number 1 and he says to the boss my name is so and so, I have this, I want to play against my cash, let me have \$10,000 and I will take it if don't mind, if the proper paperwork is done, I will take it in hundred dollar chips. He can go cash out, as you just said.

But what really happens is, when we see a

customer playing against a cash withdrawal slip we watch him. If he doesn't start gambling and walks away from the table an alarm bell goes off and we call the cage and a shift boss and a floor supervisor and we watch the man move back to the cage and when he tries to do that, and we do this all the time, we say hello, whoa, sir. We have better things to do than to play hide the weenie with the credit documents. What is your intention here? We stop this sort of activity from taking place. It has never been a problem for us once we understood it years ago, any more than money laundering is a problem for us. So we don't let that happen in reality.

MR. HARMON: Referring to the memorandum which you have described and kindly offered to us, which we have marked as Hearing Exhibit 100 A and which the Commissioners have, isn't it correct that in fact here Casteluono did just that, gave chips as reflected in that memorandum totaling \$60,000 to each of a number of people in his party?

MR. WYNN: Sure, Mr. Harmon, but once a man comes with his money as a gambler, we allow him freedom to move within our premises.

MR. HARMON: And isn't it correct here, Mr.

Wynn, that in fact a withdrawal from Castelbuono's account on November 29, 1982 in the amount of about \$800,000 was made not by Castelbuono but by another person named Ben Valenza?

MR. WYNN: I am aware of the content of the report.

MR. HARMON: Is that right, sir?

MR. WYNN: Yes, but they are all one group. It was he and his traveling companion.

MR. HARMON: So there was a free flow of money between him and his friends.

MR. WYNN: We made sure the two of them were playing together. Castelbuono did the gambling, he could have the money back. He could send his friend too. They were never out of our surveillance.

MR. HARMON: Castelbuono was not gambling under his own name, is that correct?

MR. WYNN: That is correct.

MR. HARMON: What was the name that he was using?

MR. WYNN: He used Tony Cakes.

MR. HARMON: What was the source of that name, to your knowledge?

MR. WYNN: I have no idea why it was Tony

Cakes. It was a circumstance for someone wanting to gamble under another name. Gambling for many hundreds of our customers is an activity that they choose to do anonymously and they do it by putting deposits in other names or playing under other names. That is not in any way, shape or form an unusual occurrence in the world.

MR. HARMON: And Golden Nugget policy permits people to gamble and open up accounts in fictitious names, is that right?

MR. WYNN: We have just recently -- first of all, in the old days before the Treasury regulations it depended on whether we knew who the fellow was. Once we know it is Anthony Castelbuono and we know who the player is, if he wants to use a name to be less conspicuous like Cakes or something, we never stopped that. I am not sure whether at the present time internal controls at the Golden Nugget would allow you, for example, if you were known to the casino, to put money under the name John Smith. I am not certain of the answer to that question.

MR. HARMON: You would set that policy, wouldn't you, Mr. Wynn?

MR. WYNN: I don't know whether we are prohibiting it. That's my point.

MR. HARMON: Are you able to make a statement of policy --

MR. WYNN: I am sure that the people at this table can. We used to allow that and we may still be allowing it. I don't know if we are.

COMMISSIONER SCLAFANI: Mr. Wynn, since your companions are here and you are the witness, perhaps you can confer with them and articulate it into the microphone.

(Pause)

MR. WYNN: I think I can state the present policy. We must have the Social Security number of the person and proper identification. Then if the person wants to use an additional name, all the names that that person wishes to use will also be included on the card at the present time.

COMMISSIONER SCLAFANI: So then you have the actual identity, the true identity of the individual on your own house records?

MR. WYNN: Yes, ma'am. In Mr. Castelbuono's case, long before the Treasury regulations, it had his name, his true name, his address, Cakes, which is an assumed name. I don't see anything in itself pernicious about that.

MR. HARMON: Are you saying that the source of this name Tony Cakes came from Mr. Castelbuono himself and not from somebody employed in some fashion with the Golden Nugget?

MR. WYNN: I have no idea what the inception of the name Tony Cakes is, Mr. Harmon, none whatsoever.

MR. HARMON: When is the first time you personally met Mr. Tony Cakes?

MR. WYNN: I think it was the second day.

MR. HARMON: Was that the name you knew him by?

MR. WYNN: No, Castelbuono. I wouldn't call anybody Tony Cakes. I couldn't stand to call anybody something as silly as that. I would have to know the man's name. It's laughable.

MR. HARMON: By the way, Ben Valenza --

MR. WYNN: I never saw them.

MR. HARMON: If you refer to the investigative report, you will see that his alias was Cups. Any idea where that came from?

MR. WYNN: None whatsoever. I never met him, just Castelbuono.

MR. HARMON: Doesn't the report show that on November 29, Valenza and Castelbuono came out with

\$300,000?

MR. WYNN: Yes.

MR. HARMON: And the next day they returned was November 22?

MR. WYNN: Sure. It took Mr. Carone two or three days to make the phone calls and checkup to prepare the report.

MR. HARMON: Didn't your investigator find out that in addition to using a fictitious name, Anthony Cakes, that Cakes had given a fictitious address in Manhattan?

MR. WYNN: No.

MR. HARMON: Didn't your investigator as reflected in that report also find out that Cakes had used a phony date of birth?

MR. WYNN: No.

MR. HARMON: Didn't your investigator find out as reflected in that report that there was no apparent source for any of these bills of small denomination that Castellouono had come into the Golden Nugget with?

MR. WYNN: No, that is not the way it is presented at all, Mr. Harmon.

MR. HARMON: Your investigator did not find

that out, is that correct, sir?

MR. WYNN: Mr. Harmon, this report is a very fast preliminary report by Mr. Carone who says that in the short period of time which I have had I have found out the following information. There is some confusion about his birthdate. I don't know which is right or wrong. Would you like me to read his language to you?

MR. HARMON: I am asking a question.

MR. WYNN: He didn't say he gave a false birthdate, he said he couldn't verify the birthdate. He said that he was trying to verify all his addresses. His report is very clear. I would be very glad to read it into the record orally, sir.

CHAIRMAN KAUFMAN: Everything that you submit will go into the record.

MR. WYNN: Mr. Chairman, I am taking some issue with the characterization of the report.

CHAIRMAN KAUFMAN: Is that what your associate is doing now?

MR. WYNN: Yes.

MR. HARMON: Mr. Wynn, perhaps I could draw your attention more particularly to this. Cakes gave an address of 436 East 86th Street, which your investigator could not verify, is that correct?

MR. WYNN: Correct, he could not verify.

MR. HARMON: And the date of birth that Cakes gave was not the correct date of birth. Your investigator found that out, correct?

MR. WYNN: We have two different birthdates, the one that he claims and the one that we thought we found in the Fordham Law. Sab says in the report December 26, 1943, which is different from the November 26, 1944 believed to be his correct birth.

MR. HARMON: I ask you to refer to page 3 of the report which reads as follows:

"In addition to the above, information was developed that he," referring to Castebuono, "deals in gold and silver but there is no information as to why he had such a large sum in small bills in his possession."

Correct?

MR. WYNN: Correct.

MR. HARMON: So that as of December 2, the date of this report, the Golden Nugget knew that he had originally come in with street money, that he had used a false name of Tony Cake, that he had given a false date of birth, a false address, that he was allegedly a gold and silver trader and that he had no apparent

source for the small bills that he had originally brought in. Correct, Mr. Wynn?

MR. WYNN: No, sir. He gave his correct name as Castelbuono, number one. He gave his birthdate and in our preliminary report we came up with a conflicting date. I still don't know what the correct one was. The man gave us his correct name, though.

When you that the man had no apparent source for the money --

MR. HARMON: I don't say that, Mr. Wynn, the report says that.

MR. WYNN: Yes, that is right. There is nothing wrong with that. The fact that we can't verify a source for the money in and of itself is not morally compelling. We don't know where your money comes from or anybody else's. The issue is, Cakes was the subject of this report because they were suspicious of it and this report was prepared after the fact. This was after the man came and lost 300,000, Mr. Harmon.

Do you see, you cannot do this retrospectively. You have to start where the Golden Nugget started and without that basic fundamental premise, anything that you say or any characterization can be twisted and distorted beyond recognition. We

went and prepared this report. You didn't ask us to do it, we prepared it on our own because we didn't trust the man. But he did come and gamble for six hours, gambled astronomical amounts of money and lost, and left. He is a cash player but he is not a money launderer, sir. In fact, our feeling, if you take the Golden Nugget as a closed experience with Mr. Castelbuono, he lost his money. What kind of money laundering is that?

MR. HARMON: You say at some point you went to his office because you wanted to investigate whether or not this was the kind of person you wanted to give a Golden Nugget bus to --

MR. WYNN: No, I did not. I said I went there because I wanted to see if he really had a business.

MR. HARMON: And you saw his business and it was the business of placing trade in precious metals?

MR. WYNN: Silver.

MR. HARMON: By way of computer?

MR. WYNN: Right.

MR. HARMON: Saw no cash?

MR. WYNN: Saw no cash.

MR. HARMON: No large amount of bills in

small denominations?

MR. WYNN: No.

MR. HARMON: Did that cause you to wonder --

MR. WYNN: No.

MR. HARMON: Is it consistent with your experience that Harvard trained attorneys accepted cash fees in amounts of small bills, Mr. Wynn?

MR. WYNN: No.

CHAIRMAN KAUFMAN: Mr. Harmon, I don't think even Harvard would claim that they turn out puritans. The most glaring example occurred in the Southern District of New York in the form of the Dean of the Law School, and you remember that, who will be nameless at this point.

MR. WYNN: The point is I didn't trust Mr. Castelbuono, Mr. Harmon, that's why I was there.

MR. HARMON: And that is why you invested \$50,000, correct?

MR. WYNN: Yes. I did trust him after I went there. That's the point. Mr. Castelbuono, you know, in terms of what we learned subsequently, is a very deceptive man. I did trust him. I saw that he was in fact doing what he said he was doing. He did have the firm that he said he had. He was a real

person. I asked the investigators that came to question me a couple months ago from the Justice Department in an investigation of Mr. Castelbuono whether I was the victim of a huge sting, and they said no, in fact, those firms were real. I trusted him.

MR. HARMON: Mr. Wynn, if I could draw your attention to your statement submitted to the Commission in advance and draw your attention to a specific portion of it, to page 5, please, at the top. Referring to the information about Castelbuono which precedes earlier in your statement, your statement reads as follows: "This information was conveyed to Golden Nugget executives, the Casino Control Commission and the Division of Gaming Enforcement."

Continuing down two paragraphs, page 5 -- I will read it again, if I could, Mr. Wynn: "This information was conveyed to Golden Nugget executives, the Casino Control Commission and the Division of Gaming Enforcement."

Continuing further below: "He definitely did not appear to be laundering money from our perspective, yet we did report his activity to the law enforcement agencies on a timely basis."

Did the Golden Nugget do that, report the

information about Castelbuono?

MR. WYNN: Yes, we did.

MR. HARMON: At what time was that reported, Mr. Wynn?

MR. WYNN: Mr. Luciani received his copy from Mr. Carone dated December 2 and about that time when Mr. Luciani so informed me it was filed at that time with the Division, with whoever.

MR. HARMON: Exhibit 100 A indicates that a copy was sent to the Division of Gaming Enforcement. Did that refer to the Gaming Enforcement in New Jersey?

MR. WYNN: Yes, it does.

MR. HARMON: So the source of your knowledge that this memorandum was submitted to the Division of Gaming is Mr. Luciani sitting right here, is that right?

MR. WYNN: Correct.

MR. HARMON: You have no personal knowledge of that, is that right?

MR. WYNN: I do not.

MR. HARMON: Referring to a more current matter, Mr. Wynn, you --

CHAIRMAN KAUFMAN: Can you tell us how much longer you will be?

MR. HARMON: Just a few more minutes, Mr.

Chairman.

You recognize that casinos are now required to file Currency Transaction Reports, correct, Mr. Wynn?

MR. WYNN: Right.

MR. HARMON: Has that affected Golden Nugget policies in any regard to prevent money from being laundered through the Golden Nugget?

MR. WYNN: It is my position that money wasn't laundered through the Golden Nugget, but the proccuures that have been instituted as a result of the Treasury regulations are time consuming, costly and nonproductive, in my view, what I said in the beginning of my presentation, that bad legislation could be socially as nonproductive as nonlegislation.

The idea of stopping money laundering as the original predicate is valid but there are much better ways of handling it. We felt we could handle it at the Golden Nugget and we have. But the Treasury regulations have come to be something quite different. They are in fact an information gathering mechanism for the Internal Revenue Service to try and track money for casinos on the theory that the cost will be justified by the fact that there will be taxes gained, that tax evasion will be stopped, which is patently impossible,

because in the casino players must lose, casinos win. There is no taxable event in a casino because the players must lose. All the games have a house percentage. We are the ones that win and we get taxed more than any other group of corporations in the world.

CHAIRMAN KAUFMAN: There are players who win and walk away with money.

MR. WYNN: For the moment, Judge Kaufman, but in the long run they must lose because of the house percentage, and the man who plays frequently is the one most apt to prove that he is going to lose because the house percentage works.

CHAIRMAN KAUFMAN: Yes, but I suggest that there are certainly instances where individuals win for that particular year and should declare to the Internal Revenue Service.

MR. WYNN: I know that is what the Internal Revenue thinks, Judge Kaufman, and they're wrong. For example, the Treasury regulations were in for a week. One fellow generated 30 percent of our reports. The action involved thousands and thousands and thousands of dollars. The Treasury now has a stack of reports. The result was a loss of \$15,000.

As long as players can offset their winnings

with their losses they have no taxable event, and mathematical certainty tells us they will lose.

As you say, on the last day of the year a fellow may get lucky and win money but the Treasury regulation and the amount of work, the amount of disruption that is necessary to enforce it, the amount of work and the manpower at the federal level that will be necessary to track this admittedly and mathematically extraordinary event that is a winner is disproportionate to any benefit.

CHAIRMAN KAUFMAN: I would like you to rethink that. That may be a valid statement for the hardship imposed on a casino but it is now an established fact that the dealers in drugs have to launder their money in order to continue dealing. There were two pilots who testified in the early days they flew a plane over and came back with millions of dollars, they didn't know what to do with it. They have to launder the money. It has to be laundered someplace.

I think it is a legitimate activity by the Treasury Department to try to find out how this money gets laundered. There are estimates, wild estimates running into the billions of dollars that doesn't get

into the Treasury of the United States, and any business that deals in a large amount of cash, may I say, may be a victim but nevertheless may be a means to laundering of money.

MR. WYNN: One moment, sir, please.

If we are going to justify the Treasury regulation as a foray into checking the waters and seeing what goes on inside a casino by creating these reports, that is a new justification for it. The cost is extraordinary and it is very bad government. But nevertheless, we have offered and we did with the federal government, to walk then through an example of why, if the person is an unlawful person, these regulations won't help, because the amount of reports that are generated by buy-ins and rebuy-ins are so extraordinary and disproportionate it does not create the audit trail you are looking for. If you had an audit trail through a casino you would have a point. But it is a point.

The Treasury regulation, I am under oath, is an error. It will not work. It is doomed to failure. That is my opinion. I am an expert witness. It was a mistake by the Treasury. They thought they were going to get something they are not going to get. We have

not been able to penetrate the federal mentality on this yet but now their own information gathering system will be the final proof that they made a mistake.

If you would like, and we could take all day and I don't want to take any more of your time, if you would like a detailed mathematical walk-through of how these details work, we will show you the frustration and the futility of the operation. If I have accomplished anything here today I have come to tell you the federal government made a mistake, they did the wrong thing.

MR. HARMON: If the currency report requirements had been in effect in 1982 the currency transactions would have had to have been filled out for Anthony Cake, right?

MR. WYNN: Right, and what good would it have done? He lost the money.

MR. HARMON: Is it not a fact that Anthony Cake walked out the door with \$800,000 in one hundred dollar bills?

MR. WYNN: Yes, and he has us to prove that he came back and lost the 800,000. What federal event, what prosecutorial event would have occurred, Mr. Harmon?

MR. HARMON: He may have been indicted earlier.

MR. WYNN: On what grounds?

MR. HARMON: I would like to draw your attention to something else. I tell you, Mr. Wynn, we have conducted a preliminary review of 128 Currency Transaction Reports filed by the Golden Nugget, filed in New York City and received by the Internal Revenue Service on June 13, 1965. Of those 128, 14 customers refused to furnish information required on the currency reports. Is that current Golden Nugget policy that permits customers to refuse to provide information required by the Currency Transaction Reports?

MR. WYNN: Golden Nugget policy is to comply with the letter and the spirit of the law. When a man walks in and says I want to gamble, I want to put this money up and we say sir, under the regulations you are required to, and he says I don't want to do it, are we required to apprehend him?

MR. HARMON: The question is, would you permit that person to engage in transactions by the Golden Nugget if he refused to provide information required by the currency reports?

MR. WYNN: We would refuse to permit that

person to engage in transactions.

MR. HARMON: Perhaps you would like to review your own records and see that that has not happened, at least with regard to the 14 customers, Mr. Wynn.

MR. WYNN: I will take issue with that and you will have to be more specific, but you have just made a statement on the record that I say is misleading.

MR. HARMON: Could we deal with a specific, please, and draw Mr. Wynn's attention to two Currency Transaction Reports filed by the Golden Nugget Casino, one by a person named Anthony Lombardo who refused to provide any information other than his name, one by a person named Joe Pepe, who gave only an address of Manhattan. Does that give you any more detail, Mr. Wynn?

MR. WYNN: No. I have never seen these things before and I am not an expert at the moment on our specific requirements, on every aspect. When a man comes in with currency and attempts to play with it we are required under the law to perform certain acts and we perform those acts and we follow those guidelines that have been developed after meetings with the Internal Revenue. The local agencies are charged with

telling us how to do this in the first months or weeks of its existence. The question is, that nice exploded chart, does that represent a violation of the law or an indication that the Golden Nugget did not use good faith compliance? I can't see it from here.

MR. HARMON: That is not the question and we would like to reserve that. We also understand that this is something new for casinos in the last month or so. The only question is for the future, somebody named Joe Pepe came in one time, Anthony Lombardo came another time. If somebody were to refuse --

MR. WYNN: Were all 14 of these people Italian? You picked two examples. I wonder why you picked those two.

MR. HARMON: Because they refused to furnish the information. I don't know who Anthony Lombardo is, frankly, and if he gave his address and Social Security number maybe we would know. The simple question is, in acknowledgement of this moral responsibility which you have talked about earlier, would the Golden Nugget turn away some patron who refused to provide the information that should go on these currency reports?

MR. WYNN: Yes.

MR. HARMON: Thank you.

Mr. Chairman, if the Commission wants to recess now this might be a good time to do that.

CHAIRMAN KAUFMAN: I would just like to say to you, Mr. Wynn, and your associates sitting at the table with you, some of whom have been on commissions, as I understand it, that I hope you appreciate that we are engaged in a most challenging and difficult task, a mandate that has been given to us by the President. Do you understand that?

Mr. WYNN: Yes, sir, I do. That is why I came.

CHAIRMAN KAUFMAN: It is not a pleasant task but nevertheless a task we have to perform. I can speak for myself. I am still a sitting, active federal judge and could not say no to the President. Therefore, I ask you to withhold your anger because we are probing and trying to find answers to many questions that have been presented to our staff. We do not intend, and I am sure Mr. Harmon does not intend at this point to infer that you, Mr. Wynn, are in violation of the law, and if he does, there are other authorities to deal with that. That is not our purpose. Our purpose is merely to follow the mandate of the President.

In that respect I simply want to say that I

believe you were a most cooperative witness. I am not prepared, nor do I have to pass judgment on credibility. I believe you believe everything you say and I hope that you have been treated with courtesy here and that you have had an opportunity to explain your side of the transactions and your business. If you haven't, you can add anything you want to at this point.

MR. WYNN: Thank you very much, Judge Kaufman. I came because I agreed with you and why we are here doing what we are doing. I still feel that way and I would come back tomorrow if I were requested to.

CHAIRMAN KAUFMAN: Thank you. We will recess.

(Luncheon recess)

AFTERNOON SESSION

COMMISSIONER DINTINO: Would you call your next witness.

MR. HUNTERTON: Would Mr. O'Brien and Mr. Silver please come forward.

MR. HARMON: Before they testify we would just like to conclude the previous segment briefly.

Investigator Sheehan, please.

Investigator Sheehan, I would like to draw your attention to a video which is about to be played and ask you to please describe it for the Commission in advance and as it is being played.

MR. SHEEHAN: This is a video that was recorded on the 12th of December, 1982, at the Golden Nugget Casino in Atlantic City, New Jersey.

MR. HARMON: Now, we have been given a series of videotapes which are on the table before you showing Anthony Castelbuono entering the Golden Nugget on November 26, 1982.

This is a video of his leaving the casino for the last time on December 12, is that correct?

MR. SHEEHAN: That's correct, sir.

MR. HARMON: Please play the video and describe it as it is being played.

MR. SHEEHAN: This is the early morning hours. You see Mr. Castelbuono on the left, Mr. Wynn, and Mr. Meyerson leaving the pits at about 1:45 a.m. on the 12th of December, 1982.

Could you cut to the other tape, please?

This picks up at approximately 6:14 a.m. in the morning of the 12th. It is the cashier's cage. Mr. Castelbuono is cashing out. You see the top individual putting \$100 bills, stacks, on the counter, and putting them in a bag. This cashing-out event, as Mr. Wynn would say, took seventeen minutes. We have edited it down to about four.

MR. HARMON: This is how much money, approximately?

MR. SHEEHAN: This is \$983,000.

You see the cash being placed in bags by casino employees. This is the first bag being given across the cashier's counter to Mr. Castelbuono.

There is a shot of Mr. Castelbuono on the other side of the cashier's cage. He is accompanied by two women and there is a casino security guard standing behind him.

They are getting ready to leave the cashier's cage. The money is being carried by two

security guards. It's in three bags. Mr. Castelbuono is now getting ready to leave the casino. You can see the time is 6:20 in the morning. As he is exiting, an individual will appear from the top left, identified as Mr. Meyerson, casino employee. He gets Mr. Castelbuono and escorts him out of the casino.

There you see the casino doors opening, Mr. Castelbuono is leaving with, as I said, \$983,000 on December 12, 1982. The indictment charges that on December 16, 1982, \$1 million in cash was placed in a Swiss bank account.

MR. HARMON: Investigator Sheehan is prepared to answer any questions, Mr. Chairman.

COMMISSIONER McBRIDE: Questions from the members?

COMMISSIONER BREWER: I may have missed it, but who made these videotapes?

MR. SHEEHAN: This was done by the casino people down in Atlantic City, the gambling casino and Casino Control Commission.

COMMISSIONER MANUEL: I have one question. When Mr. Wynn testified earlier today, he stated, I believe, that all the money in question was actually lost in the casino on subsequent occasions. Do you

have any knowledge of that?

MR. SHEEHAN: I have no knowledge that it was lost.

COMMISSIONER MANUEL: Is it possible that that money was lost in the casino, in your view?

MR. SHEEHAN: It is possible.

COMMISSIONER MANUEL: I have no further questions.

COMMISSIONER McBRIDE: Thank you. Thank you, Mr. Sheehan.

(The witness was excused.)

COMMISSIONER McBRIDE: You may proceed with the next witness.

MR. HARMON: Yes. Mr. Chairman, we have asked Revenue Agent Martin Molod to review some of the records that had been talked about earlier this morning, and we would like to ask Mr. Molod to describe the results of that examination, insofar as the initial deposit is concerned.

Mr. Chairman, I think it is important to point out, for the benefit of the Commission, in following on something that Mr. Wynn said, that because there were approximately 30 percent losses, or something slightly less than that, with regard to the

first deposit, that that somehow is an indication that money was not laundered. The Commission has heard within the context of this hearing that a Cuban organized crime group known as "The Corporation" has so much cash that it is willing to pay 100 percent to launder its profits. In other words, to get the use of \$1 million, it was willing to pay \$1 million.

Furthermore, as recognized in the Commission's report on money laundering, called "The Cash Connection," the "Pizza Connection" heroin traffickers laundered \$13.45 million through E. F. Hutton in New York for transfer to Switzerland. There, as with Atlantic City casinos, millions of dollars in small bills were brought in. In a deposition before the Commission, the General Counsel of E. F. Hutton testified that the "Pizza Connection" traffickers apparently lost \$10.5 million in precious metals trades placed through E. F. Hutton. Put another way, the Sicilian Mafia was apparently willing to gamble \$13.45 million to legitimize less than \$3 million in the process of paying a laundering fee of over 75 percent.

Would the witness please be sworn by the marshal.

MARTIN MOLOD

was called as a witness and, having been first duly sworn, was examined and testified testified as follows:

MR. HARMON: Mr. Molod, are you a Revenue Agent with the Internal Revenue Service?

MR. MOLOD: I am.

MR. HARMON: Have you had an extensive experience in the investigation and detection of money-laundering schemes?

MR. MOLOD: I have.

MR. HARMON: In fact, Mr. Molod, you have testified previously before the Commission with regard to your detection of over \$100 million having been laundered by various traffickers through the firm known as Deak-Perera, is that correct, sir?

MR. MOLOD: That is correct.

MR. HARMON: Have you had occasion to examine records of the Golden Nugget Casino, focusing upon the initial transaction which took place on November 26, 1982, followed by a withdrawal within a short period of time after that?

MR. MOLOD: I did.

MR. HARMON: Would you please describe to

the Commission the results of your analysis?

MR. MOLOD: Mr. Chairman, last week I was asked by Mr. Harmon to review the records of Mr. Anthony Cake at the Golden Nugget and ascertain whether the possibility of laundering of funds existed. For the purpose of this review, I was handed two pages. The first page consisted of seven entries, and the second of two entries. I would like to run through these entries with you, give you my analysis, and then my conclusion.

The first entry consists of a deposit of \$300,000 made on November 26 at 3:38 a.m. The second indicates that chips were taken in the amount of 300,000 at 3:43 a.m. And the third indicates that another deposit of \$600,000 was made on the same day at 5:30 a.m. The fourth and fifth entries indicate that \$10,050 was withdrawn within the same time frame. The sixth indicates that \$287,450 was deposited on November 26 at 6:06 a.m.

I would like to pause and analyze the deposits.

I have combined the three deposits and considered them part of the single deposit of \$1,187,450. I will make my reasons obvious as I

proceed.

Mr. Chairman, you will note that all deposits were made in cash. They also stated they were all in small denominations. Small denominations are \$1 bills, \$2 bills, \$5 bills, \$10 bills and \$20 bills. For the purpose of this analysis I have divided the \$1,187,450 in three parts. I have assigned \$395,816 to the \$5 denominations. I have assigned \$395,817 to the \$10 deposits. And I have assigned \$395,817 to the \$20 denominations.

MR. HARMON: So basically you have assumed that there has been an even distribution among those three types of bills in making your analysis, is that correct?

MR. MOLOD: I assume that.

MR. HARMON: What is the result of your analysis, then?

MR. MOLOD: I have eliminated the \$1 bills and the \$2 bills -- \$1 bills because I feel that they would distort the picture, and \$2 bills because they are not in common usage.

I then decided to ascertain how many bills would be in a \$5 category, and I found that they would amount to 79,163 bills. The \$10 bills would amount to

39,581, and the \$20 bills would be 19,790, making a grand total of 138,534 bills in that deposit.

I then proceeded to ascertain the weight of this deposit. Mr. Chairman, 490 bills equal one pound. This information is available to the general public in printed material issued by the Bureau of Engraving and Printing, Department of the Treasury. Dividing 79,163 \$5 bills by 490 indicates a weight of 160 pounds of \$5 bills, 80 pounds of \$10 bills, and 40 pounds of \$20 bills -- making a grand total of 280 pounds in that deposit.

My last computation was to arrive at the physical dimensions of the deposit. Again using the Bureau of Engraving and Printing published formula, which indicates that 100,000 bills equal 4.2 cubic feet, I find that the \$5 bills would be  $3 \frac{1}{3}$  cubic feet, the \$10 bills would be  $1 \frac{2}{3}$  cubic feet, and the \$20 bills a little over three-quarters of a cubic foot -- in all, a little over  $5 \frac{3}{4}$  cubic feet, actually 5.81 cubic feet.

MR. HARMON: Does this exhibit that is being brought into the room, which is 5.75 cubic feet by way of volume, represent the amount of money that was brought into the Golden Nugget on November 26, 1982?

MR. MOLOD: Mr. Harmon, that would be the contents of that deposit.

MR. HARMON: Have you gone on further to examine the withdrawal of \$800,000 in \$100 bills which took place later on, I believe, November 29, 1982?

MR. MOLOD: On the seventh and the eighth -- and I would like to proceed to the seventh entry on the first page, and the eighth and ninth entry on the second page.

MR. HARMON: Perhaps I can --

MR. MOLOD: That is the eighth and ninth entry on the second page.

MR. HARMON: All right.

MR. MOLOD: On November 27, 1982, chips were taken out of the account amounting to \$800,000 initially. I don't know what happened to \$50,000 worth of chips, but \$800,000 in chips was transferred to another account, Ben Valenza. There was no further activity in Mr. Valenza's account, and the \$800,000 was withdrawn in large denominations on November 29 at 11 a.m.

My analysis of the withdrawal, using the same formula outlined previously, would consist of 8,000 \$100 bills weighing 16 pounds and consisting of

1/3 of a cubic foot.

MR. HARMON: And does this yellow cube represent, by comparison, the reduction in bulk and volume between the 1.2 million, approximately, brought in on November 26 and the 800,000 that went out on November 29?

MR. MOLOD: That is correct, Mr. Harmon.

MR. HARMON: No more questions, Mr. Witness.

This witness is available for questions from the Commission.

COMMISSIONER McBRIDE: This is a question probably better addressed to Mr. Harmon. Is there any evidence as to the source of these funds?

MR. HARMON: None other than what the indictment specifies, in that they were the proceeds of heroin trafficking activity.

COMMISSIONER McBRIDE: And the identities of Anthony Cake or the other name appearing on these withdrawals or deposits?

MR. HARMON: Is Anthony Castelbuono, as reflected in other records of the Golden Nugget.

COMMISSIONER McBRIDE: Questions by the Commissioners?

We have no further questions. Thank you,

Mr. Harmon. Thank you to the witness.

(The witness was excused.)

MR. HARMON: Mr. Chairman, Mr. Hunterton will present the next two witnesses to the Commission. Thank you, Agent Molod.

MR. HUNTERTON: Marshal, swear the witnesses, please.

JEFFREY H. SILVER and THOMAS R. O'BRIEN were called as witnesses and, having been first duly sworn, were examined and testified as follows:

MR. HUNTERTON: Our final two witnesses today provide the last and certainly at least arguably the most important perspective on the issue of organized crime control and licensed casino gambling, that is, the state regulatory perspective.

Mr. Tom O'Brien, seated to my right, is the Director of the Division of Gaming Enforcement, or DGE, as we have heard it called here today, which is a division of the Department of Law and Public Safety for the State of New Jersey. As the Director of DGE, Mr. O'Brien is sometimes known as the czar of gaming enforcement, although he might object to that term. Certainly some of the licensees feel that way. Whether he is a czar or not, he presides over a staff of 505

people and a budget in excess of \$28 million devoted to regulating Atlantic City's casinos and, as a top priority of the public policy of the State of New Jersey, keeping organized crime out of those casinos.

Seated to his right, and the Commission's left, is Jeffrey Silver. Mr. Silver is not now in the regulatory business, but he once was. After serving as Deputy District Attorney of Clark County, which is where Las Vegas is, Mr. Silver was appointed in 1975 to be a member of Nevada's Gaming Control Board. His term extended through 1978, which, as the Commission will recall from the charts of prosecutions earlier, was one of the most tumultuous periods in terms of organized crime revelations in the history of Las Vegas.

Following completion of his term on the board, Mr. Silver went into the private practice of law and represented a number of large licensed casinos in Las Vegas. After that, he was the chief operating officer for a total of four years, at first the Landmark Hotel and Casino and later the Riviera Hotel and Casino. He has come something of full circle back and is engaged in the private practice of law.

Mr. O'Brien, I would like to start with you and ask you a question that has been an underlying

theme throughout the time this Commission has spent on the subject of legalized gambling, and that is this:

While there is some debate over the mix of factors that went into the voters of New Jersey first rejecting legalized casino gambling, as they did in 1974, and then accepting it, as they did in 1976, I would like you to put aside the historical debate about what those factors were and, if you will, speak to what those factors ought to be. What ought a legislative group or a citizens' group or an individual voter be weighing in his or her mind when he or she walks into a polling place to vote for legalized casino gambling?

MR. O'BRIEN: Certainly, Mr. Hunterton. Let me say at the outset that it is a balancing act, in my view; that citizens of a particular jurisdiction that might be faced with that choice have to consider the benefits that can be bestowed by casino gaming, by the legalization of casino gaming, and balance that against some of the things that you have heard here today, the downside.

But there are distinct benefits that flow from casino gaming, and we have experienced them in New Jersey.

We have now 45,000 jobs that did not exist

prior to the 1976 referendum. We have tax revenue, gross receipt, gross win tax that now exceeds \$500 million. That tax in New Jersey is dedicated to senior citizens and to disabled persons. There is an investment, capital investment, of over \$1 billion, perhaps now over \$1.5 billion, in Atlantic City. And there is also a reinvestment contribution that casinos must make that will go towards the rebuilding of the community.

Now, there can be any kind of a mix in benefits in any other jurisdiction in the country, and it can be done in many ways. It can be done through state-controlled casinos, it can be done through privately owned casinos as we have it. But in any case there must be, in my view, a pervasive kind of regulation to cope with the problems that coexist with casino gaming. And I will just go through the downside very quickly.

There is no question but that there is an attraction of the criminal element to operations of casinos. Compulsive gambling is a problem. And although it is not indigenous to casino-type gaming, it seems to be exacerbated by it because it is such an intense form of gambling activity.

We have experienced a tremendous rise in the cost of land in the community where gaming exists, and that is because speculators operate in that area. And speculators, as soon as there is a hint that casino gaming will be legalized, the speculators are at work. And the property is flipped over two, three, sometimes four times before it ends up in the hands of the ultimate owner. And tremendous profits are made. I think you can look at other jurisdictions now, parts of Florida where gaming has been talked about for some time, and also in Detroit, where this has happened.

Last but not least, there is tremendous pressure placed on infrastructural assets, particularly where you have casinos built and operating in urban areas. We have experienced that in Atlantic City, and it is something that we have to come to grips with very quickly.

MR. HUNTERTON: Thank you.

Mr. Silver, you have seen the licensed gaming process from almost every perspective from which there is to see it, and yet you are unfettered here today; unlike Mr. O'Brien, you are out of office. What could the regulators, in New Jersey or Nevada or in some state that doesn't yet have casino gambling, do

and what could the licensees do, having been both, that they are not now doing to harden the target against potential infiltration by organized crime.

MR. SILVER: Well, first let me say that I really appreciate the opportunity to address this Commission and its representatives on this topic. I almost feel, however, after listening to this morning's proceedings and reading some of the transcripts from prior days, that perhaps I should have come clothed in a black hood, having been an avowed resident of the State of Nevada. I feel like I am playing on a baseball team as a cleanup hitter and I am not necessarily the home team here.

I think that perhaps some of the activities of this Commission should have been represented by a resident of Nevada serving on this panel, and perhaps maybe some greater understanding of the problems that we faced in Nevada and the burden that we carry with us as residents of that state might be of some help in the deliberations in your overall report to the President.

With that, having said that, I don't feel like I should have to defend myself any further, because I did operate as a regulator and as, I believe, a respected member of the gaming industry and now in

private practice.

There are many things that I think that the casino industry can do and should do with respect to helping clean up some of the problems that have been set before you this morning. I think most importantly is the advent of the large corporate licensee and their desire to operate a facility that is free from this organized crime influence, because they are subject to other federal and state regulations. Most of the larger companies have had the ability to institute corporate security departments that have been of great assistance in ferreting out some of the undesirable vendors and even checking out some of the customers, as Mr. Wynn alluded to here this morning. I think that aspect of it is something that the gaming industry has been doing to help clean up their own situation with respect to organized crime.

The other areas obviously deal with the cooperation with law enforcement agencies. As a regulator, I noticed that there was a real difficult problem in getting information from federal agencies because of their inability to share such data with even state regulators, let alone members of the casino industry themselves.

I know that when I took over the Riviera Hotel, and there were some implications there that there might be some problems, I asked Mr. Parsons of the FBI office to walk through the casino with me. And the first thing we did as we walked around, we kind of pointed, not at anyone in particular, but we more or less as if I had knowledge of some of the people that were in the operations that may not be there after I had consulted with the FBI.

Now, Mr. Parsons didn't give me any information, because he could not. His hands were tied. He could not give me any information concerning any of the employees of the hotel. But the mere fact that I was able to walk through the casino with him caused a number of resignations to occur the next day. When I came into the office, I found that some of the people who I probably would have liked to have eliminated on my own had decided to voluntarily resign.

That was the kind of informal help that I can get from law enforcement agencies. And the FBI and, to a greater degree, the Gaming Control Board have always been a great help to the industry wherever they could.

There are other agencies that I wish could

be more helpful but they absolutely through their policies are forbidden to provide any information. I am referring to the Treasury Department and the Internal Revenue Service. Those areas, I think, can be greatly improved, and it would be my recommendation that some sort of at least free flow of information from the IRS to state agencies be permitted so that if contacts were made with government in the state level, that at least we could get some hand from the industry's point of view.

I think the third area of assistance for ferreting out organized crime has been the press. I know that in many cases there are really two ways that you can find out about organized crime activities within your operation. No. 1 would be an informant going through either some state or federal agency and advising them of something that they think might be wrong; and No. 2 would be members of the press being told certain things and then coming forward with some sort of an expose or perhaps even a private contact with the regulatory industry. I think that the press has been very helpful in some of the cases that we made.

I would also add that some of the lawsuits that have been stated here earlier, that other agencies

have proudly proclaimed to be their genesis, were really initiated through the Gaming Control Board apparatus in Las Vegas, in Nevada, and were investigated initially by the gaming authorities; and then when we felt at that time that it was beyond our capabilities because of a lack of wiretap statute or a lack of manpower, then those items were turned over immediately to the FBI and other sources that had greater capacities.

So I can say that, with the limited resources that the State of Nevada had, that we did in fact initiate a number of the investigations of which we are all proud that came to successful conclusions and that the industry had cooperated 100 percent in most of those cases in order to assure that the miscreants were brought to justice.

MR. HUNTERTON: Let me follow up on the regulator's role. Since 1978, or 1975 when you started, how is both the spirit and the letter of Nevada gaming regulation different now than it was then, if at all, in your view?

MR. SILVER: Well, you have to understand the history of the Nevada scene. I am sure that most of you on the Commission have already had a good deal

of background on the origins of the Las Vegas and Nevada gaming industry.

Las Vegas became a haven for people in organized crime who had conducted illegal gambling activities, and frankly those were the only individuals with the expertise to operate these kinds of casinos. We look today and we look at some of the major problems that we have had with respect to organized crime, and it involves not necessarily ownership but employees of these casinos who have still those old ties to the past and favors are being done with respect to those. Once you understand that Las Vegas in particular was a haven for these people, then you find that it is more difficult to root these individuals out of an organization.

The cases that have been made in the past involve some of these old-time connections and ties to Chicago, to Cleveland, to other places. Some of these individuals who are named in these indictments have gained a certain air of respectability.

I remember as a regulator we had an individual before us who was a friend and a social contact, business contact, of an individual that we considered to be an affiliate of organized crime. And

the members of this Gaming Authority were about to deny these individuals a license. I argued that perhaps we shouldn't visit the sins of their friendships upon them, because they were entitled to justice, as the sign says, equal justice under law, and that there wasn't anything that could be proven about them that would indicate that they, too, were affiliates of organized crime.

The attorney representing those individuals said -- he took it a step further. He said that the individual with whom they were alleged to be associated was named Humanitarian of the Year in Las Vegas, and that he had received all kinds of awards and honors for his charitable activities. Well, the fact of the matter was that he only hurt his case by saying something like that, because my comment was that it is a sad commentary on the society of Las Vegas when a person whose picture should be on a post office wall in some other jurisdiction was lauded and given all of these awards and merits in the State of Nevada.

But that's the facts of life that we were dealing with in Las Vegas. And I remember in the school days children coming in who were my classmates and crying because their fathers had been taken away on some sort of mail fraud indictment under the Bobby

Kennedy Attorney General era.

So we grew up with this and we came to accept the fact that there was a mob influence in Nevada. These circumstances have now changed. Las Vegas is not the 50,000 population that we once had. It is 500,000. And there aren't 500,000 members of organized crime in Nevada. There are a lot of good people in Nevada that depend upon this industry for their lifeblood. I feel that if we take a look and see what we have done to correct the situation, the large companies coming through, the auditing controls that have been placed upon some of these organizations, the audits by reputable Big 8 CPA firms, the expansion of the regulatory system -- when I was there, there were 76 agents, now there are 350 agents, on the Gaming Control Board; the sophistication of the investigative process -- all of these things lend credence to the fact that there is an active effort to remove organized crime's influence. And the ten or twelve cases that are shown on the board from 1971 to the present represent an insignificant portion of what the actual activities of the gaming industry are.

I personally am somewhat offended when I hear statements by the Honorable Judge Kaufman saying

that he doesn't want to come to Las Vegas, and he echoes the words of Chief Justice Burger saying he doesn't want to come to Las Vegas. Las Vegas is a community which I think is a cross-section of America. It has a unique industry that has a lot of glamor and pizzazz, but nonetheless it has more churches per capita, its schools have been named in the top schools, and the people there I think are very fine people.

MR. HUNTERTON: Thank you. Momentarily we will move about 3,000 miles east, and go back to Director O'Brien.

We have a lot more track record in Las Vegas in terms of what casinos do for a community and don't do. What do casinos do for Atlantic City?

MR. O'BRIEN: The casinos are doing pretty much what was expected of them in the first place. As I said before, there are over 45,000 jobs that have been created that would not exist, did not exist, prior to the advent of casinos. In addition, the tourist industry has been revived and that was an objective of the drafters of the Casino Control Act. And now Atlantic City is the No. 1 destination resort in the country.

It has built up the surrounding area of

Atlantic City. There's small suburbs that are growing. The tax revenues, as I said before, have benefited the senior citizens and the disabled persons through lifeline type programs, by subsidizing utilities, real estate taxes, and the like.

There is another benefit that is intangible. There was a study done by the Eagleton Institute recently, within the past year, which was undertaken to try to judge the public response to casino gaming in New Jersey. And the poll that they took showed that people in New Jersey had a better self-image now than they did some time before, and in studying the results of the poll they attributed some of that anyway to not only having casinos, that wasn't the test, but it was that we undertook a tough task in the State of New Jersey and we did it well. And we did it well in terms of principally regulation, maintaining the integrity of casino gaming, which was promised to the people, and that it appears to have been an economic boon to the state. They are all the positives.

The one issue on which the jury is still out is whether or not the casino industry alone is going to rebuild Atlantic City, which fell victim to the same kind of urban decay as had many other urban centers.

There was a provision in the Casino Control Act that provided for this reinvestment contribution by casino entities that has just been revamped by new legislation. There has been created in New Jersey a Casino Reinvestment Development Authority, the members of which were just sworn in this week, and the membership constitutes a pretty broad cross-section of leadership in New Jersey: business, professional, and community interests. And it is hoped that through the efforts of that body the over \$1 billion that will become available to the community and to New Jersey over the next fifteen or twenty years will result in bricks and mortar in Atlantic City, so that the people of Atlantic City will see the results.

In my opinion, as of right now, it is those people that have suffered the most from Atlantic City, from the casino experiment, and not gained from it.

MR. HUNTERTON: Now, a follow-up to that: The casinos in Nevada produce something in excess of 40 percent of the state's operating revenue or tax base, and they exercise political influence in commensurate degree. I have read some estimates that project that at some point the casino industry may become the largest employer in the State of New Jersey. As you

have said, they already are generating 45,000 jobs.

As the influence of the casino industry in New Jersey grows, as its economic influence grows, as its political influence grows, how can you prevent it from whittling back and using its influence to soften your strict and, some would say, harsh regulatory system?

MR. O'BRIEN: Fortunately, Mr. Hunterton, the drafters of the Casino Control Act foresaw that problem. To a large extent our legislation is a result of the Nevada experience. We took the strengths that we saw from that system and incorporated them in our legislation, and conversely we saw the weaknesses that had arisen over the years and we tried to cope with them, and we did in this area by providing that there can be no political contributions made by licensees, either corporate or individual, to any state political campaign. That is black letter law.

We also provided for, and this seems harsh, but the act provided that licensees could not run for political office. That takes care of direct political contact by the people that are involved in gaming.

But, of course, we recognize that there are more subtle forms that are used to gain positions or

get into a position where there can be political influence.

MR. HUNTERTON: Henry Ford doesn't have to run for office or even contribute in order to affect the politics of Michigan.

MR. O'BRIEN: Exactly.

MR. HUNTERTON: That is the issue I would like you to address.

MR. O'BRIEN: Exactly. And it is timely that you raise that subject now, because we have sensed in the past few months a widening of activity by casino interests in the political sphere.

Just recently there was a recommendation to our state legislature that the budgets of the regulatory agencies be frozen. There are strong suggestions being made to people in government and to the public at large that the casinos are victims of overregulation.

Just in the past week, there was a bill docketed in the legislature which would repeal the provision of the Casino Control Act that prevents casino employees, dealers, from gambling in other Atlantic City casinos. This is the kind of political pressure that we as regulators are now facing.

I am confident that although these bills may be advanced and these positions may be articulated, that not only the present administration in New Jersey, which I am confident will see the folly of the ways that are being advanced, but so will the public. Because New Jersey presented casino gaming to the public with the idea that, above all, above any economic consideration, the integrity of the activity would be preserved. And every one of items that I just mentioned, such as freezing the budget, allowing dealers to gamble in other casinos where they don't work, and another issue that has come up regarding our access to computerized data -- these things affect the integrity of the industry and if allowed would impinge upon our efforts to regulate this industry in the way we see fit.

Also, there is a corollary to this, as I see it, and the corollary is that we are the best friends of the industry in terms of their seeking legitimization of their activity in the eyes of the public. I mean, when you consider that the major companies that we have attracted to New Jersey, the billion dollars or over \$2 billion that has been invested in Atlantic City, supported by the Wall Street

institutions, the conventional lending institutions, are all there because of the pervasive kind of regulation that we have imposed upon them.

So even though certain individuals in the industry may hoot and holler that we are getting involved in management prerogatives in running their businesses, I still say, and I think the legislature, the administration and ultimately the public of the State of New Jersey will buy the fact, that it is because we do the job the way we do it that it has been so successful.

MR. HUNTERTON: Mr. Silver, Tom O'Brien has a bigger budget and more agents to regulate eleven, until a week or so ago ten -- did you approve the most recent?

MR. O'BRIEN: Eleven.

MR. HUNTERTON: They are in now? He has more money and more agents to regulate the eleven casinos than the current control board in Nevada has to regulate approximately 1,900 licensees, of which 200 are considered major revenue producers. What kinds of things do you see, what sort of tools that a regulatory system like Nevada or any state considering legalized gambling, ought to have that they don't now have?

MR. SILVER: In Nevada we have a long history, fifty years plus, of gaming that was conducted with a rather loose system of regulatory control. And it's gotten more sophisticated as the needs of the industry and some of these federal cases have pointed out the desire to rid ourselves of what we consider to be a major problem.

The expansion of budgets has an insidious way of ballooning ad infinitum. It is like when you build a freeway and you have four lanes and you think it is going to last you until 1995, and as soon as you open it, it is already too busy to accommodate the traffic. I suppose you can do that with any kind of business regulation. If you have 500 agents, then you perhaps expand the areas that you are going to be looking into a little bit further.

The only problem with that is that there is a diminishing marginal return on the expenditures of government moneys to regulate an industry. And we have tried in Nevada to have some sort of a balancing act to look at some of the things that we felt were at least important as far as the image of the State of Nevada in keeping our industry free from corruptive influences. And we have taken this in a rather slow and methodical

way. Our current Control Board, I think, is following a very prudent course. We got additional manpower in this last legislative session, six of whom are earmarked specifically for that regulation regarding money laundering, and others to do some of the investigative backload. We have approximately a nine- to twelve-month wait on investigations of new licensees coming in, and it takes over a year to get any new gaming devices through the gaming laboratory. So both of these areas need to be improved. Because, as I indicated previously, in many cases where we have organized crime influence in casinos, it's ownership who are the victims and not necessarily the perpetrators. The perpetrators are individuals who are working in levels beneath ownership, who are attempting to secrete this particular activity from ownership as well. And those are the individuals that we have to place a greater emphasis on investigating, and other aspects that touch the casino operation, such as investigations of union activities.

Mr. Wynn indicated something regarding the culinary union and its chief who took the Fifth Amendment in front of the Congressional committee. And this was the union that played prominently in a major

strike in Las Vegas last year and also has been an ongoing area of concern with respect to the health and welfare benefits that the union has transferred back to Chicago. They raised the health and welfare benefits this last year, and one of the reasons for the strike was because of the fact that that health and welfare fund was literally bankrupt, and persons who had thought that they were covered under those funds found out that they did not have benefits that would cover even the most minor of illnesses.

The culinary international union couldn't explain why there wasn't sufficient moneys. The moneys that are sent back to Chicago from this union amount to something in the neighborhood of \$60 million a year. If there is an administrative fee or surcharge in the neighborhood of 15 or 20 percent, I am not exactly sure what the number is, that could be at least ten to twelve million dollars that would be taken out of the gaming industry through the gaming employees and transferred to other sources, if it is believed to be organized crime, perhaps to them.

These are some of the activities now that the gaming authorities are looking at and require additional assistance on, both from the state

legislature and from federal government.

MR. HUNTERTON: Mr. O'Brien, during the investigation of former Mayor Michael Matthews for corruption, during the undercover agents consensually monitored conversations with a Mr. Lentino, it became clear from the transcript, as they developed the H-Tract scenario, whereby the undercover agent was going to offer a bribe to get an inside track on a piece of property to build a casino on, it became clear that Lentino and, as he described it, on behalf of Matthews, although Matthews wasn't there, it became pretty clear that these two people thought they could pull it off. Lentino certainly would never be given a license by you, given his record and his associations. But he seemed confident, as one listens to the tape, that he would be able to get a "beard," if you will, and get a license. The question is a simple one: Could that happen?

MR. O'BRIEN: Well, let's for the record make one thing clear: that there was no connection whatsoever in the Matthews case with any casino licensee or casino interest.

MR. HUNTERTON: Right.

MR. O'BRIEN: And I think what you are

referring to are statements that were made on tape that represented Mr. Lentino's state of mind or at least what he was representing to the agent.

MR. HUNTERTON: Right.

MR. O'BRIEN: Now, to the question: Could it happen? I never say never, Mr. Hunterton, and that is one of the things that we go by in our business. We start with the premise that anything could happen. But let me tell you a little bit about what we do to see that it doesn't happen. We have got the toughest licensing provisions of just about any industry in the world. Our licensing provisions not only require complete qualification by the direct owners of a business that is seeking a casino license, but we go further than that. We get into stockholders, we get into bondholders, into any financial source, whether it be an institutional investor or a conventional lender. We have the right to make everyone in the chain submit to qualifications and be passed upon by our five-member Casino Control Commission. And that grant of a license requires four out of the five votes.

The burden in all licensing hearings is on the applicant to show good character and to show suitability and good business probity before that

license is granted.

Let me just go further. That licensing apparatus extends all the way through the system, through the casino employees and through the hotel workers, all the way to ancillary services that sell the produce and the meat and the linens and so forth to the casinos. And there is a strategy to that. The people who are involved in the gaming business, such as slot machine manufacturers and distributors, are held to the same qualification standards as are key employees or owners of casinos, whereas the other nongaming suppliers of goods and services have a lesser standard, but everybody comes under the aegis of the Casino Control Act eventually.

Besides that, we have a continuing monitoring of casino operations and, to a certain extent, hotel operations. We perform regular audits, so that if there are aberrations in hold figures, win percentages, that sort of thing, we can then study it a little bit further to determine whether or not there is money that is going into hands that are not licensed or not licensable.

What the effect of this has been is hard to say, except that we are satisfied that we have kept the

criminal element out of the ownership and the operation of the casino hotels, but we have driven the organized crime forces to the back door of the casino, where they now try to exploit the lesser standards of licensure in the ancillary service business.

We perceive these problems to exist in labor unions, although I am happy to say that we don't have a documented case in Atlantic City where there was an extortive attempt by a labor union with respect to a casino. We have found, obviously, substantial organized crime involvement in the junket industry, and of course we know that predated the advent of casino gaming in New Jersey. We have found organized crime involvement in rather mundane businesses, such as pushcarts on the street and that sort of thing.

But with the help of our state police and with good coordination with the federal agencies, with a very good channel of intelligence information which I feel is absolutely essential to control and monitor these kinds of activities, I think we have been very successful in keeping the thing that your question suggests out of Atlantic City.

MR. HUNTERTON: The last question, and I would appreciate it if you could react quickly, Mr.

O'Brien, to Mr. Silver's observation about the casino as victim of organized crime. What is your reaction to that?

MR. O'BRIEN: No question that the casino is victimized by organized crime, and we have documented cases in the area of credit where organized crime associates have manipulated the credit system for their own benefit. In most of the junket cases we find that the casino is the victim. The complimentaries that pour out of Atlantic City to a tune of over \$400 million a year is a system that can be exploited by organized crime. And the list goes on.

There have been cases where the casinos have been extorted, not necessarily by organized crime groups but by the criminal element at large. We have had the usual types of bomb threats; in one case the casino had to be shut down. That sort of thing goes on. But, again, I think we are successful in keeping ahead of them.

MR. HUNTERTON: Thank you. Mr. Chairman, that concludes the staff questioning.

COMMISSIONER McBRIDE: Are there questions from the Commissioners?

COMMISSIONER MANUEL: For Mr. O'Brien. I

would like to refer back again to the testimony of Mr. Wynn earlier today, and I would ask you, Mr. O'Brien: Were you in the hearing room when Mr. Wynn testified?

MR. O'BRIEN: Yes, sir, I was.

COMMISSIONER MANUEL: And let me ask you further, has your department looked into or investigated this Castelbuono laundering matter?

MR. O'BRIEN: Yes, sir, we have.

COMMISSIONER MANUEL: Are you familiar with the document that was introduced in our record, Exhibit 100A, which is a memo dated December 2, 1982, written to Mr. Shannon Byber by Mr. Carone?

MR. O'BRIEN: I am now, sir. I saw that memo recently.

COMMISSIONER MANUEL: I believe Mr. Wynn testified or alluded to the fact that this document was delivered to your department during the course of the investigation, and I would like you to comment as to when and if that document was in fact delivered to you or members of your staff.

MR. O'BRIEN: According to the review of the situation that I had cause to make just recently, it appears that that document first came to our attention in April of 1985. Now, the representations that have

been made here this morning, and according to the notation on the memo itself, would indicate that the document came to the Division of Gaming Enforcement at or about at the time that it was made. And that could very well be. It would seem odd to me that the document could not now be found in our files and that nobody that I have queried has knowledge of it. But I suppose that could have happened.

I would like to say this: Mr. Carone was the director of surveillance for Golden Nugget at the time. Mr. Carone was a fine law enforcement officer, and I valued his services and he was extremely helpful to us. It could have happened that he passed that document along to his counterpart with the DGE, but again it just seems strange to me that we could not locate it in any of our files.

COMMISSIONER MANUEL: It did not come to your attention until April of '85, is that correct?

MR. O'BRIEN: That's correct, sir.

COMMISSIONER MANUEL: Also, I would like for you to comment on Mr. Wynn's testimony that the money in question in this alleged laundering scheme was lost in fact in the casino, was played by Mr. Castelbuono and his associates and was lost; I believe that was his

testimony. I wonder if you could comment on that assertion and tell us whether it was possible to show that the money in question was actually lost.

MR. O'BRIEN: It would be impossible for us to verify whether or not the money was lost. We have no audit trails and there are none in the casino industry that I know of that would show the sporadic winnings or losing of a particular customer. Now, I have been provided with logs that suggest that the money was lost. They would be internal logs kept by the casino management. But having looked at those logs in other cases in the past and having talked to people who keep those logs up-to-date, I find that to be a very subjective process; that it is not a scientific procedure whereby every bet is recorded and every payback to the customer is recorded.

So while those logs may be valuable in indicating trends, I don't know how valuable they would be in assessing the activity of one particular customer at one particular sitting.

COMMISSIONER MANUEL: Thank you. I have a question for Mr. Silver.

Mr. Silver, recently the authorities in New Jersey rejected a license I believe for the Hilton

Corporation based on their finding regarding the association between Hilton and a consultant by the name of Sidney Korshak. Is that correct, Mr. O'Brien.

MR. O'BRIEN: Yes, if I may just qualify that.

COMMISSIONER MANUEL: Please. I don't want to misstate.

MR. O'BRIEN: That is accurate in the sense that one Commissioner out of the four that were sitting on that case -- that was Commissioner Jacobson -- decided against licensure on the basis of the Hilton relationship with Sidney Korshak and that relationship only.

The other vote by Commissioner Zeitz against licensing, it appeared from his statement on the record, was for an entirely different matter.

COMMISSIONER MANUEL: My question to Mr. Silver is -- and I know you are in private practice now and not in the regulatory scheme of things in Nevada -- would such an action on the part of the department and the regulators in New Jersey automatically trigger an investigation, an evaluation of your current license in Nevada, that is, the Hilton Corporation, for the same reasons that New Jersey looked at them?

MR. SILVER: I can't say, obviously, what the regulators who are currently there would do. I know that when this issue came up that there was some review of the entire Korshak situation, because, as I recall, there were letters that had been sent out to licensees in Nevada regarding this relationship, at least advising in an informal way that perhaps Mr. Korshak was not a suitable party to represent the interests of Nevada gaming and its licensees.

The problem that you have in any circumstance such as this is the proof relative to bringing some sort of disciplinary action. It is often very difficult. There are numerous changes within organizations, and there was no showing at least that any of these communiques from the gaming authorities had been received, as they were not sent out, I believe, by any form of registration or registered mail. I know that Mr. Korshak had an association with the hotel that I was involved with for a brief period of time, and that I caused that relationship to be ended as a result of my knowledge of Mr. Korshak and his activities.

Whether or not that would raise to the dignity of a violation that should cause a review of a license, only a regulator currently in that position

could make that judgment.

MR. O'BRIEN: Perhaps I could respond to that, Commissioner.

COMMISSIONER MANUEL: Please.

MR. O'BRIEN: I have met with Mr. Jacka, the present Chairman of the Gaming Control Board -- by the way, we in Jersey enjoy a close relationship with our counterparts in Nevada, and that relationship has helped both jurisdictions -- and they have in fact, and it is no secret, they have in fact commenced an investigation and have looked at our records and material in New Jersey to make their own assessment of the situation.

COMMISSIONER MANUEL: Very good. Thank you.

COMMISSIONER DINTINO: I would like to direct this to Director O'Brien. We have had testimony today concerning junkets, and basically it was a horrible story of how organized crime has been controlling the junket industry and has allocated territories throughout the United States and whatnot. I would like to hear from you, from your background, your expertise and your position, as to your recommendation as to the junket industry, whether you favor a junket industry, whether we should abolish it,

or is it important to the casino industry to survive.

MR. O'BRIEN: Commissioner, this is something that, as you know, we have been interested in for the past two, two and a half years. My first assessment of the junket industry was that it was so vast that it was virtually impossible for a state agency such as ourselves to regulate it. And then when we got into the horror stories, some of which you have heard, and how the junket activities impinge on casino operations, it didn't seem to me that this was the kind of activity that we should allow to continue in conjunction with casino gaming in New Jersey.

We have, therefore, besides the state police initiating prosecutions, investigations, now in the prosecutorial stage we have also presented evidence to our Casino Control Commission with the hope that if they agree, and if they see the problems as we see them, that there will be a severe tightening of regulations regarding junket activity.

Frankly, my view is that we don't need junkets, that junkets really are an aberration, that they started some twenty-five or thirty years ago out of Las Vegas at a time when the regulatory effort was rather thin, and that with the intrusion of organized

crime into this area we cannot allow them to happen. And I believe that my final recommendation to the Casino Control Commission, and hence to the legislature, is going to be that junkets as we know them today should be abolished.

COMMISSIONER DINTINO: While we are on the area of recommendation, we also had testimony today concerning credit and how organized crime gets involved in collecting markers for the casinos and whatnot. Would you have any recommendations in the credit area as far as casinos are concerned?

MR. O'BRIEN: Yes, I believe I would, Commissioner. Approximately three years ago I appeared before the New Jersey State Commission of Investigation and testified on the subject of casino credit. It was clear to me, after having been in my present position for a few months that credit was in fact the Achilles' heel of casino operations from a regulatory view. You see, casino credit is different than conventional credit, although some people would like you to believe that casino credit is handed out the same way as Master Card and Visa, and so forth, those kinds of credit, are handed out, when in fact credit is nothing more than an inducement to people to gamble. They provide instant

access to chips -- not cash -- to chips with which to gamble, and they do it on terms, the casinos do -- and they do it legitimately in both jurisdictions -- they do it on terms that are not only favorable to the patron but are competitive with each other. For instance, a casino can agree to hold the marker for up to 120 days in the State of New Jersey.

Now, we have recommended that that be slashed. My recommendation was that that be cut down to a regular business period like a few days, but the Commission has settled on a 30-day period.

We have found that there are so many abuses in this area that severe limitations must be imposed in the credit area. But when I look at it, if casino credit is to be used in the way it was designed, as an inducement to people to gamble and as a convenience to casino patrons, it's either got to be done in the way it was designed by the casino industry and done correctly, without abuse, and if it can't be done that way it should be eliminated. I frankly believe that the casino industry, at least in New Jersey, would have such a difficult time regulating credit to see to it that it was used for the purpose intended that it would not be able to be done and that the only option would

be to eliminate casino credit.

The trouble with that is, you get into a competitive situation with sister jurisdictions who would allow lenient credit.

COMMISSIONER DINTINO: One final question. You sat here this morning and you heard Steve Wynn very strongly say that the IRS and federal government were in error with the CTR cash transaction, or CRTs what do they call it?

MR. HUNTERTON: Cash Transaction Report, CTRs.

COMMISSIONER DINTINO: CTRs, Cash Transaction Report. What is your opinion concerning them, since you have had a couple of experiences?

MR. O'BRIEN: About six months ago we were asked to appear -- that is, the Attorney General, Attorney General Kimmelman, myself and Colonel Pagano -- before a Congressional subcommittee to discuss that subject. And we took this position, for the benefit of the Commission:

No. 1, that we recognized in New Jersey that money laundering was a problem;

No. 2, we were combating that problem on a state level, and we thought we were being reasonably

successful with our efforts;

No. 3, that if the federal government had their reasons why they needed the CTR provisions of the Bank Secrecy Act to apply to casinos, we certainly had no objection. It appears that we are still combating money-laundering activities in Atlantic City on a state level, and we will continue to do so, irrespective of the application of the Bank Secrecy Act.

But I don't see that the casino can be handled in the same way that a bank can be handled in terms of transactions. I think Mr. Wynn is absolutely right that what is being recorded is a rollover of funds that come and go through gambling activities. But I suppose that the jury is still out on whether or not there are going to be benefits. I think what we are going to end up with is going to be a ton of documents with information that will not be helpful to us from a law enforcement standpoint or a regulatory standpoint. If it is helpful to the Treasury Department from a revenue standpoint or a tax standpoint, that is something that I would really have no knowledge of.

COMMISSIONER McBRIDE: Any other questions?  
Very well. We want to thank you very much.

I would say, Mr. Silver, and perhaps Mr. O'Brien too, that I think any concerns you may have that the minds of the Commission or the Commissioners are made up on any issue should be disabused. One of the things we recognize strongly is that we are dealing here at this hearing with issues of gambling; more importantly, we are dealing with issues of organized crime. The relation between the two is often very complex or, conversely in some cases, nonexistent. Sorting all these things out is going to take us many more weeks of research, of examination, and of simply thinking about these problems, hopefully informed by data. In this field there are many who have strongly held opinions based on little data. We hope not to fall into that trap. We thank you very much for your attendance here and for your help to this Commission. That adjourns the hearing. Thank you.

MR. HUNTERTON: Thank you, gentlemen.

- - -

## CONCLUSION

The record of this hearing demonstrates that there is a continuing and self-perpetuating relationship between gambling and organized crime. Unlike illegal drugs, for example, which are in large part controlled by some form of organized crime and which are universally condemned, gambling is not an activity which is thought to be a harmful practice in and of itself, notwithstanding organized crime's persistent involvement. Much of what we have saw and heard in the three days of hearings lends credence to the view that gambling, legal or illegal, is considered to be a relatively harmless pursuit, with no serious negative effects on society or the individual.

The result has obviously been to make illegal gambling the "highest profit - lowest risk" business in which organized crime groups can involve themselves. No other form of illegal activity has a "profit vs. risk" ratio as attractive as gambling. Thus, so long as this situation exists, involvement of organized crime in gambling will continue, and law enforcement efforts in this regard will continue to have only limited success. The extent to which illegal gambling should be targeted, either as unacceptable per se or as a revenue source for other. . . organized criminal activities, and the priority to be given to any such targeting, is one of the more challenging subjects facing policy makers and law enforcement officials in the near future.

APPENDIX

STATEMENTS

PHOTOS  
and  
ILLUSTRATIONS

PREPARED STATEMENT  
JUDGE IRVING R. KAUFMAN, CHAIRMAN  
PRESIDENT'S COMMISSION ON  
ORGANIZED CRIME

Public Hearing  
New York City  
June 24, 1985

I would like to welcome you to this public hearing of the President's Commission on Organized Crime. Our previous hearings and interim reports have examined the ways in which organized crime has evolved in recent years. If there is one common theme that emerged from our work so far, it is that money is the life-blood of organized crime. As we discussed in our report on money laundering, criminal syndicates use their income to obtain influence and control over businesses and political institutions. A significant part of organized crime's income is derived from gambling, the subject of this week's hearing.

The importance of gambling as a continuing source of revenue for organized crime cannot be underestimated. Studies indicate that in the tri-state New York area alone, 1.5 billion dollars is spent each year on numbers games, sports, bookmakers, and other forms of illegal wagering controlled by organized crime. Moreover, organized crime's involvement in gambling is not limited to these illicit operations. As this week's hearing will demonstrate, criminal cartels continue to exert influence over casinos and other forms of legal wagering, through labor racketeering and sophisticated casino money laundering and skimming operations.

The Commission has been conducting an extensive survey of state and local law enforcement authorities. A preliminary review of this research indicates that in the view of state and local officials, gambling is a principal source of income for organized crime. Indeed, the data reveals that gambling is the largest single source of income for organized crime in the Northeastern United States. In other parts of the country, gambling is second only to drug smuggling as a source of income. These statistics must be considered estimates and viewed critically, because it is difficult to determine precisely the total amount of money wagered nationally.

It is clear, however, that gambling provides organized crime with the money it needs to flourish. Moreover, criminal involvement in wagering has other pernicious effects. There can be no more dramatic example of the corrupting and debilitating effect of organized crime's influence over gambling than the "fixing" of sporting events. As we will hear in testimony later today and tomorrow, organized crime continues to infiltrate college and other sports. The toll exacted by organized crime's involvement in gambling should be measured not in terms of dollars alone, but in the loss all society feels when sports which many look to for inspiration are perverted by criminal cartels.

Today's testimony will explore the scope of gambling in the United States; the extent of organized crime involvement in this

activity today; and the changing nature of criminal syndicates' illegal gambling operations in different regions of the country.

We will also hear from law enforcement experts who will discuss current strategy and assist the Commission in devising new approaches to combat organized crime.

In recent years, jurisdictions throughout the country have expanded the availability of various forms of legalized gambling. This has, of course, occurred in the New York area with the establishment of legalized lotteries and with proposals for instituting other forms of legalized wagering in New York. The Commission will be concerned at this hearing and in its recommendations in alerting local governments to the ways in which organized crime is able to infiltrate, exploit, and profit from legalized gambling. Our goal must be to devise ways to prevent the criminals from sharing in the profits from gambling--legal or illegal.

STATEMENT OF COMMISSION INVESTIGATOR

RAY MOLLENHOFF

Mr. Chairman and members of the Commission

Before calling the first witness, I would like to briefly explain the nature of today's testimony. As you have previously observed, Mr. Chairman, the Commission's mandate from the President is to propose policy recommendations for consideration by Federal and state governments and the private sector. In the course of developing the information for this hearing, we have learned that producing these recommendations in the area of gambling will be particularly difficult.

During the next three days, the staff will present a series of specific case studies which illustrate how organized crime infiltrates, influence, or controls gambling in America. We will focus on both legal and illegal gambling because criminal organizations have exercised significant influence in both areas, since the days of Lucky Luciano in New York, and Bugsy Seigel in Las Vegas.

Historically, illegal gambling's largest revenue producers have been—sports bookmaking, the daily numbers lottery, and the clandestine casino. Just as the allure of illegal wagering reaches across all ethnic and regional boundaries so does its attraction as an organized criminal enterprise. Our nationwide

survey which you discussed, Mr. Chairman demonstrates, and these hearings will confirm, that illegal wagering networks remain a significant mainstay of organized crime revenue - revenue which supports and compliments other criminal enterprises. For example, this survey of over 500 law enforcement agencies has so far established illegal gambling as the fourth most frequently identified activity of organized crime, behind the three major drug categories. Combine those drug categories and illegal gambling jumps to number two. It should be noted that among the illegal gambling revenues, sports betting is number one.

Our initial witness today will review the state of gambling in America. We will then move on to close-up examinations of a clandestine casino operation, a large scale number racket and a thriving bookmaking operation.

Ironically, these examples, at first glance resemble some old worn snap shots from the days of Elliott Ness and speakeasys. They are not, however, "last years news" or even "last weeks news". The operations we will describe are, as we sit here this morning, accepting bets, paying off wins, and of course, profiting from the losses.

The resources needed to police and regulate legal gambling activity reflect the unyielding, and sometimes successful attempts, by organized crime "families" to control, influence, extort, and flourish within these wagering oases.

All of elaborate enforcement mechanisms, licensing requirements, and intended statutory protections erected as barricades have not precluded footholds by organized crime in these industries nor certainly the ancillary businesses, service companies, and trade union surrounding them.

In the case histories we will present tomorrow and Wednesday for this segment, we will discuss the vulnerabilities of two casino regulatory models - Las Vegas, where we'll review the modern history of LCN involvement with casinos - and Atlantic City, where we'll hear first hand about an undercover sting operation that discovered the existence of direct municipal corruption and manipulation by an organized crime family in attempts to acquire direct control and then benefit through a "hidden interest" in a proposed casino.

In conclusion, it should be noted that organized crime's role in gambling - legal or illegal - is unlike most other criminal ventures in one specific regard - the public's perception of gambling conjures up a benevolent image; unlike narcotics trafficking, extortion, prostitution, public corruption and the many other faces of the mob. Unlike these enterprises gambling generates "high profits", but with "low risk" of apprehension conviction or incarceration.

Some of our survey information fits the measure of the traditional law enforcement view - some does not. With that in mind we began in this hearing and our evaluation of those views to better assess what we really know about contemporary organized crime and gambling.

Thank You

TESTIMONY OF  
JEROME H. SKOLNICK  
TO  
THE PRESIDENT'S COMMISSION  
ON ORGANIZED CRIME

June 23, 1985

New York City

\*Jerome H. Skolnick is Professor of Law  
(Jurisprudence and Social Policy)  
University of California, Berkeley  
and author of House of Cards  
Legalization and Control of Casino Gambling  
(Boston: Little, Brown and Company, 1978)

You are here to consider the relationship between gambling, organized crime and public policy. Some policy issues cut across all gambling forms. Others address particular forms -- lottery, casinos, sports betting. I want to raise with you both issues that cut across all forms of gambling, and issues relating to individual forms that I hope will clarify your deliberations in this important area. My problem is going to be how to tell you everything you always wanted to know about gambling but were afraid to ask -- in only 20 minutes.

The first cross-cutting issue is the popularity of gambling. A reformed gambler named Jonathan Green wrote in 1857 that "the sin of gambling against which my present efforts are directed, is as great and widely spread as any which at this time exist among us. Scarcely any class of our people are totally exempt from the effects of this deplorable evil." By anyone's observations, the popularity of gambling can hardly be said to have diminished since 1857. The National Commission on Gambling found that Americans wagered more than 17 billion dollars in 1974 on lotteries, horseracing, bingo, legalized numbers and casino games in more than 40 states that then permitted one form or another of legal gambling. Uncounted billions are illegally wagered on sporting events, horseraces, numbers, and floating crap games.

Why gambling is so popular is hard to pin down. The distinguished sociologist, the late Erving Goffman, studied casino gambling and wrote an essay called "Where the Action Is." Gamblers call making a bet getting down some action. Gambling seems above all to offer self-interested recreational involvement. A \$10 bet will keep a Chicago fan from turning off

Let me contrast the lottery to other forms of gambling. First, people bet relatively small amounts. Their chances of winning are very remote but they seem to enjoy the excitement of the dream and the drawing. There is no way your everyday working stiff is going to be a multi-millionaire. A lottery offers a form of instant social mobility otherwise unobtainable in this society.

Secondly, the lottery provides an alternative to taxation for useful public works such as schools and roads. Taxes are by definition not voluntary while the lottery is.

Third, the lottery appears to have only remote connections to organized crime. In theory, legal lotteries can replace numbers, which have been a traditional source of gambling income for organized crime. The replacement effect is a complex topic requiring a combination of economic and socio-cultural research.

To my knowledge, numbers were never important in California. The complaint has been made in California, however, that the company which will produce the machines for the lottery had organized crime roots in the production of gaming equipment when gambling was illegal. The public in California wasn't very impressed by that argument against introducing a lottery. The reason, I think, is that the connection between organized crime and the lottery seems remote.

Let me turn to casino gambling and horseracing. These perhaps enjoy somewhat less public acceptability than the lottery, but these are nevertheless by now widely accepted activities.

One concern widely expressed about casinos and horse racing

a televised game between Miami and San Francisco. That's why Jimmy the Greek is hired to be a football commentator, to explain odds, to facilitate betting -- to keep the T.V. sets turned on, and the Nielsen ratings turned up.

Gambling has become even more popular during the past decade -- since the National Gambling Commission's report. The lottery has been legalized in a number of major states including most recently my own, California. Governor Deukmejian opposed the lottery and so did most law enforcement authorities within the state. Usually, they are persuasive with the voters. In this instance, they were not. Clearly, gambling is not perceived as a deplorable evil by an overwhelming majority of Americans.

The morality of gambling is a complex topic. Many churches -- usually Protestant sectarian ones -- still continue to forbid gambling by their parishioners. They are part of a puritan tradition which flowered in this country in the nineteenth century. It is wrong in this tradition to earn a reward without hard work, thrift and productivity. Even the lottery is perceived as morally wrong. But the lottery is a form of what I call shallow play -- as opposed to deep play -- a term originally used by Jeremy Bentham and which I will explain in a moment. Shallow play is simply the mirror image of insurance. In insurance everybody kicks in a certain amount to benefit somebody who sustains a loss they couldn't afford to handle themselves. In a lottery, everybody kicks in a small amount and then a winner is selected by chance as a beneficiary. The lottery is simply a legal form of the numbers or insurance racket.

is that they permit, even encourage heavy wagering. One ordinarily bets a dollar or five on the lottery; but some bettors bet their bottom dollars, their house and car and kid's savings at casinos or racetracks. Some borrow from loansharks to pay gambling debts -- and in the process support a major and traditional organized crime activity.

Heavy betting -- deep play -- was considered immoral by 19th century legal philosopher Jeremy Bentham because, he argued, the pain of losing your last thousand pounds was less than the pleasure of adding a thousand pounds to the one you already had. Deep play was a concern of Bentham's because it is part of an aristocratic tradition dating back to the 16th Century. Aristocrats, characteristically gambled for large sums. It was as important for an English nobleman to know how to play cards or handle dice as it was to dance or ride a horse. The capacity to gamble heavily may be a mark of social status. Indeed, the Gambling Act of 1710, which made gambling debts unenforceable, was intended to protect the great estates of England from the ravages of gambling. Queen Anne was herself a heavy gambler.

Gambling also can lead to compulsive gambling -- a second kind of moral issue. This issue is especially interesting regarding gambling, because, unlike alcohol and other drugs, compulsive gambling does not result from a change induced by an external chemical. After years of studying deviant behavior, I have come to believe that addictions derive at least as much from personality predispositions as from the activity itself. Most of us won't become compulsive gamblers or drinkers, even though we

all enjoy that opportunity. An important issue for this Commission is -- where legalization of alcohol, gambling, perhaps other drugs occurs -- how can we facilitate moderate or non-use rather than compulsive activity?

Another policy issue affecting gambling and organized crime is the inconsistency of public policy regarding gambling. It is hard to caution young people not to use marijuana when their elders drink alcohol. A similar problem is encountered regarding gambling. It is difficult to control illegal sports betting in a society that permits casino gambling, horseracing and lotteries. One evident price is the creation of structural support for organized crime. Where sports betting is illegal, organized crime must flourish -- with accompanying side effects such as the corruption of police and other authorities.

Another issue this commission should address is the proper role of government and public policy with respect to gambling. Again I should stress that each gambling form may involve special policy issues. Still, regarding each gambling form we should ask the following questions: What is the goal of government policy? What are we trying to achieve by our three main governmental options -- prohibition, permission, promotion? Do we approve of the situation we've created? and finally: What can be done about it if we don't.

Let me use the lottery to illustrate: The lottery is usually established for the purpose of raising revenues. As a result, the government becomes involved in promoting, in creating a demand for the activity. Justice Louis Brandeis wrote, "our government is the potent, omnipresent teacher. For good or for

ill, it teaches the whole people by it's example." Is it consistent for the same government that is supposed to promote literacy, the environment, and public health and safety also to endorse gambling?

If it is argued that the government is using the revenue produced by gambling to promote salutary activities, e.g. education, the question remains whether the revenue is produced fairly. The lottery has to be regressive in the following sense. Poorer people are likely to bet proportionately more than richer people, largely motivated by the dream of riches.

Let me say again that when you think about gambling, organized crime, and what the government should do about it, you must first consider the goals of legalization. In Nevada, casino gambling was legalized to raise general revenue. Nevada began seriously to control casino gambling only after the Federal government forced control with the first strike forces during the Kennedy administration. As a result of Federal pressure Nevada forced its more infamous gangsters out of the casino business, but that wasn't easy. Somebody needed to buy the casinos. Howard Hughes performed that function for the state. Whatever his flaws, he wasn't organized crime. In the 1960s respectable corporations did not want to touch casino gambling. The problem for the state of Nevada was to transform the stigmatized industry into something that would attract legitimate lenders and entrepreneurs. That was difficult.

When I first started studying legal casino gambling in Nevada in 1974, I was told that organized crime was out of it.

Indeed, the head of the Los Angeles strike force so testified before the National Commission on Gambling. But organized crime was not out of Nevada at that time. During the next few years scandals were to emerge about the relationship between organized crime interests in several casinos. There is a revealing conversation between crime bosses Nick Sevilla, Carl Sevilla and Carl De Luna and casino executive Carl Thomas where he teaches his LCN bosses how to skim casinos.

Casinos that were infiltrated by organized crime were financed by the Teamsters Central States Pension Funds. When I came into Nevada 10 years ago the Teamsters Pension Funds held a quarter of a billion dollars worth of mortgages on Las Vegas casinos. These casinos were vulnerable to LCN infiltration. As the casino industry has expanded, and particularly as financing has been able to be obtained by conventional legitimate lenders, the threat of organized crime control has diminished considerably. Moreover, as the casino industry has expanded more and more people have learned how to run these complex gambling palaces. In the beginning, virtually the only people who knew how to run casinos were organized crime connected. But that is changing.

When New Jersey legalized casinos it did two things that were different from Nevada. One, it tightened up controls; and two, it changed goals. It did not institute the casinos for purposes of raising general revenues. Its purpose was to rejuvenate the economy of a failing resort area. I don't think that any other state in the U.S. can or should consider the Nevada model. Even Nevada doesn't like its dependence on casinos

for general revenue.

The New Jersey model is more tenable although it has its own problems. One is the relation between politics and the adequacy of casino licensing as a regulatory device. New Jersey promised casino gambling in the summer of 1978. It became clear in early 1978 that the major active applicant, Resorts International, a company whose affiliation with gambling in the Bahamas had in the past attracted federal scrutiny, could never be licensed in time for gambling to begin in the summer of 1978. The New Jersey authorities were caught on the horns of a major dilemma -- how to reconcile the political imperative to bring casino gambling to Atlantic City quickly, with the assurance of a lengthy detailed investigation of an applicant. The problem was solved by offering Resorts a temporary license. It was, however, clear to outside observers that the temporary license virtually guaranteed a permanent one. Thus, it did not matter that the Division of Gaming Enforcement recommended against giving Resorts a license. They got it anyway. The power of the industry within the state, particularly within the legislature, is one of the limits of the regulatory process. In Nevada, the Gaming Control Board is always caught between two purposes. One is to control the industry. The other is to protect it because the state depends upon its revenues.

Other states are now considering legalization of casinos -- or for that matter other forms of gambling. My advice to them and to you very briefly is this: first decide on goals. Do you want to legalize? If we're talking about casinos decide via a

blue ribbon commission how many casinos are desirable for the state and where it is most desirable to have them. Stick to that plan. I am opposed to having casinos in big cities. Gambling and work don't mix well. I don't think most working folk can handle slot machines for lunch. I also think it is important that when people gamble they should have the opportunity to make a conscious decision to do so. A trip to where the gambling is requires a conscious decision. We should at least give the gambler that break.

Second legalization should maximize control both as goal and as reality: in my opinion, both Nevada and New Jersey employ an inadequate licensing procedure. If the state really wants to control, it should assert something like this. We want to license two casinos in Resort Area A. We will accept applications detailing what these casinos will look like, who will run them, and what their impact will be on the environment. The state should be in the position of selecting the position of the outstanding applicant. It would not have to show, as it does in Nevada and New Jersey, that the applicant is somehow unqualified. In both of these places a burden is in effect placed upon the state to prove the the applicant is unqualified. It will be much better for control purposes if the applicant had the burden of proving why it is the best.

Perhaps our most difficult question today involves the relation between organized crime and sports betting. We know that billions of dollars are spent annually on sports betting. Accordingly, we know that bookmakers must be thriving in every city of the United States. We know that if bookmakers thrive

illegally, we are promoting an underground economy. It doesn't pay its fair share of taxes; and it has to corrupt police and public officials. I have so far discussed -- with regard to casino gambling -- two reasons for legalization. One is revenue raising and the other is resort renewal. But there is a third rationale for legalizing gambling. I think that the most important and legitimate reason a government has for legalizing this activity is to control gambling and to control those who are purveyors of gambling. That is, given the frank recognition that the activity is socially acceptable -- enough to be widespread and to encourage organized crime -- the government should legalize primarily to control. If we were to legalize sports betting, revenue raising should be a distant consideration. England legalizes casinos not to raise revenue, not to renew resorts, but to keep organized crime out of the casino business. England legalizes bookmaking for the same reason. Sports bookmaking could be legalized in this country -- if done properly. It would have to be able to compete with illegal bookmaking via phone betting credit arrangements and perhaps no tax on winnings.

The effect on amateur sports and sport corruption is a problem. But it is hard to see how legalization would make it worse. If it were legal, you would know who the big legal betters were. Besides amateur sports corruption has been around a long time. I graduated from C.C.N.Y. in 1952. My sophomore classmates won the NCAA and NIT basketball titles in 1950. In 1951, several were caught shaving points and dumping games. I

was managing editor and editorial writer for City College Ticker. It was apparent to the 19 year old me that the hyped-up atmosphere of big-time Madison Square Garden basketball could not contribute to the moral development of 19-year olds from New York city streets. Sure, I felt the players were responsible for their crimes. But I also felt the college administration bore a heavy share of the responsibility. I still do. Putting these young guys from inner city playgrounds in that situation was like sitting them down in a bar after the game and telling them to turn down any free beer that might be offered.

In conclusion, my own perscription for legalization of gambling -- and of vice in general -- is that we too often address the wrong question. The question we want to address, I respectfully suggest, is not whether we should legalize, but rather -- if we do, what goals should we try to achieve? In my opinion, our highest goal should be the suppression of the substantial benefits organized crime receives from prohibited activity. I would look to legalization as a way of undercutting these benefits -- and I would certainly oppose advertising or promotion by government. I would always distinguish between non-prohibition as a policy for control vs. promotion to enhance revenue. As a student of gambling and government, I would strongly recommend favoring legalization for control and just as strongly oppose legalization for profit.

Thank you.

Profile  
Jose Miguel Battle, Sr.

Statement of  
Anthony Lombardi

A comprehensive review of the files of various federal, international, state and local law enforcement agencies, and independent investigation by the staff of the Commission, clearly reveals the existence of a tightly knit, well financed, armed and powerful group of Cuban racketeers known as "The Corporation." These individuals are sometimes CIA trained and anti-Castro sympathizers that had taken part in the Bay of Pigs invasion.

As has been the case with other criminal groups including the Mafia, the Japanese Yakuza, the Chinese Triad Societies and Vietnamese gangs, The Corporation traces its roots to violent, political upheaval in another country. When these counter government movements were no longer able to influence decisively political events in their countries, some of their members turned to crime as a way of life, capitalizing on long standing organizational ties and methods of operation. Many continue to

fly the "false flag" of liberation as a means to mask their purely criminal activities and to attract new recruits. The Mafia no longer uses this pretext upon which to operate, having become so completely assimilated as to be considered the preeminent "All-American" crime group.

The emergence of Cuban organized crime with its power centered in the areas of gambling and narcotics, began shortly after the unsuccessful Bay of Pigs attempt to wrestle back their country from Fidel Castro's control.

Mr. Chairman, members of the Commission, the evidence which you are about to hear represents the first effort to develop a national picture of the Cuban organized crime group known as The Corporation.

As you will hear, the gambling operations of The Corporation begin with storefront policy spots run by policy writers. The daily take is transported by pickup men to super pickup men who, in turn, deliver to corporate headquarters in New York City. From an average weekly take of \$7000, each spot generates \$3000 - \$5000 in profits. Seized records reflect a weekly gross take of over \$2 million for The Corporation. From this information, which will be presented in more detail, we extrapolate that "The Corporation" earns a minimum annual net profit of \$45 million from New York City gambling operations alone.

The analysis of the Jose Battle group, known as The Corporation, was pursued by the staff for two primary reasons:

First, in response to the President's direction that the Commission define the nature of emerging crime groups, the sources and amounts of organized crime's income and develop in-depth information on the participants in organized crime networks, and

Second, to serve as a case study which might answer a question posed by a consultant to the President's Commission on Law Enforcement and Administration of Justice in 1967, as follows, "What market characteristics determine whether a criminal activity becomes "organized?"

This question was posed by Thomas Schelling, a professor of economics at Harvard who went on to say:

We should distinguish - within the organized underworld itself-between the organized economy within which criminal business operates and the highly organized criminal enterprise, in particular the monopolistic enterprise. Only some crime is organized in the second sense, in large-scale continuing firms with the internal organization of a large enterprise, and in

particular with a conscious effort to control the market. Gambling syndicates qualify for this category.

The Corporation, as its name implies, has a chairman of the board driving this expanding organization by means of violence, and accomodation with the Mafia to corner a large segment of the numbers market in the New York City and Northern New Jersey areas. The chairman of the board, the person who controls this nationwide Cuban organized crime operation, is Jose Miguel Battle, Sr., also known as "The Godfather."

Profile of Jose Miguel Battle, Sr.

Jose Miguel Battle, Sr., was born in Cuba on September 4, 1929, and is known also as Jose Miguel Batle-Vargas (the name he used in Cuba); Miguel Blasquez, Rafael Franco Tesano, "Don Miguel," "El Gordo," and a series of other names which will not

be disclosed here as to preserve future options for law enforcement.

Battle, a former Havana vice cop who also served in Battista's army, was a member of Brigade 2506, the Bay of Pigs landing group. During Battista's reign, Cuban gambling casinos were influenced by U.S. underworld figures including Meyer Lansky and Santo Trafficante, head of a La Cosa Nostra Family in Tampa. After the failure of the invasion force, Battle was made a lieutenant in the U.S. Army by an act of Congress, then returned to the Miami area and became deeply involved in the establishment of this country's first Cuban controlled gambling operation. His organization has grown steadily with the migration of the Cubans to other areas of the country. Battle is noted for his organizational genius and toughness, but his empire expanded initially mainly through police and political corruption.

Battle moved to Union City, New Jersey in the late 1960's and established his gambling operation in the Northeast, with the help of traditional organized crime members, such as, Joseph "Bayonne Joe" Zicarelli and Santo Trafficante. Battle soon became the Cuban Godfather mainly by taking over existing policy operations by means of homicides and arsons.

It is believed that in the early 1970's, the Battle gambling operation established a strong foothold in the New York City area. Policy operations sprung up in almost every Cuban or Spanish bar or bodega. The success of the Cuban gambling operations did not go unnoticed by elements of La Cosa Nostra operating in Northern New Jersey. The result was a kind of mutual assistance pact between "The Corporation" and La Cosa Nostra whereby "The Corporation" paid a percentage of the action and laid off some bets with Mafia. Zicarelli and James Napoli,

identified by the New York City Police Department as a "Capo" in the Genovese Crime Family, were instrumental in negotiating this alliance.

In New York, as in New Jersey, a "marriage" had to be made with the already established organized crime faction, the Mafia. You will hear that there have been reported meetings between Battle, and various members of New York organized crime families of La Cosa Nostra such as Carmine and Sonny Lombardozzi, and that as in New Jersey, "The Corporation" pays tribute to the Mafia in New York City.

Major legal problems confronted Battle as early as 1970, when he was indicted by a federal grand jury for interstate and foreign travel in aid of a racketeering enterprise. Battle pled guilty and, after being sentenced to 18 months on these charges,

filed the country and resettled in Madrid, Spain under an assumed name. While in Madrid, Battle lived in luxurious circumstances and was seen at social events at the Venezuelan embassy. Although in hiding, Battle continued to control his New York/New Jersey gambling operation by employing a secret courier service which entered the United States via Miami or Canada.

When he attempted to return to the United States in September of 1972, by way of Costa Rica, Battle was arrested by the FBI at the Miami Airport on the outstanding fugitive warrant, and eventually was to serve 13 of the 18 month criminal sentence previously imposed.

In December, 1974, Battle was again arrested, this time by the Union City Police Department for carrying a concealed weapon. At this time, there were serious corruption allegations

concerning this department. The Union City Mayor, at that time was William Musto who was later convicted on federal extortion charges. Battle's weapons case was transferred to the federal court system.

The federal gun charges against Battle were put on hold several times, pending the outcome of a Florida State indictment charging Battle with first degree murder and solicitation and conspiracy to commit murder. These charges stemmed from the Miami homicide of Ernest Torres, a former trusted ally of Battle.

On December 16, 1977, Battle was found guilty by a jury on the solicitation and conspiracy to murder charges, was sentenced to thirty years in jail, but the conviction was reversed on appeal. On June 19, 1978, After serving 18 months, Battle was tried in federal court on the weapons charges. He was

found guilty and sentenced to an additional four years to run concurrent with the state time. Battle then pleaded guilty to conspiracy to commit murder, was given credit for time served and was placed on a 33 month probation.

Summary of Battle's Criminal History:

From an analysis of records obtained from the States of Florida, New Jersey, and New York, it is evident that Jose Miguel Battle, has been involved in criminal activity dating back to 1969. Although these are the facts, Battle managed to escape any serious imprisonment, serving only a total of 31 months in jail; 13 months for the 1970 gambling conviction, and approximately 18 months on the conspiracy to murder.

Jose Battle, Sr., - Personal Holdings and "Corporation" Assets

The Corporation has evolved to the point that it has a firm foothold in legitimate businesses. Although Battle himself has a conservative amount of property in his own name, he controls an criminal enterprise, whereby he is able to steer the course of millions of dollars in disclosed as well as hidden assets.

The Corporation, which Battle, directs must be conservatively valued at an estimated several hundred million dollars with an endless, substantial cash inflow. Among these assets are the Union Management and Mortgage Company; the Union Finance Company; the Union Financial Research Company, Inc; Union Travel and Tours; and El Zapotal Realty Incorporated, all in South Florida. The Commission staff has obtained information that the Battle "Corporation" owns and/or controls interests in

domestic and foreign financial institutions, and has large real estate holdings.

Several key members of The Corporation moved to Florida in 1982. Battle and his associate Abraham Rydz applied for Florida drivers licenses one day apart on April 21 and 22, 1982. During the seven month period from August 31, 1982 through March 30, 1983, Battle, his wife, son and Rydz purchased various real estate for \$1,115,000, of which \$805,000 was paid in cash.

#### Money Courier System and Seized Funds

The Commission staff has also been able to develop evidence of a courier system of money transfer from New York and other areas of the country to The Corporation in South Florida. On at least two documented occasions, shipments of monies intended

for Battle in Florida were seized by enforcement authorities.

For example, you will hear a witness testify that on April 8, 1983, Jose Battle Jr., the subject's son, and Abraham Rydz, a trusted Battle associate, were detained by the New York Port Authority Police after resisting the search of carry-on baggage while boarding a domestic flight to Miami. After some resistance, both individual submitted their luggage for inspection, wherein \$439,000 in U.S. currency was found wrapped in a gift boxes. Both Battle Jr., and Rydz denied ownership in the currency, and only would indicate that they were vice presidents of Union Financial Research Inc. in Miami, Florida.

In another similar instance, on December 3, 1984, the British Customs authorities detained several key Corporation associates including Humberto-Davila Torres at London's Heathrow

airport. They were found to be in possession of \$450,000 in U.S. currency. Their itinerary included Nassau, Bahamas; Geneva, Switzerland; Malaga and Madrid, Spain; and return to Miami.

Personal property, businesses and cash seized from members and associates of The Corporation totaling approximately \$43 million as reflected on this chart, give some small measure of the economic power of "The Corporation."

#### Money Laundering

You will also hear that The Corporation has laundered millions of dollars in illegal revenues through financial institutions and the Puerto Rico Lottery.

The Commission staff has been able to determine that the Battle group exerts a strong influence and control over several financial institutions in this country, as well as several alleged foreign-based entities. The laundering of illegal funds is facilitated by the complex web created by The Corporation's financial holdings in mortgage and lending companies and through real estate ventures.

You will hear an insider tell of The Corporation's policy operation and explain, how a financial institution was the recipient of huge amounts of illegal monies of which The Corporation had to dispose.

Records of the Department of Agriculture disclosed that redemptions of food stamps from bodegas in Northern New Jersey by this financial institution, the largest redeemer of food stamps

in the United States, were in excess of \$10 million in one year. In contrast, Citibank, with 250 branches in New York City collected 7-8 million in food stamp redemptions in one year.

### The Puerto Rican Lottery

The Corporation used an apparently unique technique in its continued attempt to launder monies. This technique involved the utilization of the Puerto Rican lottery. Basically, The Corporation would let it be known that they were willing to purchase winning Puerto Rican lottery tickets, for an amount greater than the amount provided by the winning ticket.

This technique surfaced in a government undercover operation relating to federal money laundering offenses called Operation Greenback - Puerto Rico. This was a cooperative effort by the

Internal Revenue Service, the U.S. Customs Service, and the Drug Enforcement Administration.

On June 6, 1985, sixteen persons were arrested in Puerto Rico. Eleven of these individuals were present or former bank officials. IRS Special Agent Manuel Ramirez, from Albuquerque, New Mexico, played a pivotal undercover role in the operation.

On May 10, 1984, at the Palace Hotel, Isla Verde, Puerto Rico, Special Agent Ramirez was introduced by another IRS undercover agent to Guillerino Rivera Guerrero, to whom I shall refer as Rivera. Agent Ramirez told Rivera, who was a branch manager of the Western Federal Savings Bank, that he was from New Mexico and was in Puerto Rico to launder drug money for various narcotics trafficking.

Rivera then described other members of the bank's money laundering clientele - one of whom was known as the "Padrino" or Godfather. Rivera told Agent Ramirez that he works with two or three numbers racketeers that are involved in illegal sports betting on horse races. According to Rivera, one of his clients is a "Padrino" in the numbers racket, who also deals in drugs and travels a lot to New York. The "Padrino" launders his money in Puerto Rico and takes it to Costa Rico.

Rivera also explained how to launder money through the Puerto Rico lottery. Rivera told Agent Ramirez that the first step in laundering through the Puerto Rico lottery was to buy a winning ticket with the main objective being to move the money. Rivera offered to buy a winning ticket for Agent Ramirez and stated that he, Rivera, had a man named Ramon who had several lottery agencies. On June 10, 1984, Rivera told Ramon, the

insider man, that he wanted to buy a winning ticket worth over \$100,000.

From information received from various law enforcement agencies, and from a witness you are about to hear, the staff has been able to uncover evidence of similar activities in other parts of the country. For instance, in Texas, Oregon, Illinois, and Florida, there have been instances where The Corporation has been documented to have purchased winning lottery tickets for far in excess of their winning value. This technique is used to provide a legitimate source of income for Corporation members, who in turn, redeem the "purchased" ticket. These individuals who have no other means of legitimate income, are happy to pay the federal tax on their winnings, simply to legitimize their expenditures.

A confidential source of a law enforcement agency, independent of Operation Greenback - Puerto Rico and the witness about to testify here, who has personally met Jose Battle also explained, in further detail, the way in which The Corporation launders money through the Puerto Rico lottery.

The source has been told that all Puerto Rico lottery tickets sold in the United States are controlled by an organized crime group known to the Cuban community as The Corporation. At one time, the lottery tickets were transported from Puerto Rico to Miami via commercial airlines. However, in recent years, the tickets have been transported by special plane that leaves Puerto Rico for Miami on a weekly basis loaded with a large volume of tickets. The Corporation makes approximately \$14 million per week from the lottery sales. The lottery tickets are sold primarily in the cities of Miami, New York, and Los Angeles.

However, other small cities such as Houston and Tampa also have access to the tickets.

When you become a distributor for lottery tickets for The Corporation, The Corporation gives you detailed instructions as to what to do if you have a large winner. For example if a bettor from the Tampa area should win a \$125,000 prize, the Tampa distributor was to immediately notify The Corporation. The Corporation would then contact the individual and offer the individual \$150,000 for the ticket. The winner is told that if he travels to Puerto Rico to collect the \$125,000 then reports will have to be made to the Internal Revenue Service and the individual will only get a small portion of the winning ticket. The winners always take the \$150,000 offer. The Corporation then takes the ticket to Puerto Rico, cashes the ticket and pays the IRS the full amount of tax due. The source advised that this is

the way that The Corporation launders its money. The Corporation has so much money that its members are willing to pay twice as much in illegal money in order to obtain legitimate money.

The effect of The Corporation's use of the Puerto Rico lottery was to legitimize illegal gambling and narcotics proceeds as winnings from state sanctioned legalized gambling. An inquiry to the Puerto Rico Lottery by PCOC investigators disclosed no systematic means of identifying lottery winners, nor did lottery officials know where to find checks issued to big winners.

Mr. Chairman and members of the Commission, I would like to conclude with some preliminary conclusions to Professor Schelling's question about the conditions which permit monopolistic criminal

enterprises to develop, at least, in so far as The Corporation is concerned:

1. Competition is easily identified as storefront gambling operations do business openly. In contrast, narcotics traffickers operate in secret and feed a large market which is open to virtually all comers.
2. Once identified, competition is eliminated by violence, or else, gambling markets allocated by agreement with the Mafia.
3. Lack of consistent law enforcement pressure nationwide permitted the expansion of The Corporation's business under centralized control.

4. Centralized, reliable and quick communication, so essential to the success of any gambling operation, created the need for centralized control.

In the view of the Commission staff, Jose M. Battle, although known to some police authorities, has managed to slide through the net of law enforcement mainly because of his ability to operate behind the veil of The Corporation. We hope that in exposing The Corporation, law enforcement might be able to bring its chairman to justice and cause the dissolution of The Corporation.

STATEMENT OF

MARK VOGEL

My name is Mark Vogel. I am a Special Attorney of the Department of Justice assigned to the Chicago Organized Crime Strike Force. One of the geographic areas covered by our Strike Force is Milwaukee, Wisconsin, an area where illegal activity is dominated by the Balistrieri organized crime group, the La Cosa Nostra presently headed by Frank Balistrieri.

Over a period of many years, the Federal Bureau of Investigation gathered intelligence information and developed confidential sources of information inside the Balistrieri organization. This excellent work by the FBI developed a series of investigations concerning such diverse criminal enterprises as sports bookmaking, hidden control of certain vending machine businesses, extortion, and contract murder. These investigations resulted in the convictions of Frank Balistrieri, age 66, boss; Steve DiSalvo, age 65, underboss; his two sons Joseph and John and a number of other members of this criminal organization.

In 1977, the FBI investigation had proceeded to the point where an application for electronic surveillance was approved by the court on telephones at 2 sports bookmaking locations, one in White Fish Bay, Wisconsin and one in Milwaukee, Wisconsin. These Title III intercepts were begun on December 23, 1977, and continued through January 5, 1978, and developed evidence of a college and professional football sports bookmaking operation headed by Frank Balistrieri. The operation was run by a Salvatore Librizzi, with at least six writers or agents, as is

set forth in the organizational chart before you (run through chart for football 1977). Balistrieri used a "beard" in this operation. Richard Panella was used to layoff wagers to other illegal gambling operations and it was not known by other operators that he was Balistrieri's layoff man or "beard". The operation grossed an average of approximately \$10,000 a day with a single days gross as high as \$12,000.

In August 1978, a completely separate FBI undercover operation code named "Timbre" was begun with respect to the vending machine business in Milwaukee, Wisconsin. During this operation, undercover FBI agents became so accepted by Frank Balistrieri and Steve DiSalvo that they talked freely of their bookmaking operations including their control of sports bookmaking in Milwaukee and the problems they were having with the operation. Frank Balistrieri was dissatisfied with Salvatore Librizzi and wanted someone to run the operation who could be trusted. Ironically, Benjamin Ruggiero, a member of the New York Bonanno crime family recommended one of the FBI undercover agents as the man who could run the bookmaking operation for them.

On October 20, 1979, a separate Title III investigation code named "Bellwether" was begun at 3 locations in Milwaukee including John Balistrieri's office (Frank's son). These court ordered intercepts produced conversations relating to the same sport bookmaking operation but involved the 1979-1980 football and basketball seasons. The Bellwether investigation was expanded to

include coverage on telephones at two other locations utilized by Salvatore Librizzi in Milwaukee, Wisconsin from February 12 through May 8, 1980. Interceptions from this investigation further developed evidence of Frank Balistrieri's involvement in and control of the sports bookmaking operation involving Steve DiSalvo, Salvatore and Dennis Librizzi and at least 8 other writers or agents. (See organization chart).

On January 10, 1980, an extremely important conversation was intercepted between Frank Balistrieri and Salvatore Librizzi. In this conversation, they discussed collections from bettors, football game action and then began to discuss the upcoming basketball season. Librizzi asked Balistrieri to allow a 4-way partnership in the basketball bookmaking operation with Balistrieri the boss, Peter Picciurro, a partner who would bankroll the operation, and with Librizzi and his brother Dennis actually running the operation. Balistrieri gave his OK but expressed a concern that they might get caught because basketball goes everyday. Librizzi stated he would rent an office and not to worry.

Balistrieri then explained how remote telephones with a 3,000 foot range work. The phone rings - the office for the operation is next door or across the street and you answer it from there. Consequently, when government agents raid the phone location, they get nothing. Balistrieri stated he already had 10 of these phones and they cost \$1,000 a piece.

Play tape at hearing.

Balistrieri's operation during the 1980 basketball season grossed an average of approximately \$11,000 a day with a single days gross as high as \$24,000. In order to obtain the daily line, either Salvatore or Dennis Librizzi called Doc's Enterprises daily at (608) 643-4242 using the alias Bill Fisk.

Search warrants were executed on a number of locations including Frank Balistrieri's home where betting slips in Salvatore Librizzi's handwriting and one also bearing Librizzi's fingerprint, were seized from his bedroom nightstand. These records disclosed that Balistrieri's 1979 football bookmaking operation grossed an average of approximately \$10,000 a day with a single days gross as high as \$47,000.

After a lengthy grand jury investigation involving the FBI and IRS, which other attorneys of the Chicago Strike Force and I headed, the grand jury in the Eastern District of Wisconsin on August 18, 1983, returned an 11-count superseding indictment charging Frank Balistrieri, Steve DiSalvo, Peter Picciurro, Salvatore and Dennis Librizzi, and Carl Micelli with conspiracy (18 U.S.C. §371), operation of an illegal gambling business (18 U.S.C. 1955) and failing to file certain wagering tax forms (26 U.S.C. 7203).

On October 9, 1983, after a 6-week trial, Frank P. Balistrieri, boss of the "outfit", Steve DiSalvo, underboss, and Salvatore and Dennis Librizzi, managers of the sports book-making operation, were found guilty of various counts of the indictment including the conspiracy count, certain of the counts charging operation of an illegal gambling business and certain counts charging failure to file wagering tax forms, Forms 11-C and 730 with the IRS. One writer or agent, Carl Micelli, was also found guilty on 3 of the counts charging violation of Section 1955, for his role in the illegal gambling business.

On April 9, 1984, after the completion of an extortion Hobbs Act conspiracy trial involving Frank Balistrieri and his 2 sons, Joseph and John Balistrieri, as defendants, and based upon the government's motion that he was a danger to the community, Judge Terrence F. Evans revoked Frank Balistrieri's bond and ordered him incarcerated. Thereafter on May 29, 1984, Judge Evans sentenced Balistrieri to 13 years in prison. The sentences on the gambling case were 4 years each on counts 1, 2, and 3 and 1 year each on counts 5 and 7 to run concurrently with \$30,000 in fines and the costs of prosecution. Steve DiSalvo, a defendant only in the gambling case and underboss of the Milwaukee "outfit", was sentenced to two consecutive 4-year terms (8 years) and on the government's motion the court ordered DiSalvo immediately incarcerated as a danger to the community.

Salvatore Librizzi who ran the day-to-day gambling operation, had no other apparent organized crime involvement with the "outfit" and therefore only received a one-year and a day sentence, a \$15,000 fine and three years probation even though he continued to accept wagers at various locations after his conviction and indeed was accepting wagers the very day the jury returned its guilty verdicts. His brother, Dennis Librizzi received the same fine and sentence.

The substantial sentences imposed upon Frank Balistreri and Steve DiSalvo resulted, at least in part, from Judge Evans reliance upon many of the Title III tapes introduced during two six-week trials and at post-trial and sentencing proceedings. Segments from these tapes were quoted by Judge Evans as "painting a picture" of these defendants, and in particular, Frank Balistreri. It is my understanding that some of these tape recordings may be played for you later during these hearings. I think you will find them very interesting.

This concludes my statement and I would be happy to answer any questions concerning this case.

DATE: 1/10/83  
TIME: 5:06 PM  
LOCATION: Shorecrest Office  
PARTIPANTS: Frank Balistrieri  
Salvatore Librizzi

---

SALVATORE LIBRIZZI: There's most of it right now.  
FRANK BALISTRIERI: Yeah.  
LIBRIZZI: Maybe there's some more. Check that tomorrow. (U) I'm trying to...  
BALISTRIERI: What's with this thousands?  
LIBRIZZI: Huh?  
BALISTRIERI: There's thousands?  
LIBRIZZI: There should be forty-five there. Thousands in one package of forty-five.  
BALISTRIERI: Now how much you get?  
LIBRIZZI: Seventy-two sixty-five.  
BALISTRIERI: Who didn't pay then?  
LIBRIZZI: Expletive deleted. Hymie and Dennis. Got fourteen fifty comin', and Feller's 290.  
BALISTRIERI: Oh.  
LIBRIZZI: The rest of the guys like George, ya know, they were last week's sheet.  
BALISTRIERI: You, you didn't collect all the money, then?  
LIBRIZZI: No.  
BALISTRIERI: You got to collect from George?  
LIBRIZZI: No. I just did. Hah?

BALISTRIERI: You gotta collect from George?

LIBRIZZI: No. He paid me today. But I paid out the other guys. (U) Eddie (U) tomorrow, Matches tomorrow, Joe Z. I haven't gotten. My brother, Dennis, well...all I'm sayin' is there was one game that we got lucky on. Boy, the Michigan game was eighty somethin' and nothing on the other side. Right, we won that game.

BALISTRIERI: Now I see that as ninety-five hundred on the board. Nothing on the other side of it.

LIBRIZZI: But that's important. You got to give 'em, you know, just like we won the Michigan game.

BALISTRIERI: The Michigan game wasn't ninety-five hundred, was it?

LIBRIZZI: Eighty somethin' wasn't it? Eighty-eight? Eighty-eight to zero.

BALISTRIERI: Whatta ya got? Whatta ya got? Just got the one game left. Right?

LIBRIZZI: Now I want to ask you a question.

BALISTRIERI: What is it?

LIBRIZZI: Came up with an idea. Gonna handle basketball.

BALISTRIERI: The same as last year then?

LIBRIZZI: No. No. Now this is the thing. Peter Pitch told me.... He says you wanna handle basketball? I say, it depends on the amount of money. He says why don't you talk to him. I'll feed it in. We'll chop it up four ways. My brother Dennis, you, myself, and Peter. But Peter will come in with all the money.

BALISTRIERI: Well, that's a proposition I can't refuse.

LIBRIZZI: No. But what I'm sayin' is that he'll come up, ya know. Because he wants... Peter loves action.

BALISTRIERI: Well, can ya make any money on it? I don't wanna see him get hurt either, ya know.

LIBRIZZI: No. I think so. But, ya know, Dennis' customers gonna combine these. Me and Dennis are gonna go. We'll rent an office.

BALISTRIERI: Be careful, will you? Because that's everyday, you know.

LIBRIZZI: I know.

BALISTRIERI: That's enough to nail ya. I mean, that's, uh, ya know. That's uh...

LIBRIZZI: We got it worked out. I'll have me, my cousin Jimmy.

BALISTRIERI: How about these telephones? You got these telephones. Ya can't believe in these telphones. You got a telephone like now. If you got a house like, uh, across the or next door.... The telephone set rings over here and you're....

LIBRIZZI: I know.

BALISTRIERI: ...pickin' it up over there.

LIBRIZZI: That's how they get you...

BALISTRIERI: They got those phones.

LIBRIZZI: I know they do. That's how they're gettin' all these guys in trouble.

BALISTRIERI: Why? With those phones?

LIBRIZZI: Yeah?

BALISTRIERI: Why? Whatta ya mean? When they raid those, they gotta get to those things, so...

LIBRIZZI: You think...

BALISTRIERI: (U)

LIBRIZZI: ...the telephone company don't tell them that.

BALISTRIERI: No. There is nothing. You don't understand what I'm talkin'. This telephone...

LIBRIZZI: I know what you mean. You dial a number and if you're not there, you leave a number where they can reach you.

BALISTRIERI: No. No. No.

LIBRIZZI: No, it (U)...

BALISTRIERI: You guys got it wrong. You got it wrong. You got it wrong. See, this phone is hooked up over here. Right. Okay. I got a little portable telephone. It's good for about three thousand feet. It's got a little aerial. And I pick up this number over here. See, so when the Feds come in to raid. Yeah. Pete knows all about it. I, I got about then of them.

LIBRIZZI: He never told me that.

BALISTRIERI: Yeah. That's the same thing like now. Suppose you.... Like, you're, you're across the street. Across the street it can work. Like in an apartment across the street. If you're takin' action over here, you got (U) with you, they call this number. You're over there takin' action. They come breakin' in over here they can find their ass. They ain't gonna find anybody in here. You're across the street pickin' up. No wires. No tel... telephone company. The telephone company doesn't want these. They cost about a thousand dollars a piece. The (U). Huh?

STATEMENT OF JUDITH F. DOEKIN

I am an attorney with the Department of Justice assigned to the Chicago Strike Force of the Organized Crime and Racketeering Section of the Department of Justice. I was the attorney in charge of the investigation and lead attorney at trial in the case of United States v. Joseph DiVarco, et al.

Joseph "Cassar" DiVarco is a top lieutenant of the Chicago ION and as such is the organized crime street boss of the Rush Street (the nightclub district of Chicago) area. He was indicted in 1984 for operating an illegal gambling business (18 U.S.C. §371, 18 U.S.C. §1955 and 26 U.S.C. §7203) along with six other individuals, (Marshall Portnoy, Warren Winkler, Santo LaMantia, Ronald Ignoffo, Steven Soupos and Joseph Calato) and was convicted along with all defendants except for Santo LaMantia, in January 1985 after a six week trial.

The case evolved from investigations which the IRS Criminal Investigation Division (CID) and the FBI conducted in the mid-1970s concerning several racetrack messenger services which had sprung up in the Chicago area, run by certain racketeers who were known through intelligence and confidential source information to have been involved in bookmaking operations earlier in the decade. These messenger services were off-track establishments which delivered customers' bets to the track. Many of the services were actually booking the bets themselves. When the messenger services were ultimately banned by the Illinois Supreme Court these people withdrew for the most part from horse race bookmaking, and expanded what was by that time an infra-structure already on site in order to conduct sports bookmaking

operations. Three of the defendants operated certain locations of one of the services and two since deceased unindicted co-conspirators, Jasper Campise and Victor Locallo, were the bosses of the company.

It was the theory of our case that the sports bookmaking operation was conducted in a classic business sense with Joseph DiVarco and Jasper Campise as the bosses and Victor Locallo as the every-day comptroller. The business had two main segments which were operated by Santo LaMantia and Marshall Fortnoy. As the business expanded certain people such as Warren Winkler were given more responsibility and as part of the business' expansion, they utilized several "independent" bookies who would take bets for the business, as well as handle their own bettors. The business used several wirerooms in the Chicago area which were apartments of friends and acquaintances. Defendants Soupos and Calato worked in some of these apartments as key wireroom operators and defendant Ignoffo functioned both as a wireroom clerk and a collector. Classically, DiVarco insulated himself from the day-to-day operations.

This information was gathered over several years by numerous IRS-CID special agents who gathered intelligence information and developed confidential sources of information inside the gambling business. The CID special agents invested an enormous amount of man-hours in terms of critical surveillances and "overhears" at certain meetings of the subjects as well as the requisite work required by any investigation such as interviewing hundreds of witnesses and checking out the various leads.

The grand jury investigation took a considerable amount of time. Nearly all of the more than twenty civilian witnesses who appeared at trial testified under a grant of immunity. Many of the witnesses were

close personal friends of some of the defendants, which made it even more difficult to obtain testimony.

The actual involvement of the IRS in the DiVarco prosecution had its genesis in raid reports from the Chicago Police Department's Vice Control Division (VCD), to which the CID special agents had access. After Portnoy and Winkler had been arrested several times, the IRS started surveilling them. The surveillance led to the discovery of Portnoy's weekly Monday evening meetings at the home of Joseph DiVarco. Portnoy was surveilled carrying a ledger book, envelopes, and small bags into DiVarco's house.

The IRS then utilized the employment of phone record subpoenas and ultimately pen registers in order to analyze particular telephone traffic. Some of that telephone traffic and method of telephoning were of particular interest during trial. As the charts in front of you (which were prepared by the IRS) demonstrate, this gambling business utilized the modern marvel of call-forwarding in order to send calls to other locations in order to avoid any operator or records being present at a particular location if raided by law enforcement. As you can see tens of thousands of calls were thus transferred. The government's evidence consisted of calls from 23 locations. Only the hundreds of man-hours of surveillances and analyses of records were able to tie in the addresses to which calls were forwarded with the people we suspected were involved in the operations as well as potential witnesses against them.

Of equal value was the evidence seized during, and the circumstances surrounding, the execution of several state search warrants involving locations concerning some of the defendants or

unindicted co-conspirators. Some of these warrants were litigated during the course of this trial and upheld by the federal trial judge. We found this of particular interest because some of those same warrants were thrown out or otherwise disposed of by the local court system. It is telling to note that in a majority of those cases Dean Wolfson - who recently pled guilty to charges stemming from the Greylord investigation involving judicial and attorney corruption - was the defense attorney.

A key item of evidence linking Joseph DiVarco to the conspiracy was the fact that he met weekly on Thursday mornings with unindicted co-conspirators Jasper Campise and Victor Locallo, as well as with Vincent Solano. Solano is President of Local #1 of the Laborers International Union. At DiVarco's sentencing, Ken Eto testified that Solano was his "boss" during Eto's life of crime in Chicago. These meetings were surveilled by two very diligent and innovative CID special agents, dressed in soda pop truck driver uniforms. These agents became intimately familiar with the voices of the participants and were able to overhear incriminating conversations.

Another item of critical importance was the evidence seized from both Joseph DiVarco's house and a safety deposit box registered in his wife's maiden name. Seized from his house was \$35,000 in cash found hidden in an air register in the master bedroom. The money was wrapped in newspaper dated approximately 10 days prior to the seizure. Found in a pouch in the rafters in the basement was a key which led us to the safety deposit box. Found along with the key were slips of paper in Mrs. DiVarco's handwriting with the notations "Vince S.," and certain amounts of money. The total amount was close to the \$150,000 found in the safety deposit box. It was our theory that all the money was part

of the bankroll of the business and the "Vince S." referred to Vince Solano, who is listed in Mr. DiVarco's personal telephone books also found in his home, under "Vince S" with telephone numbers at Solano's home and business.

While the IRS gambling expert who testified at trial could not render an opinion as to the average daily take of the business due to the lack of any significant amount of gambling records seized and the use of water soluble paper by the operation, the case agent has estimated that the gross annual income was approximately \$10,000,000.

Ken Eto, a protected witness, who testified extensively at the sentencing hearing, also testified in a limited fashion at trial, noting that DiVarco had told him shortly after the IRS raid of his safety deposit box that the government had seized his "bankroll".

After the conviction we invoked the new bail provisions of the Comprehensive Crime Control Act of 1984. Following a two day hearing the court found that we had presented credible evidence that established prima facie that DiVarco was likely to pose a danger if released and ordered that he be in the custody of the U.S. Marshal's Service. As DiVarco had entered the hospital following his conviction, the Marshals guarded him there for several weeks until the sentencing hearing.

In March, following an extensive hearing, the court sentenced Joseph DiVarco to ten years incarceration as well as a \$60,000 fine and ordered him to pay the costs of prosecution. Such a sentence is the most severe ever imposed in the Northern District of Illinois for the crime of operating an illegal gambling business.

The other defendants were sentenced as follows: Marshall Portnoy - 9 months incarceration, with 6 months work release, a \$5,000 fine, 1,000

hours community services, 5 years probation following time served; Warren Winkler - 5 years probation, 3 months in work release status, a \$3,000 fine, 500 hours of community service; Steven Soupos - 3 years probation; Ronald Ignoffo - 5 months probation with 2½ months in work release and 5 years probation. The judge granted the motion for judgment of acquittal of Joseph Calato who was convicted only of the wagering tax counts. The judge found that the government had not shown proof of knowledge involving a willful violation of those counts. In some ways the misdemeanor tax counts are more difficult to prove than the IGB count in that it is very difficult to demonstrate that a defendant knew he had to register as one who was in the business of bookmaking or knew he had to pay a special occupational tax and willfully failed to do so.

At the sentencing hearing, protected witness Ken Eto testified about his life of crime in Chicago and his contact over several decades with Joseph DiVarco and Vincent Solano, his last "boss" in the Chicago Syndicate.

He testified about his gambling activities at a certain private club called "Oldsters for Youngsters" and implicated Joseph DiVarco in the running of that club, where Eto had won over \$100,000. At Vincent Solano's "request" for his "end" Eto paid Solano half his winnings through DiVarco. This continued for several years. With DiVarco and Solano's permission Eto ran a sports bookmaking operation. They told him it would cost him \$2,000 a month to run the operation. That money was paid to Solano through DiVarco.

He also testified about several "Christmas parties" he attended from 1978 to 1980 given by Vincent Solano. Present at several of the

parties were Caesar DiVarco, Jay Campise, Victor Locallo, and Joseph Arnold, [presently on appeal from a conviction of obstruction of justice in a case involving the obstruction of a grand jury investigation which was focusing on a loansharking operation. Arnold was a partner of DiVarco's in certain establishments. Eto testified at Arnold's sentencing hearing], among others. At those parties Eto, along with all the other guests, received envelopes. In Eto's envelope were five \$100 bills. In 1981 DiVarco gave Eto an envelope containing \$500 telling him that it was from Vinca but that there would not be a party that year because of the "heat". The next year he received the same amount in an envelope from DiVarco who again told him it was from Solano.

At the hearing Eto identified the persons in a unique photo seized from the DiVarco residence. It is my understanding that the committee has a blow-up of the photo. Eto identified Dominic DiBella and Vince Solano as bosses for whom he has worked. He also identified Turk Torello as a muscle man who worked for Eto in his bolita and monte games. The men in that photo are a veritable line-up of those involved in organized crime in the city of Chicago.

Also during sentencing hearing, we also introduced parts of several personal telephone books and lists of wedding guests from the DiVarco children's wedding, which had been seized from DiVarco's home and which again contain a veritable who's-who of organized crime in Chicago.

An important part of the hearing concerned Eto's testimony about his attempted assassination. He testified in detail as to the phone calls instigated by Joseph DiVarco's partner, Joseph Arnold, which led him to meetings with Joseph DiVarco who in turn directed him to meet with Jasper Campise and John Gattuso in order to go to dinner with

Vincent Solano. At that time Mr. Eto was pending sentence following his conviction on certain federal gambling violations. Mr. Eto was led to what turned out to be a bungled assassination assignment. It was apparently feared that Mr. Eto might become a government witness. Gattuso and Campise were arrested and several months later, after being released on high bond, were discovered murdered in the trunk of Campise's car.

At sentencing, certain defense attorneys successfully argued that what we had was "just a gambling case". The trial judge, the Honorable Milton I. Shadur, in a reference to Al Capone, said that people get sentenced not for the particular crime they commit, but for what is known about them in other situations and that it was always important to recognize that different defendants get different treatment because of different circumstances. Judge Shadur characterized gambling violations as a peculiar crime and noted that gambling is a kind of odd offense in the criminal law system, somewhat like Prohibition in that while prohibiting activities which many people may not consider bad, it is the sort of thing that tends to feed the possibility that the activity may be taken over by organized crime.

In sentencing DiVarco the Court made several significant statements. Noting that society has a two-faced ambivalent attitude toward gambling, he stated that Congress has decided that gambling activity of a certain kind should be prosecuted and that what was important for the purposes of the DiVarco sentence was that the illegality of the gambling business has in fact generated just such involvement of organized crime figures. The Court told DiVarco that there was little doubt as to what result sentencing him ought to produce

and that law enforcement officials don't usually get people who are in the middle management or upper management level of organized crime activity.

Stating that Eto's testimony implicated DiVarco in a deliberate assassination attempt, the Court found that the conversations among DiVarco, Campese and Solano and others reflected illegal activities and showed DiVarco to be a figure of significance not only in a gambling violation but with things with much more serious connections and implications. This is a reference to the several Thursday morning meetings overheard by the agents which showed DiVarco and Solano to be concerned with the grand jury investigation. These meetings were quite significant because they discussed taking care of grand jury witnesses, in particular Frank "Babe" DeMonte, an official of Solano's union, in terms of paying their attorney's fees. Indeed at one point Solano was overheard to say "We're helping them too much - we'll just have to tell them not to talk - these lawyers' fees are killing us."

In another conversation Solano was overheard saying that having a lawyer gave them an extra measure of protection and he inquired as to whether "that lady" [in a reference to me] called the attorney about a certain witness. Mike Glitta, one of the breakfast meeting participants, suggested he take the rap but Solano said Glitta couldn't lie under immunity because they (the government) know he's not involved. In another conversation they discussed DeMonte, who at that time had been incarcerated several months because of civil contempt. They were paying his attorney's fees and discussed the progress of attempting to get him out. Later they spoke about cutting up a certain amount of

money and in a reference to putting in the cut for DeMorte who was in jail, Solano said "We've been together too long, we are all partners."

In sum, investigating this case and bringing it to trial required a very substantial commitment of prosecutive and investigative resources. The IRS agents acted as human wiretaps, human tape-recorders and human cameras in order to garner evidence. The case is an example of the results law enforcement can achieve in investigating organized crime involvement in gambling operations.

Although the prevailing attitude is: "It's only a gambling case" and indeed Ken Eto testified that he told Solano not to worry about Eto's gambling indictment as "it's only a gambling pinch", organized illegal gambling is not an innocent occupation in Chicago. Since DiVarco's conviction, three people connected with gambling have been found murdered in the Chicago area.

If the Commissioners have any questions I'm available to answer them.

Introductory Outline of Remarks

on

Federal Enforcement Efforts

Against Illegal Gambling

Michael A. DeFeo  
Deputy Chief  
Organized Crime and  
Racketeering Section  
Criminal Division  
U. S. Department of Justice

Prepared for Presentation  
to the  
President's Commission on Organized Crime  
New York, New York  
June 24, 1985

ANALYSIS OF FEDERAL ENFORCEMENT

EFFORTS AGAINST ILLEGAL GAMBLING

Throughout the last generation there has been substantial variance in the federal response to illegal gambling and in the conventional wisdom about its relationship to organized crime. The present policy of the Department contemplates the treatment of illegal gambling as a priority matter only when it involves the active, participation or direct influence of organized crime, the presence of corruption, or a substantial gambling business extraordinary for its region. This does not mean that other cases may not be prosecuted, e.g. as part of the Internal Revenue Service's wagering tax program. However, the substantial expenditure of executive and judicial resources required to process a gambling case involving the highly effective but time consuming tool of electronic surveillance is now reserved for the situations described above. My

remarks today will explore how federal policy arrived at its present position and will analyze why we believe this position represents an appropriate synthesis of past experience and present needs.

Gambling has long been one of the most profitable illegal vice activities in the United States. The immigrant gangs which came to dominate the Prohibition era had a ready model for political influence and corruption in the gambling organizations which existed in major American cities before 1900. The profitability of illegal gambling was eclipsed by the dramatic profits of Prohibition and diminished by Depression conditions, but the boom during and after World War II restored its attractiveness. By 1950, the American Council of Mayors, the Kefauver Committee and many law enforcement officials saw organized crime control of illegal gambling as our principal law enforcement problem.

Few resources were devoted to this issue until the Organized Crime Drive of the early 1960s, when the wagering tax laws were used by IRS to attack organized crime and syndicated bookmaking, and the FBI utilized a new anti-racketeering statute to curtail illegal casinos, layoff operations and other gambling businesses operating in interstate commerce. It was not until the early 1970s, however, that illegal gambling was subjected to a massive application of federal resources. Using the new electronic surveillance statute, the FBI focused on illegal gambling operations and generated numerous prosecutions.

For various reasons, which I will attempt to explore in my complete statement, that enforcement phase passed in the late 1970s, and gambling enforcement received less emphasis as investigative and prosecutive resources were consumed in matters such as prosecutions of the leadership of LCN families in Cleveland, Los Angeles, Kansas City and

other cities, in investigative projects such as PENDORF, STRAWMAN, BRILAB and ABSCAM, and in much greater utilization of the Racketeer Influenced Corrupt Organization statute. With the 1980s the gravity of the drug problem, now generally considered to be the principal source of illegal revenues nationwide, has further reduced the discretionary resources available for gambling enforcement. It was in response to these experiences and circumstances that the present policy evolved, and in my complete statement I will attempt to offer some analysis of the judgmental process underlying the existing policy and priorities.

GAMBLING ENFORCEMENT IN NEW JERSEY

BY

CLINTON L. PAGANO  
SUPERINTENDENT  
NEW JERSEY STATE POLICE

PRESENTED BEFORE THE  
PRESIDENT'S COMMISSION ON ORGANIZED CRIME

JUNE 25, 1985

I WOULD LIKE TO THANK THIS COMMISSION FOR THE OPPORTUNITY TO TESTIFY BEFORE IT ON AN ISSUE THAT IS PARTICULARLY IMPORTANT TO ME. GAMBLING IS CERTAINLY AN ISSUE THAT THIS COMMISSION IS WISE TO INVESTIGATE, GIVEN THE PROLIFERATION OF ALL FORMS OF LEGAL GAMBLING THROUGHOUT THE UNITED STATES. IN NEW JERSEY, WE NOW HAVE LEGALIZED HORSE-BETTING, A STATE LOTTERY, AND CASINO GAMBLING, MAKING NEW JERSEY ONE OF THE MOST WAGING STATES IN THE NATION. I SERVED IN THE NEW JERSEY STATE POLICE BEFORE THESE VARIOUS FORMS OF GAMBLING WERE MADE LEGAL AND FOR THE PAST DECADE I HAVE WITNESSED THE LEGALIZATION OF LOTTERY AND CASINOS AS THE SUPERINTENDENT OF STATE POLICE. AS SUCH, I FEEL CONFIDENT THAT I CAN PROVIDE THIS COMMISSION WITH A HISTORICAL CONTRAST OF THE EFFECTS OF LEGALIZED GAMBLING ON ILLEGAL GAMBLING, AND THE IMPACT OF LAW ENFORCEMENT POLICY AND PRACTICES ON BOTH LEGAL AND ILLEGAL GAMBLING.

FIRST, I WOULD LIKE TO DISPEL THE EVER-POPULAR MYTH THAT LEGALIZING GAMBLING DRIES UP REVENUE FOR ORGANIZED CRIME. WE IN NEW JERSEY LAW ENFORCEMENT HAVE FOUND THAT DESPITE THE LEGALIZATION OF A STATE LOTTERY, WE CONTINUE TO MAKE A SUBSTANTIAL NUMBER OF LOTTERY ARRESTS. FOR EXAMPLE, BETWEEN 1975 AND 1984, STATE AND LOCAL LAW ENFORCEMENT WERE RESPONSIBLE FOR MAKING 4,137 NUMBERS/LOTTERY ARRESTS, OR 35% OF THE TOTAL NUMBER OF GAMBLING ARRESTS. RECOGNIZING THAT SUCH ENFORCEMENT ONLY REPRESENTS THE "TIP OF THE ICEBERG" - - THAT IS, IT IS ONLY INDICATIVE OF LAW ENFORCEMENT ACTIVITY AND NOT THE ACTUAL INCIDENCE OF LOTTERY - - IT HAS BECOME EVIDENT TO US THAT THE LEGAL LOTTERY HAS NOT DRIED UP ILLEGAL LOTTERIES. THE REASONS FOR THIS ARE NUMEROUS, BUT I WOULD SUGGEST THAT THE EASY AVAILABILITY OF CREDIT, THE ODDS WHICH ARE SUBSTANTIALLY BETTER IN THE ILLEGAL

LOTTERY, AND THE AVOIDANCE OF TAXES ALL CONTRIBUTE TO THE EXISTENCE OF AN ILLEGAL LOTTERY. IN NEW JERSEY THIS YEAR ALONE, THE STATE "NETTED" 395 MILLION FROM THE LEGAL LOTTERY - - ALMOST TWICE OF THAT ACQUIRED IN CASINO GAMBLING, WHICH ACCOUNTED FOR 193 MILLION DOLLARS (NET).

AGAIN, IF WE EXAMINE CASINO GAMBLING WE FIND THAT ILLEGAL CASINOS ARE BEING RUN BY ORGANIZED CRIME IN THE NORTHERN SECTION OF THE STATE AND HERE IN NEW YORK. IN ONE CASE, WE ARRESTED THE LEADER OF THE NOTORIOUS "CAMPISI CRIME FAMILY" FOR RUNNING AN ILLEGAL CASINO. MOREOVER, WE HAVE FOUND A SUBSTANTIAL INCREASE IN ILLEGAL SPORTS BOOKMAKING IN ATLANTIC CITY, INVOLVING MEMBERS OF "CRIME FAMILIES" FROM PENNSYLVANIA AND NEW YORK, AND MASSACHUSETTS. THIS AGAIN SUGGESTS THAT LEGAL GAMBLING BEGETS ILLEGAL GAMBLING. OUR EXPERIENCE INDICATES THAT WHAT OFTEN OCCURS WHEN GAMBLING IS LEGALIZED IS THAT

NEW CLIENTELE EMERGES, SOME OF WHICH ULTIMATELY PARTAKE IN  
ILLEGAL GAMBLING.  THUS, WE IN NEW JERSEY HAVE FOUND THAT ILLEGAL  
GAMBLING OFTEN BENEFITS FROM LEGAL GAMBLING.

SECONDLY, WE HAVE FOUND THAT "SPORTS BOOKMAKING" IS BY  
FAR THE MOST LUCRATIVE FORM OF ILLEGAL GAMBLING IN NEW JERSEY.  BETWEEN  
1975 AND 1984 STATE AND LOCAL LAW ENFORCEMENT MADE 1,679 BOOKMAKING  
ARRESTS, OR 15 PERCENT OF ALL GAMBLING ARRESTS.  IT IS CLEAR FROM THE  
NUMEROUS "WIRETAPS" THAT WE HAVE INITIATED THAT "SPORTS BOOKMAKING"  
REMAINS A PRIMARY SOURCE OF REVENUE FOR ORGANIZED CRIME, SECOND TO  
ONLY NARCOTICS.  THE "MOB" IS STILL INVOLVED IN GAMBLING AND LEGALIZED  
GAMBLING HAS NOT DRIVEN THEM OUT!

THIRD, AND PERHAPS MOST IMPORTANT, WE HAVE FOUND THAT  
TRADITIONAL ELEMENTS OF ORGANIZED CRIME REMAIN INVOLVED IN GAMBLING.  
CONTRARY TO WHAT HAS BEEN FOUND IN OTHER AREAS OF THE COUNTRY, WE IN

NEW JERSEY LAW ENFORCEMENT CAN AND HAVE DEMONSTRATED THE INVIDIOUS PRESENCE AND IN SOME CASES, VIOLENT CONTROL BY ORGANIZED CRIME ELEMENTS OF ILLEGAL GAMBLING. THIS IS NOT TO SAY THAT THE "MOB" HAS A "LOCK" ON ILLEGAL GAMBLING, FOR WE DO FIND NON-TRADITIONAL CRIMINAL NETWORKS IN ILLEGAL GAMBLING. NONETHELESS, OUR "WIRETAPS" HAVE PROVEN THAT THE "MOB" HAS NOT WITHDRAWN FROM ILLEGAL GAMBLING AND REMAINS PRIMARILY INVOLVED IN SPORTS BOOKMAKING. THIS IS ALL THE MORE REASONS FOR LAW ENFORCEMENT TO CONTINUE AN AGGRESSIVE POSTURE TOWARDS ILLEGAL GAMBLING - - A POLICY THAT HAS ALL BUT DISAPPEARED IN MOST JURISDICTIONS BECAUSE IT IS SEEN AS A VICTIMLESS CRIME.

IN NEW JERSEY WE HAVE CONTINUED TO MAINTAIN AN ENFORCEMENT VIGILANCE OF THE GAMBLING LAWS DESPITE THE FACT THAT WE HAVE LEGALIZED MOST GAMES OF CHANCE. WHILE IT HAS BEEN ARGUED THAT SUCH ENFORCEMENT IS HYPOCRITICAL, WE BELIEVE THAT IT IS A NECESSARY

INGREDIENT IN AN EFFECTIVE ORGANIZED CRIME CONTROL EFFORT.

DURING THE PAST FOUR YEARS, THE NEW JERSEY STATE POLICE HAVE

CONDUCTED THIRTY-FOUR ELECTRONIC SURVEILLANCES OF GAMBLING OPERATION,

AND HAVE FOUND THE GREAT MAJORITY OF THESE "WIRES" INVOLVED TRADITIONAL

ORGANIZED CRIME SYNDICATES. THROUGH THE ENFORCEMENT OF OUR GAMBLING

LAWS WE ARE ABLE TO GAIN ENTRY INTO ORGANIZED CRIME SYNDICATES THAT

HERETOFORE WERE "UNTOUCHABLE." OFTEN-TIMES WE UNCOVER A WIDE RANGE OF

OTHER SYNDICATED CRIMES THROUGH THIS ENFORCEMENT TECHNIQUE, WHICH AGAIN

JUSTIFIES OUR CONTINUED POLICY TOWARD GAMBLING.

LASTLY, I WOULD LIKE TO COMMENT UPON THE UNINTENDED

CONSEQUENCES OF WHAT I WILL CALL A "LIBERAL" LAW ENFORCEMENT POLICY,

FOR WANT OF A BETTER TERM.

WE OFTEN HEAR THAT GAMBLING IS A "VICTIMLESS CRIME" AND

CONSEQUENTLY, DOES NOT WARRANT A COMMITMENT OF LIMITED LAW ENFORCEMENT

RESOURCES. MOREOVER, WE ARE OFTEN CRITICIZED FOR MAKING GAMBLING A HIGH PRIORITY, WHICH HAS RESULTED IN NEW JERSEY LEADING THE NATION IN ELECTRONIC SURVEILLANCES. BOTH POINTS DESERVE FURTHER CLARIFICATION.

WHILE A CASE CAN CERTAINLY BE MADE FOR RE-ALLOCATING OUR LIMITED LAW ENFORCEMENT RESOURCES TO "VICTIM-TYPE" OR "INDEX CRIME," SUCH A POLICY DECISION WOULD ONLY ALLOW THIS MARKET - - GAMBLING - - TO OPERATE VOID OF ANY GOVERNMENT "CONTROL." I USE THE TERM "CONTROL" FOR THAT IS WHAT WE IN NEW JERSEY DO: "CONTROL" THE GAMBLING MARKET AND ORGANIZED CRIME'S ATTEMPT TO DOMINATE THIS MARKET. ABSENT OUR PRESENCE, THE MARKET WOULD BE LEFT TO THE MORE POWERFUL CRIME SYNDICATE TO ORGANIZE, ELIMINATING ANY AND ALL COMPETITION. WE DO NOT MAKE ANY CLAIM TO ELIMINATING ILLEGAL GAMBLING. SUCH A CLAIM WOULD BE RIDICULOUS AND SUCH A TASK INEVITABLY A FAILURE. WHAT WE DO ARGUE

IS THAT THROUGH A PROACTIVE AND WELL-FOCUSED INTELLIGENCE PROGRAM,  
WE ARE ABLE TO SELECTIVELY ALLOCATE OUR LIMITED LAW ENFORCEMENT  
RESOURCES TOWARD THOSE CRIMINAL NETWORKS SEEKING TO ACQUIRE A  
MONOPOLY ON ILLEGAL GAMBLING. IT IS THE CONTROL OF SUCH MONOPOLIES  
THAT WE IN NEW JERSEY SEEK TO INHIBIT AND SUBSTANTIALLY REDUCE - -  
NOT ILLEGAL GAMBLING. IF WE ARE ABLE, OF COURSE, TO REDUCE ILLEGAL  
GAMBLING IN THE PROCESS, SO BE IT. BUT WE HAVE LEARNED THROUGH YEARS  
OF EXPERIENCE THAT THE ABSENCE OF A VIABLE GAMBLING ENFORCEMENT  
PROGRAM INEVITABLY LEADS TO THE ORGANIZATION OF THIS MARKET BY POWER-  
FUL ORGANIZED CRIME INTERESTS.

WITH RESPECT TO GAMBLING REMAINING A HIGH PRIORITY AND AS  
A RESULT, GIVING NEW JERSEY THE HIGHEST NUMBER OF ELECTRONIC SURVEIL-  
LANCES IN THE NATION, I WOULD ARGUE THAT WITHOUT ELECTRONIC SURVEIL-  
LANCE WE WOULD BE TERRIBLY INEFFECTIVE IN MAINTAINING AN ASSERTIVE

VIGILANCE OF ORGANIZED CRIME. WE ARE EXTREMELY SELECTIVE IN OUR ELECTRONIC SURVEILLANCES, ENSURING THAT THE "TARGETS" ARE WORTHY OF OUR INVESTIGATIVE EFFORTS. TO OBTAIN AN ELECTRONIC SURVEILLANCE IN THE NEW JERSEY STATE POLICE, WE MANDATE A CAREFUL AND DELIBERATE REVIEW AND ANALYSIS OF EACH AND EVERY REQUEST, TO AVOID THE INDISCRIMINATE OR UNCONTROLLED USE OF THIS VERY VALUABLE LAW ENFORCEMENT TOOL. PRIOR TO OUR ELECTRONIC SURVEILLANCE LAW, WE WERE UNABLE TO REACH BEYOND THE VISIBLE MANIFESTATION OF A GAMBLING OPERATION - - THE POLYMER RUNNER OR BOOKMAKER. WITH ELECTRONIC SURVEILLANCE, WE OFTEN REACH INTO THE HIERARCHY OF THE NETWORK, AND IF WE ARE PATIENT, INNOVATIVE AND DILIGENT, WE ARE ABLE TO IDENTIFY, ARREST AND PROSECUTE THOSE WHO "CONTROL" THE GAMBLING NETWORK. WE IN STATE LAW ENFORCEMENT WOULD BE REMISS IF WE WERE TO RELY SOLELY ON THE FEDERAL AUTHORITIES TO INVESTIGATE GAMBLING, FOR THEIR PRIORITIES AND RESOURCES CERTAINLY DIFFER

FROM OURS. I PERSONALLY BELIEVE THAT ABSENT SUCH A POLICY OF  
AGGRESSIVE GAMBLING ENFORCEMENT ON A STATE AND CITY LEVEL, ORGANIZED  
CRIME WILL ULTIMATELY CONTROL WHO IS PERMITTED TO OPERATE AND WHO  
IS NOT -- IN OTHER WORDS, AN ORGANIZED CRIME MONOPOLY WILL EVOLVE.  
WE IN NEW JERSEY ARE FORTUNATE TO HAVE ELECTRONIC SURVEILLANCE AND  
WE HAVE CAREFULLY CIRCUMSCRIBED OUR ENFORCEMENT POLICIES TO ENSURE  
THAT THIS TOOL IS NOT ABUSED. I CAN CONFIDENTLY SAY THAT SINCE THE  
LAW HAS BEEN ENACTED, WE HAVE BEEN ABLE TO INITIATE SOME OF THE MOST  
POTENTIALLY DISABLING CRIMINAL INVESTIGATIONS OF ORGANIZED CRIME  
MEMBERS AND HAVE NEVER OVER-EXTENDED THE USE OF THIS "TOOL."

IN CLOSING, I WOULD STRONGLY URGE THIS COMMISSION TO DEVELOP  
A POLICY STATEMENT WITH RESPECT TO DEFINING THE ROLE OF ORGANIZED

CRIME IN GAMBLING, BOTH LEGAL AND ILLEGAL; ELEVATE GAMBLING ENFORCEMENT TO THE PRIORITY IT SO RIGHTFULLY DESERVES; DEVELOP AN UNDERSTANDING AMONG PUBLIC OFFICIALS THAT CLEARLY DELINEATES THE CONSEQUENCES OF LEGALIZING GAMBLING AS AN ANSWER TO ELIMINATING ORGANIZED CRIME; AND RECOMMEND ELECTRONIC SURVEILLANCE AS A NECESSARY TOOL IN THE "WAR" AGAINST ORGANIZED CRIME. I REALIZE THIS TASK MAY BE MORE DIFFICULT THAN IT SOUNDS, BUT WITHOUT IT, GAMBLING ENFORCEMENT WILL BE RELEGATED TO A LOW PRIORITY AND ORGANIZED CRIME WILL BE THE ULTIMATE BENEFACTOR.

THANK YOU.

STATEMENT OF

SSA RONALD C. CHANCE  
U.S. DEPARTMENT OF LABOR  
OFFICE OF INSPECTOR GENERAL  
OFFICE OF LABOR RACKETEERING  
POMONA, NEW JERSEY

My name is Ronald C. Chance. I am the supervisor of the Camden and Pomona, New Jersey, offices of the U. S. Department of Labor, Office of Labor Racketeering. I am the supervisor of the Labor Department Agents assigned to the Camden Field office of the Organized Crime Strike Force.

The information contained in my statement was obtained as a result of testimony before Federal and State Courts, interviews of witnesses and electronic and physical surveillance. I have been in law enforcement for twenty years and have been assigned to investigate organized crime in Atlantic City since 1977.

There have been several phases of organized crime attempts to control the casino industry through labor unions and service industry contracts. They have ranged from securing union benefit plan contracts for organized crime associates, to doing construction work on an actual casino.

NICODEMO SCARFO is currently the on-site power for organized crime in Atlantic City. He holds that position in part because former Roofers Union President JOHN MCCULLOUGH was murdered. He has used his relatives and close associates to act as fronts for him in obtaining many lucrative contracts for

concrete and re-bar construction. SCARFO also has significant influence over the HOTEL RESTAURANT WORKERS UNION, LOCAL #54.

In the testimony of JOSEPH SALERNO, before the New Jersey Casino Control Commission, we learned that SCARFO claims to control all unions in Atlantic City. He claims to have appointed FRANK GERACE and the former Treasurer of LOCAL #54, ROBERT LUMIO, to their positions in the union.

To truly understand the significance of the organized crime influence in unions, I have selected LOCAL #54 as an example because LOCAL #54 and the mob are one and the same. They always have been. LOCAL #54 is currently comprised of all the former members of HERE Locals #54, 491, 170 and 33.

LOCAL #54 in Atlantic City is a classic case study in organized crime and labor racketeering. Several locals of this union boast officers who have convictions in murder, arson, extortion, drugs, bribes, kickbacks and racketeering. Next to the ownership of a casino, control of LOCAL #54 is the most important prize in the Atlantic City sweepstakes. The history of corruption pre-dates the casinos, but the arrival of casino gambling signaled the start of the new quest for control. I would like to briefly outline the checkered history of this union.

LOCAL #54 now controls all of South Jersey. Originally the area was shared with LOCAL #170, but when the Garden State Racketrack burned down and the casinos opened, the focus of organized crime changed from Camden to Atlantic City.

In 1971, JOEY MAGREAL, the Secretary/Treasurer of LOCAL #170 was convicted of extortion along with several other members of LOCAL #54. He served two years in Lewisburg Federal Prison. He appointed RALPH NATALE to run LOCAL #170 while he was in jail. When he got out of prison, he attempted to take control of #170 back, but NATALE had already aligned himself with ANGELO BRUNO. According to former union strong-arm man CHARLIE ALLEN, BRUNO ordered MAGREAL killed. On Christmas night, 1973 he was shot in the head in his car. I assisted in the investigation of that murder when I was assigned to the State Police Criminal Investigation Section. Friends of MAGREAL wanted to retaliate against NATALE, they were told it was a sanctioned hit and they could not retaliate. During the investigation we learned that the suspected killers and the victim were seen with a woman in a hotel in Cherry Hill on the night of the murder. She was later murdered before we could interview her.

When NATALE took control of the union he brought LARRY SMITH and NORTH AMERICAN DENTAL into LOCAL #170. SMITH operated both dental and severance plans for NATALE. At a recent trial in U.S. District Court in Camden, two witnesses

testified that they observed SMITH giving money to ANGELO BRUNO and RALPH NATALE. (Neither could recall the dates or the purpose of the payments, subsequently the Conspiracy and Bribery counts were dismissed).

During the time NATALE ran #170 he was involved in numerous conspiracies involving drugs, arson and frauds. He is currently serving thirty years in Federal Prison for convictions for those crimes.

Because of all the bad publicity relating to the NATALE convictions, LOCAL #170 changed its name to LOCAL #33. ALBERT DAIDONE was appointed a Business Agent by NATALE. LOCAL #33 later was merged with LOCAL #54, with the beginning of legalized casino operations in Atlantic City.

ALBERT DAIDONE maintained his contacts with the BRUNO organization through RAYMOND "LONG JOHN" MARTORANO. All the contracts with LARRY SMITH remained in force. MARTORANO was a major drug dealer in Philadelphia and South Jersey, and was involved in extortions with DAIDONE.

IN 1978 when the casinos opened, LOCAL #54 began to rise in stature and importance. Prior to casino gambling, they had about 2500 members, most employed in seasonal jobs in the hotel and restaurant trade in the seashore areas. The opening of

each casino brought about 2000 new employees into the union. That number is currently 15,000.

NATALE tried to take control of Atlantic City from NICKY SCARFO, who had been just a local hood in a decaying resort community. He was a nothing. Casino gambling made SCARFO important. SCARFO did not have the respect of other organized crime figures and still doesn't today. He took control because he stepped into a vacuum, not because he was respected by his peers. NATALE was not successful because he went to prison. JOHN MCCULLOUGH was the next to try to take over Atlantic City and LOCAL #54.

MCCULLOUGH was respected, even loved by his own union members, and he was a respected public citizen. He was generous and public minded. His unselfish deeds are well known to all in law enforcement in the Philadelphia area. There was another side of MCCULLOUGH that the public didn't know of or see.

MCCULLOUGH also was a friend of ANGELO BRUNO. He met directly with BRUNO and didn't have to go through such underlings as SCARFO. MCCULLOUGH, as an outsider, had more respect than SCARFO.

MCCULLOUGH tried to take control of LOCAL #54 but he was murdered before he succeeded. ALBERT DAIDONE, then

Vice-President of LOCAL #54 was convicted of his murder along with RAYMOND MARTORANO and WILLARD MORAN.

Why have so many acts of violence, murder and racketeering taken place over the control of LOCAL #54? Why is it such a prize that criminals will go to war with each other to control it? Why is any union such a valuable prize to organized crime? The answer is simply a matter of economics. There are three primary reasons:

1. Organized crime is in business to make money. Pension plans represent the largest source of private investment capital available in the country. Today unions control nearly 7000 jointly administered plans with assets in excess of 51 billion. Controlling that money, naturally, brings power and influence.

2. Union are perfect vehicles for extortion. They have been exempted from the Sherman Anti-Trust Act and enforcement of the Hobbs Act, two primary tools for prevention of economic extortion.

3. Unions have political influence which can properly be used to further the goals of their membership or improperly used to enrich the criminal.

In the political and economic scenes labor unions are just another interest group. They lobby for legislation that is favorable to them just as the American Bar Association, Medical Associations, Bankers, Farmers, truckers, and builders all lobby for their positions. This is a legitimate role for unions. They have an absolute right, indeed an obligation to further the goals of their organizations and to better the wages, working conditions and lifestyles of their members.

Unions control nearly one trillion dollars in pension plans. Controlling how and where this money is invested is a great economic power. Any criminal organization which can influence, let alone control, significant portions of that capital enrich themselves and naturally pyramid their influence for future ventures.

Collective Bargaining contracts are immune from Sherman Anti-Trust enforcement. Violence involving labor disputes rarely is prosecuted under Hobbs Act because of Federal Court decisions, such as the Emmons case. The NLRB is primarily responsible to provide civil enforcement of the National Labor Relations Act, but that does not prevent economic strikes or violence. It addresses the issue after the fact. Any industry that is labor intensive is subject to extortionate demands by unscrupulous labor leaders.

Unions have enormous political power because they can influence elections. They can provide campaign workers, contributions and votes to candidates sympathetic to their specific needs. In exchange they can receive appointments to key political positions, and are in a position to influence elected officials whom they have supported. These are perfectly legitimate and laudatory activities by unions. They should be legitimately advancing these goals.

However, if a corrupt union official usurps power through violence, or rigged elections, he too assumes all the political and economic power properly accorded the honest union official. He turns all the special protections afforded to unions into special protections for criminals and in particular organized criminals.

Violence, extortion and fraud are the hallmarks of organized crime. There is no competition with a man who will blow up your business, kidnap your children, shoot your parents or murder you to gain whatever he desires. Lets take a look at how LOCAL #54 fits into this mold.

RALPH NATALE did not become a union officer by election of the members. He was appointed by a criminal. He then appointed other criminals to assist him. CHARLIE ALLEN has told us how NATALE routinely rigged elections and had ALLEN beat up NATALE's competitors to maintain control.

FRANK GERACE did not get elected into LOCAL #54's Presidency. He was appointed. GERACE then appointed ROBERT LUMIO, FRANK MATERIOS, KARLOS LA SANE, ELI KIRKLAND, FRANK LENTINO and ROCCO MARANDINO, all convicted criminals, to union positions. The influential posts of this local were filled by criminals.

GERACE, in his capacity as Trustee of the Severance Fund and the Health and Welfare Fund, voted to appoint LARRY SMITH as Administrator of the Severance Fund, consultant for dues management, the dental plan and computerization of union records. All of these appointments occurred at the same time CHARLIE ALLEN was testifying publicly that SMITH bribed NATALE and BRUNO. There is no doubt that FRANK GERACE was aware these charges.

LOCAL #54 grew from a seasonal membership of 2500 to a full time membership of 15,000. Their annual dues income increased from \$269,000 in 1979, to \$1,389,000 in 1982. as COMMISSIONER DENTINO testified, before the U. S. Senate Permanent Subcommittee on Investigations, the casinos also contribute approximately \$15 - \$16 million a year to the Health and Welfare and Pension Plans of the International. FRANK GERACE is a Trustee of those funds. Before casinos, they didn't have a severance or dental plan.

The casino industry is labor intensive. If there are labor problems and the hotels that house the gamblers are shut down, the casinos lose money. They must have a stable secure labor market to survive. They are in the hospitality business, they must maintain that image. Labor violence or work stoppages cause lost revenues.

The real story of LOCAL #54, however, is the illegitimate use of its legitimate political influence. LOCAL #54 could make or break a political candidate in Atlantic City. It is the biggest, richest and most powerful union in the city. The support of its 15,000 members is something every political candidate wants. They supported MICHAEL MATTHEWS for Mayor in more than the conventional and legal channels.

FRANK LENTINO demonstrated for us just how corrupt the system can become if all the legitimate sources of power are used illegitimately. He also demonstrated how a municipal government suffers when the very institution designed to prevent corruption, the government itself, became the corrupting influence. The sordid saga of LOCAL #54 reached its climax with the purchase of the Mayor's office by organized crime using the political and economic influence of LOCAL #54. The MICHAEL MATTHEWS case is probably a classic example of the pervasive nature of union corruption.

Statement of Richard Kuhn

Mr. Chairman and Members of the Commission:

My name is Richard Kuhn. I am currently 29 years old and completing my second year of incarceration at Lewisburg Penitentiary Pennsylvania. Myself and four others were convicted in November of 1981 in the Eastern District of New York of racketeering charges and conspiracy to commit sports bribery in connection with a point-shaving scheme at Boston College (BC) during the 1978-1979 basketball season. As a result of this conviction, I was given a ten-year sentence for my part in the conspiracy. Besides the testimony I rendered at a subsequent Boston College trial in 1984, this will be the first time I have been given the opportunity to publicly give my personal account of the facts surrounding this highly publicized case.

My athletic career began at Swissvale High School where I gained recognition as the starting center on the basketball team and by pitching on the baseball team. I received All-City and All-Conference honors in these sports respectively. After graduation from high school, I signed a professional contract with the Cincinnati Reds Baseball Team and played in their Rookie League from 1973 through 1975. My professional pitching career ended abruptly as a result of an injury to my shoulder. The following year, I enrolled at Allegheny Junior College. During my freshman year, I lead my school's basketball team to a 4th in the nation ranking personally averaging 20 points and 14 rebounds per game. In late spring of 1975, I was invited on a recruiting trip to Boston College (BC) by then assistant coach Drayton

Miller. Prior to this contact, my intention was to finish up at Alleghany J.C. However, Drayton Miller's promises of room and board on campus, money per month and use of a car coupled with B.C. alumri incentives such as free dinners, etc. persuaded me to attend Boston College the very next year.

In 1976, the BC basketball team was only able to achieve 9 wins as compared to 17 losses. This dismal showing resulted in the dismissal of Coach Bob Zuffelato. With the top coaching position now available, Miller pursued it actively. He approached all the ball players individually in an attempt to have them endorse him to the athletic administration. I was personally asked but refused to help him because I had lost all my respect for him as a coach who had once made me "sideline promises" that never materialized. Miller never got the head coaching job. In 1977, my junior year Coach Tom Davis was hired from Lafayette and quickly turned the basketball program around with a 15-11 record. My senior year was the beginning of what has turned out to be a nightmare for me and my family.

I initially became involved during the summer of 1978 in my home town Pittsburg, Pennsylvania while working at a construction job at a friend's home named Anthony Perla. I was acquainted with Anthony Perla through his younger brother and close friend Rocco Perla. Anthony Perla approached me and asked me if I would be willing to give him inside information and possibly keep the score of several games within the point spread for the upcoming BC basketball season and for this I would be paid. I told him I

would be interested. I later met with Anthony Perla and his friend Paul Mazzei to discuss Perla's proposal. By the end of the summer, I had agreed to provide information to Perla and Mazzei, but I had not yet agreed to shave points. Unbeknown to me, at that time, Anthony Perla, Paul Mazzei and a third individual by the name of Henry Hill from New York who allegedly had organized crime ties had already schemed to do "business" on BC games.

The scheme in retrospect was relatively simple, Henry Hill and his organized crime associates were tasked with setting up a network of New York bookmakers knowledgeable of the scheme to lay-off bets to other bookmakers. In addition, they were to supply protection to Perla and Mazzei from possible irate Pittsburgh bookmakers who would be "taken" as a result of the fix. Perla's and Mazzei's role was to advise me directly or through Rocco of which games they wanted to fix and how many points they wanted us to shave. They were also to inform the New York people of the games in question and responsible to pay me. Rocco was to be utilized as "a go between" for either payments or messages to me from Pittsburgh. I was used as a recruiter in getting other players from the team involved and to keeping them informed as to the games that were to be fixed. Payment to these players was handled by me.

Throughout the fall of 1978, I had kept in touch with Anthony Perla through Rocco who had even travelled to Boston to visit with me on occasions. One day during the early fall, James

Square and it was there that I mentioned to Sweeney that I had certain friends in Pittsburg who were willing to pay us money to keep the scores of our games within "the point spread". During this conversation, Sweeney gave me the erroneous impression that he was interested in the proposal and later testified at my trial that he agreed to go along, however, never did anything during any of the BC games to negatively affect their outcome.

On November 16, 1978, I advised Sweeney that some friends were staying at Logan Airport Hotel and wanted to buy us dinner. Sweeney agreed to accompany me to the hotel. That evening, we met with Anthony Perla, Paul Mazzei and Henry Hill. We had dinner and innocuous conversation. After dinner, Hill, Perla and Mazzei began to talk about the upcoming season. They told us they were interested in betting on BC games and would like to pay the players \$2,500 to keep the games as close as possible. They emphasized that BC would not have to lose any games. This point was important because I would never had entered into any agreement where I would purposely go out and attempt to lose a game. Besides the money, Hill offered Sweeney and myself drugs, women and/or anything we desired in order to go along with the plan. Also at this meeting, Hill impressed upon us that he represented people in New York who planned to bet large sums of money and who would get very upset if we did not take seriously this proposal.

After a test game early in the season, that did not result favorably for us, it became evident that if this scheme was to work, we would require the assistance of the team's leading scorer, Ernie Cobb. Rocco Perla eventually approached Cobb alone and asked him if he wanted to make money. When he told him how, Cobb agreed to cooperate. For his participation, Cobb received \$1,000. I also attempted to recruit, to no avail, the starting center Joseph Beaulieu but he didn't take my offer serious nor did he however, report my proposition to the coach which he is required to do. The total amount of money paid to the players was approximately seven thousand dollars and the total number of games fixed resulted in seven.

I am testifying today before the Commission so that every present and future collegiate ball player can hear my story and benefit from my errors and negative experience. The bad element is ever present as is the temptation in the form of money, drugs, and women waiting to prey on the young naive player who sees nothing wrong in taking these gifts to shave a few points.

**STATEMENT OF JOHN R. DAVIS, PRESIDENT  
NATIONAL COLLEGIATE ATHLETIC ASSOCIATION  
before the  
PRESIDENT'S COMMISSION ON ORGANIZED CRIME  
June 25, 1985**

My name is John R. Davis. I am the current President of the National Collegiate Athletic Association (NCAA), an unincorporated association of some 980 four-year colleges and universities and allied organizations. Formed in 1906, the NCAA is dedicated to the promotion, improvement and regulation of intercollegiate athletics. A fundamental policy of the NCAA is that competitive athletic programs are designed to be a vital and integral part of the educational programs maintained individually and in common by our member institutions.

I appear before the Commission today to draw your attention to one of the most serious problems affecting the integrity of intercollegiate athletics programs in the 1980's -- the individual and combined threat of drugs and gambling to the programs of our members and to the 270,000 student-athletes presently participating in those programs under the auspices of the NCAA.

Two months ago, hard on the heels of exposition of the most recent point-shaving scandal involving intercollegiate basketball, the governing NCAA Council unanimously adopted the following statement:

"The ominous combination of point-shaving (or game-fixing) and use of drugs by student-athletes has come into full view. The potential for the destruction of intercollegiate athletics' integrity from either already has been recognized. Their combination more than doubles that threat. The honesty of competition, in the public's eye, probably is more important than even the integrity of an academic record or the financial aid rules of the institution."

The tragic social problem involved in the availability to the nation's young people, including college students, of marijuana, cocaine, heroin and numerous other illicit drugs is of course well documented. Students engaged in intercollegiate athletics are by no means insulated from the problem, but as noted by the NCAA Council, the problem is exacerbated in intercollegiate athletics by the pressures and influences, often involving drugs, of those who would bet on, or affect the outcome for betting purposes of, college games.

It will thus not come as any surprise to the Commission to learn that the NCAA is flatly opposed to any form of gambling on intercollegiate sports events, and will support any legislative effort -- federal or state -- which would make such practice illegal or would otherwise impede the opportunity to gamble on the outcome of such events.

The NCAA has taken a strong anti-gambling position because of the particular vulnerability of intercollegiate sports programs and their young participants to the undesirable side

effects of gambling. Gambling on intercollegiate athletic contests is clearly inconsistent with fundamental concepts of amateurism in sports, and raises questions whether college sports conducted in such an atmosphere remain valid education programs.

Gambling increases the pressures and responsibilities already placed on college athletes by adding -- to the already-existing academic and competitive pressures -- the pressures of defending themselves against harrassment by gamblers seeking to gain an "edge" from "inside information" and against improper attempts to influence the outcome of the events in which they participate. Further, where gambling exists, suspicions about the integrity of the competition inevitably arise.

For its part, the NCAA has adopted rules and regulations governing intercollegiate competition in order to maintain such competition within reasonable educational boundaries and control and to prevent the exploitation of the competition and the participants therein. Included are specific rules aimed at destroying or minimizing the opportunities for organized gambling on intercollegiate athletic events. In addition, the membership of the NCAA adopted an overall policy (a copy of which is attached to this statement) concerning gambling which sets forth recommended actions to be undertaken by member institutions to combat the menace presented by gambling and the bribery that often accompanies sports betting, as gamblers attempt to eliminate or minimize their risks.

Tampering with intercollegiate sports events is not a "victimless" crime. Its victims include:

- the student-athletes directly involved;
- other student-athletes who may be subjected to pressures from gambling interests or whose honesty may be called into question when their efforts appear to be responsible for a failure to "beat the spread;"
- all participants in intercollegiate programs, the value of which may be questioned if tainted by an association with gambling; and
- the colleges and universities whose reputations for integrity may be affected.

Dramatic current evidence of the impact of gambling on an institution itself can be found in the recent decision of Tulane University to drop intercollegiate basketball in the wake of a point-shaving scandal.

In 1976, the President's Commission on the Review of the National Policy Toward Gambling reported that "in terms of gross volume of betting, sports wagering is today the number one form of illegal gambling in the United States." The NCAA is not aware of any data to suggest that this statement is any less true in 1985.

Although the Commission's report does not distinguish between the volume of illegal betting on professional or amateur contests, it is unfortunately safe to assume that betting on college football and basketball -- betting information on which is widely and regularly published by professional gamblers and indeed some of the nation's largest and most prestigious newspapers -- annually involves hundreds of millions of dollars.

Notably, the President's Commission on Gambling in its final report took a vigorous stand in opposition to gambling on amateur events:

". . .the Commission strongly recommends that there be an absolute prohibition against the inclusion of wagering on amateur sporting events in legalization [of gambling which might occur]. While the Commission recognizes that some amateur events already are the objects of illegal wagering nationwide, it cannot condone the utilization of wagering purposes of educational institutions and similar organizations dedicated to the improvement of youth.

This opinion is in part predicated on the fact that young athletes of high school and college age are far more impressionable and therefore are in greater danger of being subjected to the temptations of player corruption. Additionally, unlike professional sports leagues, particularly the NFL, amateur athletic associations do not have enforcement or investigative capabilities which would enable them to maintain sufficient safeguards."

Regrettably, no action has occurred in the ensuing nine years to give any effect to this recommendation of the Commission.

The situation has now become even more serious. As noted at the beginning of our statement, the NCAA is increasingly aware that a nexus exists between the introduction of drugs into the collegiate athletic scene and gambling on intercollegiate events, at least in terms of efforts by gamblers to affect the outcome a college contest by bribery.

To be frank, we at the NCAA have no "hard" information that there is a direct link between organized crime, on the one hand, and drugs and gambling on the college scene, on the other,

but from our conversations with federal law enforcement authorities, we believe this is simply a probability that cannot be ignored. What we do know is that legal and illegal gambling and the illegal distribution of drugs, both separately and combined, threaten to destroy the integrity of major college sports programs and threaten the well-being of the young men and women who are involved in those programs.

We at the NCAA believe that the time has come directly to confront the issue of gambling on college and other amateur sports events. We believe that the Gambling Commission's recommendation in 1976 -- that gambling on these events be made illegal -- should be implemented by federal legislative action, now. We thus urge this Commission to recommend to the President that he propose legislation to the Congress prohibiting such gambling, whether involving interstate or intrastate activity. You may be assured that we and our members will provide maximum support for any such initiative, and I am absolutely confident that strong support will come from the nation's high school administrators and from other amateur sports administrators, as well.

We also believe that existing federal anti-gambling legislation should be amended to permit more effective response to gambling on collegiate contests. This would first involve amending the federal sports bribery statute (18 U.S.C. § 224), which presently relates only to utilization of the facilities of interstate commerce, to cover purely intrastate activities as well, when those intrastate activities relate to intercollegiate athletic competition.

Second, the NCAA proposes that the statute prohibiting the interstate transmission of wagering information by gambling businesses (18 U.S.C. § 1084), be amended to limit the exception to the prohibition, presently existing in the statute, for the news reporting of sporting events, to exclude the transmission of odds or point spread information relating to intercollegiate athletic contests. Although it is clear that such an amendment would not have the effect of the eliminating, in the nation's newspapers, information relating to gambling odds and point spreads, it would have the effect of preventing gambling businesses from supplying such information and would thereby impede, we believe, gambling on intercollegiate sports events.

Quite frankly, were it not for apparent constitutional limitations, the NCAA would favor federal legislation which prohibited the publication, by the nation's newspapers and other media, of gambling information relating to intercollegiate events.

The NCAA also intends to develop a model state bill, prohibiting wagering on amateur sports events. We anticipate that once this bill is drafted, our member institutions -- many of which are state-supported institutions -- would be in a position to spearhead a legislative effort to gain adoption of the model legislation -- although we recognize that implementation of any model legislation is a time consuming process. As indicated above, our strong preference would be for passage of a federal law preempting the entire issue.

The Commission should be aware that in the past few weeks, representatives of the NCAA have been engaged in intense discussions with both the Federal Bureau of Investigation and the U.S. Drug Enforcement Administration, to attempt to establish the basis for an increased level of cooperation between those agencies and the NCAA and its members.

Although it is premature fully to outline the major points of this program of cooperation, it is reasonably safe for me to say that both agencies have express an enthusiastic willingness to participate in a major expansion of drug education clinics for college athletic department personnel and for student-athletes engaged in intercollegiate athletics. It also appears likely that the FBI will be willing to extend its already-existing education program concerning the dangers of gambling -- presently conducted in cooperation with some of the major professional leagues -- to the intercollegiate athletic scene as well.

The objectives of this latter program would be to advise athletic department staff members, coaches, and student-athletes that illegal gambling and/or sports bribery is a criminal offense that could induce disciplinary and eligibility penalties for the institution and participant; to identify subjects and the "types" of individuals who may attempt to obtain information that would aid organized gambling; to review the history of point-shaving scandals in intercollegiate athletics and the effect they have

had on the institutions and individuals involved; and to announce that the FBI and the NCAA will accept any information of sports bribery and gambling on a confidential basis.

As part of this program, the NCAA Council intends to propose an amendment to current NCAA legislation, to be considered next January, that would require institutional staff members and student-athletes fully to cooperate with the NCAA and institutional representatives administering investigations that involve gambling and sports bribery, drug distribution or drug use that allegedly involve intercollegiate athletics. Failure to cooperate in this regard would result in a particular individual being found in violation of the NCAA principles of ethical conduct, and therefore subject to disciplinary action for staff members and loss of eligibility for student athletes.

We also contemplate adopting an internal operating procedures directing each of our staff investigators to include, in any investigation of an alleged violation of our rules, an inquiry concerning possible gambling activities, and the establishment of an experimental "hot line" to encourage the reporting of illegal gambling or bribery information related to intercollegiate athletics.

At the next NCAA Convention, legislation will be proposed to provide for drug-testing of participants in bowl contests and NCAA championship events. We hope to begin implementation of this program in the 1986-87 academic year. We expect, moreover, to seek assistance from the federal authorities

in obtaining new legislation or regulations restricting the distribution of anabolic steroids except pursuant to a physician's prescription for the purpose of enhancing the health of a patient, excluding the improvement of athletic performance.

We very much appreciate the opportunity to appear before the Commission, and strongly urge that the Commission give serious consideration to support of the legislative and other initiatives which I have just discussed. We are, moreover, fully prepared to cooperate with the Commission in developing additional information concerning criminal activities related to either gambling or drugs on the college scene, and welcome the opportunity to work with your staff in this respect.

Thank you for your attention. I am happy to respond to your questions.

## STATEMENT OF VINCE DORIA

Mr. Doria is the Assistant Managing Editor/Sports for the Boston Globe.

Whether or not to run gambling lines and point spreads. It's a question that newspapers have agonized over for years. But more and more of them are taking what I consider to be a realistic, practical approach, and running this material in their paper.

Here are some figures from two recent surveys, taken by the Associated Press Sports Editors Association, an organization made up of some 350 editors from well over 200 papers around the country.

The first survey was taken in 1982, the second in 1984. During that period, papers running pro football lines increased from 67 percent to 77 percent; those running lines on other pro sports increased 39 percent to 48 percent; and those running lines on college football increased 50 percent to 70 percent.

Among large papers -- those with circulations over 175,000 -- in 1984, 92 percent were running pro football lines, 70 percent were running lines on other pro sports, 84 percent were running college football lines, and 68 percent were running other college lines, primarily basketball.

I can't rebut the argument that running this material promotes an activity that is illegal. And I'm not going to try and make a case that all of this information is of interest to the non-gambler. He may be interested to know that Boston College is a 7-point favorite over North Carolina; but the fact that Winnipeg is a goal-and-a-half-to-a-goal favorite over Calgary in a February National Hockey League game is of interest only to the hard-core bettor. And the Globe runs that information.

I think most newspapers have come to the conclusion that gamblers are readers too. In fact, they are extremely avid readers of the sports pages; and there are a lot of them out there. I think most of us believe that those readers deserve to be serviced.

From a personal point of view, I don't think gambling is going to go away. You can arrest neighborhood bookies; you can crack major gambling rings. But the guy who wants to place a bet on a game, is going to find a place to do it. The only solution is to simply take sports gambling away from organized crime, by making it legal, and letting the government regulate it.

I don't think there is anything inherently wrong with gambling. Like drinking, smoking, and eating, it can be abused. We, of course, always here the sad story of the down-and-out gambler who has his business, his home, and his family. Those stories make compelling reading.

But for every one of those stories there are thousands of people who gamble within their means, who find it as much a source of recreation as going to a movie or a concert, and who derive great enjoyment from making modest bets.

Somebody is going to address that market. Organized crime has merely recognized that market, and is serving it. There's no reason why the government can't do that instead.

Those who condemn newspapers for running betting lines, point to recent point-shaving scandals at Tulane and Boston College. I would submit that legalization of sports betting would prevent much of this. I'm not as familiar with the Tulane situation as I am with Boston College. But in the latter case, as usually happens in point-fixing schemes, the bettors placed their bets with several different bookmakers, in order to keep the amount of the bets down. A large bet with any single bookmaker, of course, would arouse suspicion.

It's my contention, that were betting legalized by the government, and a thorough communication system -- be it by computer, or whatever -- set up, it would be far more difficult to place a series of bets on any single game, without that action becoming common knowledge. It would be far riskier to fix games than it is now.

Aside from the preventive influence legalized gambling might have on point-fixing, it could be the source of much-needed revenue for states and cities. In an era when tax cuts have often meant a reduction in services in many communities, revenue from legalized gambling could be extremely useful.

Sports gambling is here to stay. Recognizing it, trying to control and derive some good out of it, is the only practical approach.



State of New Jersey  
COMMISSION OF INVESTIGATION  
28 WEST STATE STREET  
TRENTON, N.J. 08608  
(609) 292-6787

JAMES J. MORLEY  
EXECUTIVE DIRECTOR  
ROBERT J. CLARK  
DEPUTY DIRECTOR  
HELEN K. GARDINER  
ASSISTANT DIRECTOR  
JOHN O. DAVIES  
EXECUTIVE ASSISTANT  
GERARD P. LYNCH  
JAMES A. HART  
PAUL D. AMITRANI  
CHARLOTTE K. GAAL  
COUNSEL

JUNE 25, 1985

Statement by James J. Morley, Executive Director,  
New Jersey State Commission of Investigation  
before the  
President's Commission on Organized Crime  
New York, N.Y.

HENRY S. PATTERSON, II  
CHAIRMAN  
WILLIAM S. GREENBERG  
JAMES R. ZAZZALI  
PAUL ALONZI  
COMMISSIONERS

This is the first time since the New Jersey State Commission of Investigation issued an interim report last year, criticizing our state's regulation of boxing, that we have made any public comment about our continuing inquiry. The reason for our decision to deviate from an SCI policy against discussing ongoing probes is two-fold: First, our investigation has confirmed the insidious presence of organized crime in boxing to an extent that merits instant exposure, and second, these hearings have made available a most appropriate forum for discussing findings that call for federal redress in cooperation with the states, rather than state action alone.

As the SCI emphasized in its 1984 report, boxing in New Jersey has been plagued with problems that may never be adequately resolved at the State level. Our initial scrutiny stressed the weaknesses of a regulatory system which, in the face of a gambling casino-spurred boxing revival, had defaulted in its obligation to safeguard the integrity of an enterprise whose capacity for barbarism makes it extremely vulnerable to any loss of public trust. The SCI's interim report called for increased regulatory and fiscal controls over boxing exhibitions, including more professional ring-

side monitoring, more aggressive restraints against mismatches and other promotional misconduct and, most important, a more intensive effort to reduce a violent sport's debilitating impact on boxers, chiefly brain damage and vision impairment. Although most of the SCI's 1984 recommendations for procedural and operational changes have been enacted and a much stronger regulatory system is gradually being implemented, we have strong doubts that even this administrative reform will suffice. As the SCI emphasized in 1984, and reiterates today, no single state can possibly cope with the problems inherent in an industry whose operations cross state lines and whose economic success depends on regional and national, rather than local, audiences.

The need for some kind of a federally centralized mechanism to achieve any truly appropriate regulation of boxing is particularly demonstrated by the SCI's investigation of organized crime's impact on the industry. Because of time restrictions, I can only touch on certain pertinent highlights, with a promise that a detailed expose of this underworld incursion will be forthcoming soon as a public report. While the SCI can confirm at this point that organized crime is definitely a threatening intruder in the industry, we cannot prove that any particular boxer has become a mob pawn, or that any particular boxing exhibition has been mob "fixed," or that any particular promoter is operating primarily with funds derived from mob depredations. We have a well-founded suspicion that such activities have occurred but, unfortunately, no evidential proof at this point. Nonetheless, I can say, based on testimony at the SCI to date by dozens of witnesses, that if the same mob presence we have found in boxing existed, for example, in professional baseball or football, it would, I am certain, constitute a massive public scandal.

We have time to submit here only capsulized illustrations of organized crime's imprint on boxing in the New Jersey region. What follows is based on testimony at the SCI, buttressed by surveillances and audits of records by SCI agents and by data made available to us through the highly cooperative efforts of the New Jersey State Police.

One organized crime family associate who was interrogated at length is Barry Shapiro, a Philadelphia scrap metal dealer who is licensed in New Jersey and Pennsylvania as a boxing manager. Although he entered boxing as a neophyte in 1984, by the time he testified under immunity at the SCI in April of this year, he had, according to his own figures, "invested" as much as \$150,000 in his boxing enterprise, which also includes a training gym in Philadelphia known as Champs Camp. Shapiro told the SCI that the scrap metal business, KDB, Inc., which is owned 75 per cent by his brother Kenneth and 25 percent by himself, finances his boxing activities. Kenneth Shapiro, according to the State Police, is a close associate of Nicodemo Scarfo of Atlantic City, the leader of the old Bruno organized crime family which operates in Philadelphia and throughout South Jersey. Kenneth Shapiro helps to finance his brother's boxing activities because, according to Barry, "he's a fight fan." Barry Shapiro told the SCI that he has met Scarfo and has explored business opportunities with Scarfo's Atlantic City-based construction company, Scarf, Inc., through Scarfo's highly trusted confidant, Philip Leonetti. Barry Shapiro also has business or social contacts with other mobsters in the Scarfo gang, including brothers Salvatore and Lawrence (Yogi) Merlino, but insisted he knows only from reading newspapers that the Merlino, Leonetti and Scarfo are members of an organized crime family. Shapiro also told the SCI that, when he was in the casino junket business about two or three years ago, he met Martin

Taccetta, a Luchese family associate. Martin is the brother of Michael Taccetta of North Jersey, a more notorious Luchese family soldier who asserted his Fifth Amendment privilege when subpoenaed to testify at the SCI. At his brother Kenny's request, Barry Shapiro invited Martin Taccetta to his niece's wedding in 1984. Another confirmation of Barry Shapiro's close relationship with the mob was his testimony that he went to Haiti on several occasions in the early 1980's to survey casino ownership opportunities for the Taccettas. The list of Barry Shapiro's underworld associates is as expansive as his boxing activities. He got to know the International Boxing Federation's heavyweight champion Larry Holmes well enough to travel with Holmes for more than four months. Holmes, said Barry, was "teaching me the game." Now, in addition to a half-dozen boxers under contract, Barry Shapiro has a cable company contract that calls for Holmes -- after the champion's retirement -- to provide "color" commentary at fights at Shapiro's Champs Camp. This same Shapiro, who said he has gone to fights with the Scarfo gang's sycophant, Jerry Blavat, also processed as many as 30 real estate deals through Scarfo's son, Chris, a real estate agent in Atlantic City. This same Shapiro, who has played gin rummy with Scarfo mob associate and convicted felon, Saul Kane, also owns 5 percent of cruiserweight contender, Dwight Braxton, who trains at Shapiro's Champs Camp under the same trainer who handles Shapiro's fighters. Obviously, Barry Shapiro's numerous and close social and business contacts with the mob demarcates him as a boxing manager who should be constantly monitored by boxing regulators because mob money and mob influence probably are at play wherever Barry Shapiro operates.

(It should be emphasized here, with reference to Holmes, Braxton and all other boxers named in this statement, that the SCI has no evidence that

they are cognizant of the organized crime associations of individuals who have contracts with them).

The SCI list of "mobbed-up" boxing entrepreneurs also includes Arthur R. Pelullo of Voorhees, N.J., a licensed manager of fighters promoted by his Royale Promotions company. This company and its founder were introduced to boxing by Mark Stewart, a convicted felon who is licensed in New Jersey as a boxing manager. Although neither Royale Promotions nor Pelullo had any boxing credentials, they soon assembled a stable of fighters, which included Andre (Sugarman) Cooper, Kenny McClain, Kenny Bogner, Anthony Witherspoon and others. Pelullo and Stewart broke off their association after an argument. As a result, Pelullo wound up managing only Bogner, who is unable to compete because he is in jail for robbery and assault. Boxing manager Pelullo, in immunized testimony at the SCI, described Scarfo mob consigliere, Nicky Piccolo, as a family friend for 40 years. Pelullo has also associated with other members of Scarfo's inner circle, such as underboss Salvatore Merlino, Philip Leonetti and the deceased capo Salvatore Testa. The last two were among guests at a christening party for Pelullo's daughter. When Pelullo expressed an interest in buying Shapiro's limousine company in Atlantic City, it was mobster Leonetti who arranged his introduction to mob associate Kenneth Shapiro. Pelullo also has known "for many years" Frank (Frankie Flowers) D'Alfonso, a major money-maker for the mob. The questionable standards by which Pelullo operates is illustrated by a "favor" he accepted from his friend, former Atlantic City Mayor Michael Matthews, who is now in jail for extortion. According to Pelullo's SCI testimony, he told Matthews he "wanted somebody to show me around Atlantic City and introduce me to the business people." That's how Pelullo came to be introduced to Atlantic

City by Matthews' friend, former Mayor Richard Jackson, a convicted extortionist. Bogner's imprisonment hasn't meant that Pelullo suddenly became inactive in boxing. One of his former fighters, Ricky Parkey, was scheduled to fight on the undercard of a title fight in Nevada last May. Pelullo's company, Royale, was to get a promotional fee and Pelullo himself was to receive one-half of the 33 and a third percent manager's fee from the fighter's purse. Although this event was postponed, you can imagine what the public reaction would be if such a close associate of major mob leaders, as Pelullo is, had similar financial arrangements with a professional athlete in any other major sport.

Anthony (Butch) Cristelli, a former Philadelphia policeman who has been retired on a disability pension since 1970, testified under a grant of immunity about his dealings with mob members and associates in connection with various boxing endeavors during the early 1980's. Cristelli, who founded the now defunct Blackwood, N.J., Boys Club as a training gym for boxers in 1980, was, considering his police background, incredibly circumspect about his knowledge of the Philadelphia mobsters with whom he associated. For example, Cristelli admitted meeting with Frank (Blinky) Palermo, a veteran soldier in Scarfo's gang, and that he had "heard" that Palermo was a member of organized crime. When Cristelli insisted that Palermo's mob reputation was merely "general street talk," the following relevant testimony took place:

Q. While you were a member of the Police Department, was it also not known to you that he [Palermo] was a member of organized crime?

WITNESS' COUNSEL: A fact as opposed to rumor, inhuendo, lies, okay? So the question is, do you know -- did you

ever know for a fact that Blinky Palermo was a member of organized crime.

THE WITNESS: No, I think I answered that before and I have to go the same way. I didn't know, per se, that he was a member of organized crime.

Q. Did the law enforcement records indicate that he was?

A. Yes.

Q. Did members of the Philadelphia Police Department, brother officers of yours, tell you that they felt that he was a member of organized crime?

A. Yes.

Q. Now, the question I have now, keeping all that you've heard in mind, why would you have all of these discussions with Mr. Palermo, given the fact that you've heard through reliable sources that he is a member of organized crime, if you are a boxing manager, licensed to manage in the State of New Jersey?

A. Our discussions were purely general, generalizations. He never, whenever we met, talked or tried to do anything that would appear to be anything involving organized crime...He came down into the gym. He came into the gym. When we had a drink or whatever, I knew the fella, I knew the guy, there was nothing wrong -- he never did anything illegal in front of me. We never discussed anything illegal. Why shouldn't I talk to him?

Cristelli was questioned about Palermo's criminal record -- related to boxing -- in the State of California. The SCI learned that Palermo was convicted and jailed in the 1960s on a charge of extortion involving a boxer. Cristelli said he did not know the details but knew Palermo "went to jail for something involving fights." He was then asked whether he felt that his associations with a convicted felon might be detrimental to boxing and against the public interest. He said he felt such an association would be detrimental "if I was doing business with the fellow or he was doing business with me." That statement did not jibe with Cristelli's testimony that he had discussed with Palermo the possibility of operating a closed circuit location for the Cooney-Holmes fight in June, 1982. Cristelli also testified that promoter Joe Hand subsequently joined this discussion at Palermo's request, a statement which Hand has denied. Cristelli eventually did set up a closed circuit show in South Jersey for the Cooney-Holmes bout in conjunction with his uncle, Al Ciccotelli, a close friend of Frankie Flowers D'Alfonso. Cristelli, who admitted that he himself has known D'Alfonso for more than 40 years, also testified he met with D'Alfonso in the presence of Blinky Palermo and discussed closed circuit TV arrangements for boxing shows and other "generalities," but he knew only from "street talk" that D'Alfonso was a supposed crime figure.

Cristelli was questioned about what was known at the Philadelphia Police Department about D'Alfonso's organized crime activities. However, official confirmation of D'Alfonso's mob background made no difference to Cristelli, as the following extract from his SCI testimony demonstrates:

Q. Were there police reports which indicated that Mr.  
D'Alfonso was a member of organized crime?

A. Yes.

Q. And did you have discussions with brother officers that Mr. D'Alfonso was a member of organized crime?

A. Yes.

Q. Did you ever have discussions with Mr. D'Alfonso concerning these allegations that he was a member of organized crime?

A. Per se, no, we never discussed that because I don't believe that Mr. D'Alfonso is part of any organized crime family.

Cristelli also testified about meeting with mob associate Stephen Traitz, Sr., another boxing manager with a New Jersey license, and Blinky Palermo in the dressing room of one of Traitz's fighters at an Atlantic City casino. However, Cristelli claimed that he could not recall why Palermo was in a boxer's dressing room or what conversations took place there.

Traitz founded and operated the Montgomery County Boys Club, a former training gym for boxers in Eagleville, Pennsylvania, which became one of Palermo's hangouts. Traitz testified in Palermo's behalf when Palermo was trying to obtain a boxing manager's license from the Pennsylvania State Athletic Commission in 1978. He also was a scheduled character witness for Charles Warrington, a known organized crime associate in Bucks County, Pennsylvania, when Warrington was sentenced on a racketeering conviction in 1983.

The Montgomery County Boys Club is of interest here not only because it was linked to boxing operators who are mob associates but also because it has been linked with boxing exhibitions of questionable competitiveness. For example, on November 17, 1984, Promoter Joe Hand staged a boxing

show in the Bahamas which featured fighters from the Montgomery County Boys Club, all managed by Traitz. All of Traitz's fighters won, in early rounds -- and no wonder! One successful "combatant" was Traitz's son, Stephen Traitz, Jr., who had a 20-1 win-loss record compared to his opponent's record of 8 wins and 20 losses. Another Traitz son, Joseph, won with a 2-0 record against a fighter with no wins and five losses. Another winner boasted a 17-0 record, compared to his victim's 1-4; another victor had a 19-0 history, and of course, prevailed over a boxer who had won only 2 and lost 3 prior fights. The remaining three fights in this exhibition were similarly lopsided. Our Commission would by no means be surprised to learn that these fights were "pre-arranged" merely to inflate the win records of the Joe Hand-promoted and Traitz-managed stable of fighters. As we all know, organized crime is in business solely to make money and the only way to make money in boxing is to be attached, as a promoter, trainer or financing "angel," to a boxer whose record of victories versus losses is so lopsided that he becomes a candidate for world championship titles and a contender in multi-million-dollar title fights.

Our time allotment should permit still another illustration of organized crime's presence in boxing. This concerns Alfred Certisimo, a former licensed boxing promoter and matchmaker who operates the Certo Custom Tailor Shop and the Italian Cove Restaurant in Secaucus, New Jersey. Better known as Al Certo, this individual admits to extremely close ties with John DiGilio, a Genovese crime family soldier who has long been prominent in Hudson County gambling and loanshark rackets. The late John Marrone, Jr., the son of a Genovese crime family soldier and ally of DiGilio's, was often featured on Al Certo's fight cards. Although Certo is not presently licensed in New Jersey as a boxing manager, he says he "acts"

in that capacity for the highly rated middleweight boxer, Mustafa Hamsho. Certo says he prefers to be considered as Hamsho's "booking agent" and handles all of Hamsho's affairs at his tailor shop. This place has attracted a swarm of known gangsters and associates -- including, according to Certo's testimony at the SCI, the now imprisoned waterfront strongarm boss Tino Fiumara, a particularly powerful Genovese soldier, and such other crime family members and associates as Michael Perna, who is allied with Michael Taccetta's Luchese family gang; Joseph (Pepe) LaScala, Frank Scaraggi, and, of course, and most often, DiGilio and his chauffeur, Robert Lake.

Speaking of Al Certo and his connection with Mustafa Hamsho calls to mind an even closer connection between the mob and a boxer. One of Hamsho's victories occurred in November of 1982, over another blossoming boxer by the name of Bobby Czyz. A \$300,000 piece of Czyz was -- and still is -- owned by two North Jersey businessmen who have been identified by the State Police as associates of the Luchese crime family. These individuals, Andrew Licari of Livingston and Andrew Dembrowski of Bernardsville, both testified at the SCI. Licari described his long-time relationships with known organized crime figures, including such notorious mobsters as Anthony (Tumac) Acceturo, a Luchese capo who fled to Florida to escape an SCI subpoena, the Taccetta brothers, and Joe Abate, another Luchese capo who is known to the New Jersey State Police as a mediator of mob disputes in Atlantic City. Licari recalled in his testimony at the SCI that he and mob-front Kenneth Shapiro discussed a possible real estate deal several years ago. So close was the Licari-Dembrowski connection with Abate that, according to Dembrowski, the gangster borrowed at least \$10,000 from the funds of a company the two men own jointly. According to Boxer Czyz's

contract with Licari and Dembrowski, they are to get 26 percent of his earnings until November 9 of this year and 5 percent thereafter until 1991. The SCI has reason to believe that the money utilized to buy a piece of Czyz had its origins in an underworld loanshark operation.

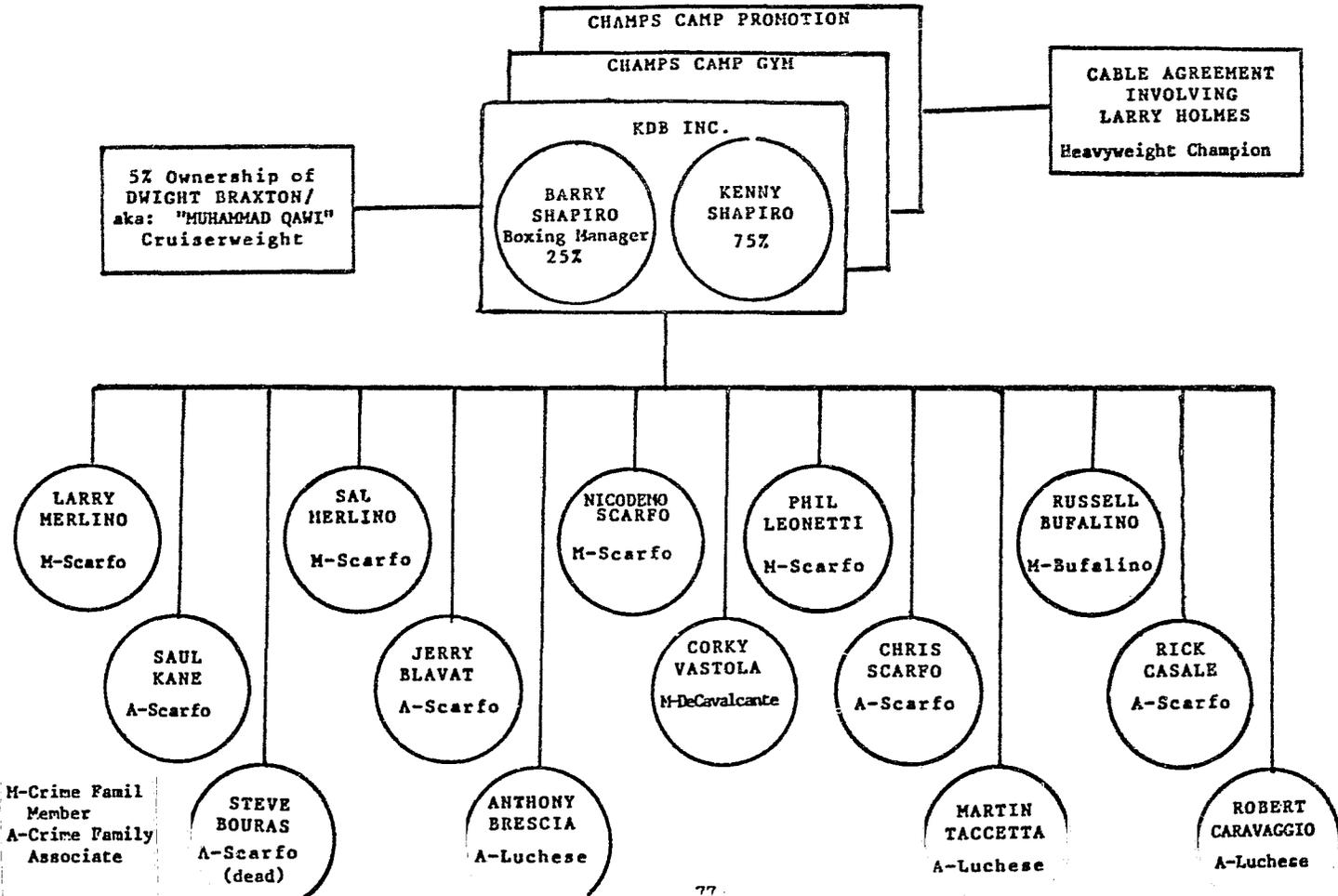
Before closing I'd like to point out several aspects of the boxing situation in New Jersey that have become more definitive in recent months. First, the boxing revival that erupted with the growth of the casino gambling business in the late 1970's appears to have tapered off. One possible explanation for this could be the fact that casino facilities in New Jersey are not large enough to accommodate crowds of a size that fight promoters and television sponsors feel are required for a financially and theatrically acceptable extravaganza. Second, the slowdown in major boxing action could explain why the SCI's inquiry to date has not been able to verify more than a presence of organized crime in the sport, as ominous as that presence may be. Third, an explanation for the increasingly cautious intrusion of organized crime in boxing, at least in the New Jersey area, may well be the SCI investigation itself. We have been told this by both law enforcement officials and reliable underworld informants.

Some comments in conclusion: Our Commission regards boxing as an extremely brutal sport. Perhaps this explains its attraction for organized crime as a money-making vehicle. In closing, therefore, we wish to urge the institution of certain basic regulatory controls over boxing if the sport must continue to exist. Most important, the SCI strongly recommends that the federal government assume -- in cooperation with the states -- primary regulatory responsibility. There should be a central, federally supervised, repository of data on boxers, managers, promoters, owners and all other participants in the boxing industry. A national passport system

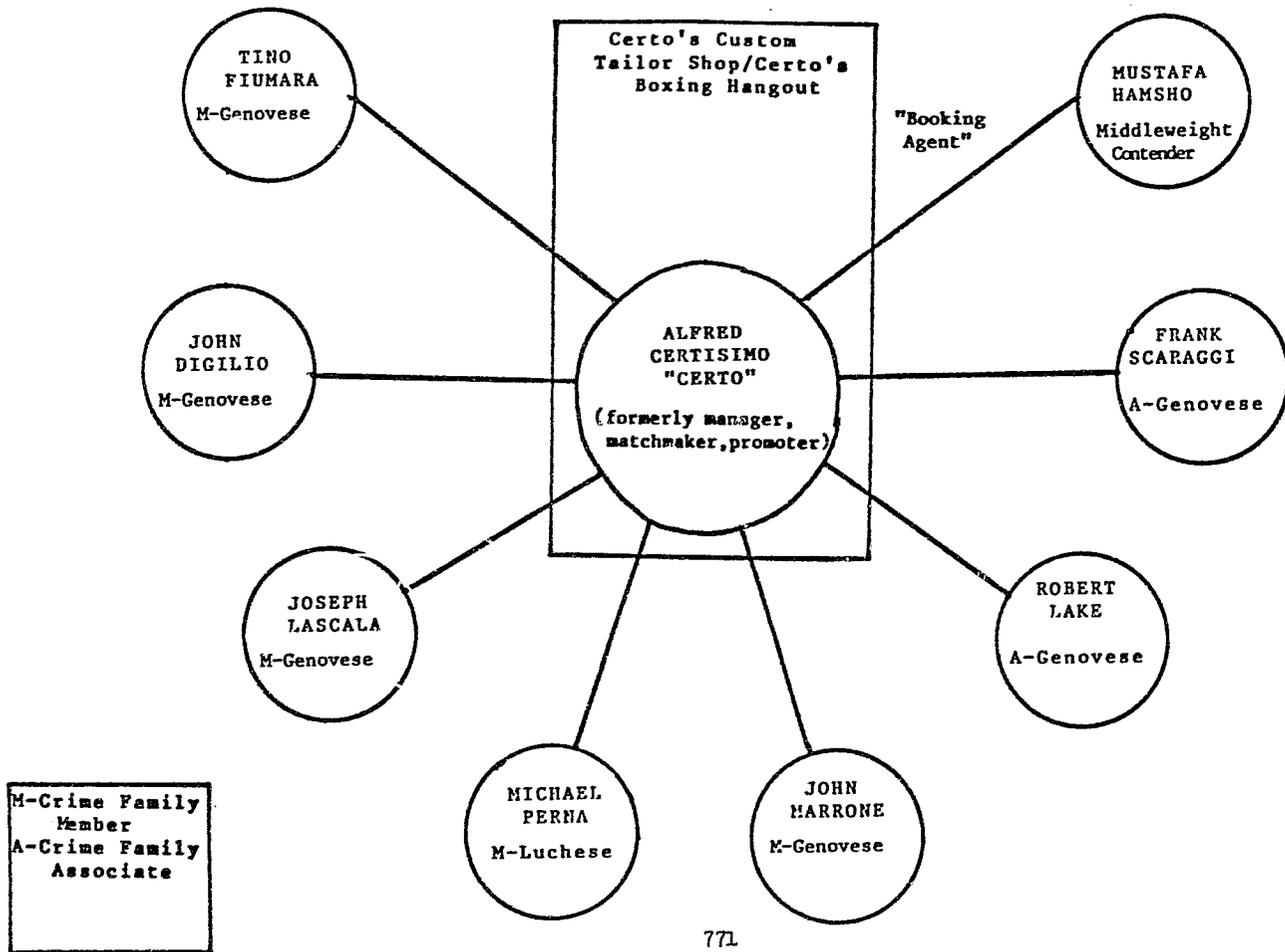
should be established to provide up-to-date, accurate information on the boxing credentials, physical condition and financial background of all boxers. There should be a national system of licensure for key industry personnel, from promoters to referees, and even seconds, with eligibility standards that would ban participation in the sport by anyone known to be -- among other disqualifications, to be sure -- a member or associate of organized crime. We will, naturally, outline these and other recommendations in much greater detail in our forthcoming public report. We would be remiss, however, not to take advantage of this forum to project our belief in the absolute need for federal resolution of the boxing industry's many difficult problems, not the least of which is organized crime's influence.

Copies of this statement and of the charts are available.

BOXING MANAGER SHAPIRO'S  
ORGANIZED CRIME LINKS



BOXING "AGENT" CERTO'S  
ORGANIZED CRIME LINKS



LEGAL CASINOS  
SOURCE OF INCOME FOR ORGANIZED CRIME  
TESTIMONY OF SPECIAL AGENT  
RYAN T. CORRIGAN  
GROUP MANAGER, IRS  
RENO, NEVADA

## I. Casino Operations

Legalized gambling in casinos is a legitimate business enterprise. Casinos provide entertainment services, gourmet restaurants, lavish entertainment, along with many forms of gambling -- slot machines, dice, "21", roulette, baccarat, poker, keno, and race/sports books.

The major legal casinos in Nevada grossed over \$2.9 billion in gaming revenues in 1984. Almost all of this income was received in cash. It is truly an industry that generates a large volume of cash.

## II. Classification of Illegal Income from Casinos

The label placed on the illegal income derived from legal casinos depends on who is performing the illegal activity.

- A. Skimming is performed by the owners, including hidden owners, or by the control group of executives if the casino is owned by a corporation.
- B. Embezzlement is performed by casino employees stealing from the casino without the top management's knowledge or approval.
- C. Theft is defined as all others who cheat casinos in some manner.

All of these means have been employed by Organized Crime as a source of income. It would not be uncommon to find all of these methods, skimming for hidden owners, skimming by owners for tax purposes, embezzlement and theft taking place in a casino at the same time. Once controls are circumvented at the top level they seem to become lax at all levels of the organization.

### III. Methods of Skimming, Embezzlement, Theft

The methods described below are based on experiences encountered in actual investigations. The first group relate to profit centers in the casino. Each form of gambling could be considered a separate profit center.

Slot machines produce over half of all gross gaming revenue received by casinos. In Nevada this amounted to over \$1.5 billion in 1984.

#### Slot Machines - External

The advent of the large progressive jackpots a few years ago is one of the primary reasons for the popularity of slot machines. Slot machine jackpots exceeding \$100,000 are relatively common. The largest jackpot paid was \$2.7 million.

Progressive slot machines have an interesting characteristic. The casino places a minimum amount on the slot machine "win" meter, usually \$10,000 to \$100,000. The amount of the total jackpot on the "win" meter then increases with every coin or token played. The amount of this increase is held in trust by the casino, but eventually must be paid out as a jackpot. The major portion of the progressive slot machine jackpot does not belong to the casino.

Progressive slot machines have become the target of highly sophisticated slot cheating gangs. These gangs capitalize on the availability of numerous large jackpots and the casino's desire to pay them out for publicity purposes.

Although the total amount taken may never be known, we estimate one gang collected over \$20 million during a three year period. One participant testified he rigged so many slot machines he couldn't remember them all. He estimated the number of machines in the hundreds.

This gang is believed to be associated with organized crime. One of the members said the "leader" was required to get permission from an organized crime "boss" in Bayonne, N. J. before they "took off" slot machines in Atlantic City.

Many new slot machines are operated by an internal mini-computer and some have video displays. We have reason to believe that other slot cheating gangs have devised methods to cheat these machines with electronic equipment.

#### Slot Machines - Internal

Proceeds from slot machines can also be skimmed internally in casinos. Because of the large volume of coins handled daily, coins are counted by weight. Very sensitive electronic scales are used for this purpose. It is possible to alter the coin scale so that the value of the coins indicated on the scale meter is less than the actual amount, i.e. 110 silver dollars would read out as 100. To complete the skim the coins need to be converted to "soft" money-currency. Inside employees are required to accomplish this process. In one case we determined that \$7 to \$20 million in slot "drop" was skimmed from four related casinos during an eighteen month period.

## Table Games

Craps, "21" and Roulette are the major table games, with Baccarat, Poker, and Miscellaneous games in the same category.

### Drop Box

The money received by the casino is placed in a slot on the table and "drops" into a locked metal box under the table. The boxes are collected after each shift and held in a vault until the contents are counted. Historically, the easiest way to skim a casino was to take money from the drop boxes before it was counted and recorded in the books. We have in the past counted the "drop" and compared our count to the casino's books to identify the amount of money removed from the boxes. Even where we have found the casino count was less than the surveillance count, we have had the problem of determining who took the money and where it went.

Foreign chips are gambling tokens, or chips, from another casino. Most casinos will allow a player to use them to make a bet, but will place them in the drop box as they are lost by the player. A variation of removing currency from the drop box is to not count the "foreign" chips in the total drop.

### Fill Slip

Another common method of skimming table games is through the use of "fill" slips. From time to time it is necessary for the casino to replenish the supply of chips on a game. "Fill" is the term used for this procedure.

A security guard physically transports chips from the cashier's cage to the pit. The pit supervisor brings the chips to the appropriate game and the dealer places them in the chip rack or stacks. Each employee verifies the count and signs a control document, or "Fill slip."

To accomplish a skim, collusion by all of the employees involved is required. The skim is carried out by placing fewer chips, or no chips, on the game and taking the equivalent amount in cash from the cashier's cage. In a case indicted, but yet to go to trial, the indictment specifies \$200,000 to \$600,000 a quarter was skimmed by false fill slips.

#### Credit Slip

A "credit slip" is the reverse of the "fill slip" and is used to record the removal of chips from the table. This occurs when excess chips are returned to the cashier's cage or a player purchases chips on credit. If the credit slip is not placed in the drop box the game would have an unexplained loss of chips and reduce the profit for that game. To complete the skim the equivalent amount of cash would be removed from the cashier's cage.

#### Dumping Games

The procedure involves the use of a non-employee "agent" posing as a player. The game is "dumped" to this player by paying him or her regardless of win or loss, or by giving the player some advantage to change the odds in favor of the player.

For example, the odds on a "21" game can be changed if the player knows the value of the dealer's "hole" card. This is generally accomplished by collusion with a dealer, but there is currently a group operating with sophisticated electronic equipment. They use a video camera with a miniature lens to photograph the "hole" card as it is placed on the "21" table, transmit the picture to a van in the casino parking lot, where it can be read by stop action. The value of the card is then transmitted to the player who receives the signal through electronic impulses felt in the genital area.

Cards are also counted in this manner and a computer analysis of the odds of a win is made in the van and transmitted to the player. This enables the player to determine how much to bet on the next hand.

#### Expense Items

Shown on the chart is a laundry list of various casino expense items in which we have found fraudulent documentation or kickbacks. The opportunity for fraud or kickbacks is by no means limited to this list.

The construction loans referred to on this list relate to a case in which a project architect and the casino general counsel were convicted of federal charges relating to kickbacks. The loan in this case originated from the Teamsters Central States Pension Fund. Percentage of completion payments were traced through a complex process of approvals and transfers of funds involving title companies, the casino, the general contractor, subcontractors, individuals, and ultimately, checks cashed at casinos.

GRAPHICS

I. CASINO ILLEGAL INCOME

II. LOAN PAYMENT KICKBACKS

TRANSPARENCIES

- A. CASINO GAMBLING PROFIT CENTERS
- B. FRAUDULENT EXPENSES
- C. FILL SLIP
- D. CREDIT SLIP
- E. TABLE GAME ACCOUNTING

CASINO GAMBLING PROFIT CENTERS

<u>Activity</u>	<u>Sources of Illegal Income</u>
I. Coin Operated Devices	A. Rig Machines B. Tamper With Coin Scales C. By-Pass Coin Scales
II. Table Games (21, Craps, Baccarat, Roulette)	A. Drop Boxes 1. "Soft" Money Removed 2. Foreign Chips Not Counted B. Fill Slips C. Credit Slips 1. Markers 2. Returned Chips 3. Write Off Accounts D. "Dump" Games 1. Signals From the Dealer 2. Pay Win or Loss 3. Electronic Equipment
III. Keno	A. Past Post
IV. Race and Sports Books	A. Past Post

## FRAUDULENT EXPENSES

1. Food & Beverage Kickbacks
2. Phoney "Comps"
3. Advertising
4. Employee Kickbacks
  - a. Pay For Employment
  - b. Toke Split to Owners/Managers
  - c. Entertainers Kickback
5. Construction Loan Kickbacks

RENO, NEVADA

FILL SLIP

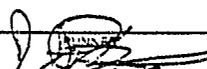
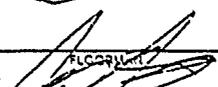
DATE 5-23-65 MAY 23 TIME 11 25 AM '65

SHIFT: GRAVEYARD DAY SWING

GAME	NUMBER	DENOM	AMOUNT
<u>CRAPS</u>	<u>2</u>	1.00	<u>2000</u>
<u>21</u>		5.00	<u>1000</u>
ROULETTE		25.00	<u>1000</u>
		100.00	

TOTAL → 2500

MEMO:  


    
CASHIER DEADER-BOXMAN

A234557

RENO, NEVADA  
CREDIT SLIP

DATE 5-23-65 HMK 11 3 JMB			
SHIFT: GRAVEYARD		DAY	
GAME	NUMBER	GENCH.	AMOUNT
CRAPS	2	1.00	300
"21"		5.00	
ROULETTE		25.00	
		100.00	
TOTAL			500

MEMO:  
C/O  
*[Signature]*

X	<i>[Signature]</i> FINDER	X	<i>[Signature]</i> FLOORMAN
X	<i>[Signature]</i> CASHIER	X	<i>[Signature]</i> DEALER/BOXMAN

SEE LINE PRINTERS-Sparks Nevada  
A 35108

CASINO ILLEGAL INCOME

- A. SKIMMING - OWNERS
- B. EMBEZZLEMENT - EMPLOYEES
- C. THEFT - ALL OTHERS

TABLE GAME ACCOUNTING

DEBIT	CREDIT
Opening Bank Fills	Closing Bank Markers Returned Chips Drop Box Count
LOSS	PROFIT
<hr/> <hr/>	<hr/> <hr/>

PRESIDENT'S COMMISSION ON ORGANIZED CRIME GAMBLING HEARING  
CASINO JUNKET OPERATIONS

\* \* THE OTHER SKIM \* \*

WITNESSES: William Kisby, Detective Sergeant  
New Jersey State Police

Gregory Seitz, Detective  
New Jersey State Police

Witness Kisby:

I have been employed by the New Jersey State Police for the past fifteen (15) years. Since 1977, I have been assigned to the Casino Intelligence Unit, Intelligence Services Section of the State Police.

Since 1982, I have been a supervisor of Intelligence Special Projects in Atlantic City. My assignments have included a project involving junkets and their organized crime involvement in the gaming industry.

With me today is Gregory Seitz, he has been with the State Police for sixteen (16) years and has been with Casino Intelligence since 1982.

During his assignment with the Casino Intelligence Unit, he acted in an undercover role as a "licensed junket operator" from early 1983 until the Spring of 1984.

Casino junket activity is a legitimate marketing technique utilized by the casino industry to entice gamblers to visit legal gaming establishments. In New Jersey, the Casino Control Act establishes regulations to govern this activity. According to state law a junket is....

An arrangement, the purpose of which is to induce any person, selected or approved (for participation therein) on the basis of his ability to satisfy a financial qualification obligation or willingness to gamble, to come to a licensed casino/hotel for the purpose of gambling (and pursuant to which, and in consideration) for which, any or all of the cost of transportation, food, lodging, entertainment and other services and items of value for said person is directly or indirectly paid by a casino licensee or employee or agent thereof.

Casino junket operators feel junket activity is the "lifeblood" of a successful casino operation since the casinos must be able to continually attract preferred customers or "high rollers" as they are sometimes referred to, to generate income.

In order to effectively implement and continually maintain this player base of preferred customers, the casinos allocate large portions of their operating budgets to the marketing program to accomplish this goal. The amount the casinos allocate is generally second, only to salary for the entire hotel/casino's monthly operating expenditure.

These marketing programs involve air - bus junket activity and casinos also utilize limousines and/or helicopters as transportation for these individuals on an individual or small group basis.

For this service, the junket operator is paid a commission or in some cases, a salary by the casino. However, at times, he may also receive compensation from the patrons by collecting fees from the gamblers themselves.

The junket operators can deal directly with the casino marketing department, however, a "junket enterprise" is sometimes utilized to coordinate the junket activity of several agents for one casino.

It is through this enterprise that the scheduling of proposed junkets is controlled and the agents desiring to send gamblers to a casino must deal through that enterprise.

There are typically two (2) ways in which the junket enterprises coordinate the transportation of gamblers to the casino. In one case, the casino pays for the transportation of the gamblers, by paying the air carrier or bus operator directly. In the other the casino pays the enterprise a fee and the enterprise is required to provide the transportation. Variations of these may occur.

The charts demonstrate graphically the casino junket operation. (See Chart Case-1, See Chart - Case-2).

As you can see, in the first example, the junket operator deals directly with the casino. This is the system that maintains the greatest integrity especially because of the ability to audit those receiving monies for services.

The other examples have the greatest potential for abuse and the channeling of monies to organized crime--because there is no direct accounting system.

Unfortunately, we witnessed just such a case in New Jersey. It was learned through an "undercover" investigation that four (4) casinos were in fact utilizing licensed junket enterprises that were affiliated with an unlicensed junket enterprise associated with the Bonanno/Rastelli Crime Family.

When the marketing costs were compared to the "win" ratio statistics for all Atlantic City casinos from April 1983 to June 1983, it was obvious that four (4) casinos had exorbitant marketing costs compared to a "low" win figure.

Based on an analysis of intelligence information an undercover investigation, code name "Operation Eagle" was commenced in 1982....

Detective Gregory Seitz was assigned to participate in this investigation in an undercover capacity, posing as a licensed junket operator. Detective Seitz obtained a Junket Enterprise License which enabled him to communicate with other licensed and/or unlicensed junket operators doing business in Atlantic City, New Jersey casinos.

In the initial phase of the investigation, Detective Seitz was directed to attempt to operate super buses into Caesars Hotel/Casino since the intelligence information analyzed had indicated that "kickbacks" were being paid to individuals with criminal records who controlled the dates allocated by the casino for junket bookings.

A second investigation, into casino air junket activity was actually being conducted simultaneously with portions of the super bus investigation. The initial thrust of the air junket investigation involved approaching Casino Marketing Departments to determine their criteria for junkets and to attempt to actually operate junkets into the casinos.

After approaching Marketing Executives, it became apparent that Detective Seitz would not be successful in utilizing this direct approach. On one occasion, he was directed to another junket representative, who the Marketing Director indicated, controlled an entire state for the casino. When Detective Seitz spoke with this agent, the agent demanded \$75.00 per head if Detective Seitz wished to operate from his designated area.

Detective Seitz then sought introductions to those who were actually providing the bulk of the air transportation for the junket patrons to see if he could use their contacts and influence to gain access to one of the casinos.

Detective Seitz also met with an officer of an air carrier company and a transportation broker who allegedly handled all the "unlicensables." He then met with an unlicensed junket operator who actually controlled a "network" of sixty-five (65) agents in twenty-five (25) states that operated junkets world-wide.

The meetings revealed that these individuals and others not only controlled several cities and numerous licensed junket operators but, also had influence over those who provide transportation for the junkets.

This control was based primarily on the ability of these unlicensed junket operators to obtain large portions of the budget awards for junket activity from the casino executives. These payments for junket activity went to the "front" or "beard" set up by the illegal network. Even though the cash flow initially came from the casino to the licensed enterprises, inflated billings provided a conduit to syphon off funds through those who provided the transportation since they were not licensed and could not be investigated due to exemption rulings.

Per head fees charged by junket enterprises dealing with the network were also a source of income. Without a "kickback" payment of approximately \$2,500.00 per plane or \$200.00 per bus, the agent could not do business.

This description of illegal junket activity depicts primarily one massive network coordinated by one specific crime family through an illegal junket enterprise in another state, however, it should be noted that several other organized crime groups operated through the network and were not required to pay the per head fee charged by the criminal groups illegal enterprise.

Intelligence information gathered during the investigation revealed that some junket operators are involved in other types of criminal activity associated with the junket operations. For example, specific information was obtained regarding prostitution, narcotics distribution especially cocaine, loansharking and the illegal collection of casino markers.

The investigation ultimately led to the identification of five (5) organized crime operations or "families" in addition to the "Bonanno Family" who were involved with the junket operation:

Buffalino - Northwest Pennsylvania

Gambino - New York, New York

La Rocca - Pittsburgh, Pennsylvania

Scarfo/Bruno - Philadelphia, Pennsylvania

Patriarca - New England

Other organized criminal groups operated through the "network" when they wanted to use a casino that the Network controlled. However, they also had the ability to use other casinos because of relationships that were developed with casino employees at the other casinos through associates.

A survey of all Atlantic City Casino operations, from March 1983 until November 1984 was conducted to determine the amount of business junket agents associated with this network were doing in Atlantic City.

The analysis revealed that of the 800 licensed junket operators in New Jersey only one quarter of 200 were actually doing business.

Of the two-hundred (200), ninety (90) or 45% were associated with the network. Further, it was determined that even some of the remaining agents were associated with other organized crime families operating outside of the "Bonanno/Rastelli Network." Some agents had actually obtained their access to the casino as a result of personal relationship they had with casino executives formerly from Nevada.

It should be noted that the least affected casino was utilizing 22% of those agents in the network and the most affected casinos used 77% of the network operators.

A second survey was also conducted relative to air carriers between November 1983 and October 1984. The survey revealed that seventy-seven (77) airlines/air brokers were on the Casino Control Commission Master Vendor's List but only seventeen (17) had filed for licensure as a Casino Service Industry.

A total of forty-six (46) airlines/air brokers received a total of \$17,000,000.00 during this period and of that figure the three (3) companies associated with the Network obtained \$72,000,000.00 of the monies disbursed by the casinos, or approximately 43%.

In conclusion, organized crime is heavily involved in the junket industry, and has been for the past twenty-five (25) years.

Organized Crime has allocated territorial rights to various junket agents nation wide for casino junket activity under their control.

This infiltration of legitimate business affects inter-state trade and commerce because it forces legitimate operators to pay "kickbacks" to organized crime for dates to operate junkets to the specific casino they control or suffer economic harm.

Testimony of  
Richard C. Wassenaar

Assistant Commissioner, Criminal Investigation  
Internal Revenue Service  
Washington, D.C.

Before  
President's Commission on Organized Crime

New York, New York

June 26, 1985

I appreciate the opportunity to appear before the Commission and provide information on the topic of "gambling and efforts by organized crime to infiltrate and profit from the operations of licensed casinos."

As the Assistant Commissioner (Criminal Investigation) for the Internal Revenue Service (IRS), I am the principal advisor to the Commissioner in the areas of planning, coordinating and evaluating IRS criminal investigative activities. Criminal Investigation has responsibility for the investigation of alleged violations of the Internal Revenue laws and related offenses, certain aspects of 31 USC (Bank Secrecy Act) and the protection of Service personnel and property in appropriate situations.

The infiltration of casinos by persons involved in organized crime is of importance to the Internal Revenue Service for a number of reasons. First, the use of casinos by organized criminal groups in traditional type skimming from casino receipts (with or without the knowledge of the true owners) results in a loss of tax revenue at both the corporate and individual level.

Second, hidden ownership of casinos by elements of organized crime results in not only revenue loss to the government but, in situations where tax liabilities have been assessed but go unpaid, curtails the government's ability to eventually collect the tax.

Finally, organized criminal elements have used casinos to launder narcotics profits or other types of receipts by exchanging "steet" money for more manageable forms of currency. In some

instances casinos have been used to wire transfer funds offshore, out of the jurisdiction of the Internal Revenue Service and other law enforcement agencies.

Each of these schemes generally has two major objectives, both of which may occur simultaneously. The first of these is the understatement of taxable income in an effort to evade federal income taxes. The second is the attempt to legitimize the appearance of funds which have been obtained through illegal means.

I would now like to discuss some of the schemes detected by the IRS that have been used to skim money from casinos.

In the early 1960's, Criminal Investigation, then known as the Intelligence Division, began to attempt to construct the amount of skim being taken from a number of Las Vegas casinos. Investigations showed three major methods of skim were being used. The first was simply the removing of currency from drop boxes prior to including the funds on the casino income records. This type of skim resulted in indictments being brought against nine individuals. Unreported income from these initial cases totalled approximately \$8 million.

Second was the credit skim, where money owed the casino by a customer was eventually paid by the customer, but was never recorded as income by the casino. This money was collected either directly by the casino or was collected by individuals working in various cities around the country. It was found that payments by check were included on the casino books as income, but payments by currency were skimmed.

The third method found during these early investigations involved what is referred to as "fill." This is the process used when a gaming table requests additional chips from the cashier's cage. The "fill" slip is placed in the table's drop box and is reflected as a loss of chips at that table. This slip is recorded as a loss on the casino records. Investigations disclosed that fill slips were being prepared, but no chips were placed at the table. This enabled casino operators to skim the amounts of the false fill slips.

Over the years the methods used to skim funds have become more sophisticated. During the 1970's, one scheme was used which involved a construction contract on a major hotel/casino. In this operation, a company was formed to deal as a subcontractor on the project. Individuals involved with the casino made arrangements to have the subcontractor inflate the bid on the contract so that the excess funds could be funneled out of the casino. Many of the payments were made with currency. In some instances, checks would be written to non-existent companies and the checks were diverted for personal use. The indictment in this case charged that in excess of \$700,000 in kickbacks were generated through this scheme.

Another expense scheme involved fictitious or overstated billings to an advertising agency. During a two year period in excess of \$650,000, was funneled out of a casino.

Another method of skim at one casino resulted from the issuance of "fun chips", which were given to junket players. These chips had to be gambled. A winning bet resulted in the

player being paid in regular chips. The fun chips were then transferred to the casino cage with no credit slip being issued. Cash would be removed from the cage so the records would balance. This cash was diverted for personal use. A computer analysis showed that almost \$5 million was skimmed by this process.

Another skim procedure was uncovered relative to slot machines. The scales, used to weigh coins, were adjusted to underweigh coins by approximately 30%. It has been estimated this skim generated between seven and twenty million dollars.

More recent cases involved charges being brought against 11 individuals for skimming of funds from the Tropicana Hotel in Las Vegas. In this scheme, Joe Agosto, an individual with organized crime ties, was hired to operate the stage show at the hotel. Mr. Agosto eventually worked his way to a position where he handled casino operations. He became involved in a skim of \$40,000 per month to organized crime groups in Kansas City and Chicago. This skim was being done without the knowledge of the owners of the casino.

Finally, casinos are being used to launder proceeds of illegal activities. Although not a true skim mechanism, I feel it is important to mention this topic because of the large amounts of money being moved through casino operations. As an example, an indictment was recently returned in New York, charging nine individuals with laundering millions of dollars of narcotics proceeds through Atlantic City casinos over a three to four year period.

Recently, final rules were published which require certain casinos to report transactions over \$10,000 in currency. These should be of great assistance in deterring the criminal element from the use of this scheme.

I have given you a brief overview of the role of the Internal Revenue Service, Criminal Investigation, and our experience in the area of casino investigations and suspected or actual involvement by organized crime. As you can see, over a period of years, the use by the criminal element of casinos has ranged from the early cash skim to today's use of more sophisticated methods. Despite these changes in methods, the bottom line is still the criminals' objective to maximize their untaxed profits or to conceal their gains in hidden investments.

That concludes my prepared statement, I will be pleased to respond to any questions from the Committee, or otherwise provide assistance.

Statement  
of  
Tom Sheehan

Gamblers and their money are the main attraction drawing organized crime to casinos. In those instances where the mob exerts a direct influence over casino operations, the casinos generate cash for redistribution to organized crime. But skimming is only one of the reasons that casinos continue to be a prime target for organized crime.

Casinos can also serve another purpose for organized crime, perhaps, just as important. Increasingly, organized crime has used casinos like private banks to launder the proceeds of narcotics trafficking. The potential for this kind of abuse is staggering. The estimated gross revenue for gambling casinos in Clark County, Nevada, for 1983 was approximately \$1.85 billion. Atlantic City's nine casinos grossed \$1.77 billion in 1983, and in 1984 ten casinos grossed \$1.95 billion. The estimated gross for eleven casinos in 1985 is \$2.1 billion.

The vast majority of casino patrons are law abiding citizens. Some are not. Investigation conducted by New Jersey authorities revealed that \$28.2 million was deposited directly by patrons with the casino cages in Atlantic City in June 1983. During that month 356 individuals made cash deposits in excess of \$10,000. Of the 356 individuals, 55 had serious criminal records for drugs, extortion, bookmaking, etc. In September 1983, over

\$43 million (an increase of 52 percent over June figures) was deposited with the casino cages in Atlantic City, with 460 individuals making deposits in excess of \$10,000.

This cash flow, and some patrons of questionable background were among the reasons that casinos in Las Vegas and Atlantic City are required to report currency transactions in excess of \$10,000 as of May 7, 1985. Casinos in Atlantic City file Currency Transaction Reports (CTR's) directly with the Department of Treasury, while casinos in Las Vegas first file with the State of Nevada. The CTRs are then forwarded to Treasury.

In the Commission's report on money laundering, entitled The Cash Connection, presented to the President and to the Attorney General in October, 1984, it was reported that over 535,000 CTR's were filed by financial institutions in 1983. According to the Internal Revenue Service, since the Commission's public interest in money laundering and increased pressure from law enforcement, the number of CTR's filed in 1984 rose almost forty percent (40%) to over 707,000. IRS estimates that over one million filings will be made in 1985, almost a one hundred percent (100%) increase since 1983. This mass of information continues to pose a challenge to its effective use, especially now that casinos will be filing for the first time.

As in the case of other financial institutions, casino owners should take measures to discourage money laundering and should notify law enforcement of suspect transactions. Otherwise, casinos will continue to be used as conduits for drug money, especially, those in Atlantic City which are close to the large heroin and cocaine markets in the Northeast. According to the Department of Justice, in 1984, fully 37% of all heroin investigations nationwide by the Organized Crime Drug Enforcement Task Forces were initiated in the two regions contiguous to Atlantic City.

#### Laundering Techniques

A review of over a dozen investigations by the Drug Enforcement Administration reveals similar methods which have been or are being used to launder illicit drug money through casinos. One method simply involves the exchange of small denomination bills, commonly obtained through drug transactions and other illegal activities, for larger denominations. In this way, cash proceeds can be converted into a less conspicuous and more easily transportable form. A second method, somewhat more intricate, involves using the casinos as a banking operation. The client gives money to a casino official, who in turn invests the money, retains the money for safekeeping, wires the money to offshore accounts, or provides loans back to the client. A third method involves the use of two or more casinos to transfer funds

between clients. For example, the recipient of a drug shipment in the United States can give money to a casino in Las Vegas or Atlantic City for transfer to a designated account in an affiliated casino outside the United States. Once transferred, the receiving casino can issue credit in the appropriate amount to whomever controls the account, in this case the source of the drug shipment. In many instances, money which has been passed through a casino can later be declared as gambling winnings for tax purposes, thus legitimizing the narcotics money. "Peanuts" King provides a case study of these techniques.

### "Peanuts" King

Maurice "Peanuts" King, a Baltimore heroin trafficker, used the Resorts International casino in Atlantic City, in effect, as a bank to invest over \$400,000 in heroin street money in businesses and real estate, also exchanging small bills from street sales for one hundred dollar bills, often the first step in the laundering process.

"Peanuts" King, then Baltimore's major heroin trafficker, and two accomplices, frequently visited the Resorts International casino in Atlantic City during 1980 and 1981. At first, Resorts International classified King as a "class 5" gambler, an off-the-street gambler, but later, as his heroin business grew, and more money flowed to the casino, his status changed to that of a

"class 1" gambler or "high roller." This entitled King to as many as twelve rooms at Resorts International with complementary food and drink.

The King group originally cashed chips for checks, but then asked for cash, specifying one hundred dollar bills. In practice, King and his cohorts went to gambling tables, exchanged cash for one hundred (\$100.00) chips, then gambled. At the end of their stay, each turned in his chips and requested that three checks totaling \$118,000 be sent to individual accounts at Legg Mason, an investment firm near Baltimore, Maryland. King and his accomplices then formed a corporation and purchased two grocery stores through the Legg Mason account for \$124,500. Later, the grocery stores were renovated at a total cost of \$443,600 - paid primarily in cash.

Searches of properties owned by one of King's accomplices resulted in the seizure of over \$300,000 cash from a safe in his home and from a safe deposit box. The cash was in five thousand dollar (\$5,000) stacks of one hundred dollar bills with Resorts International wrappers. All told, during the period from August 1980 through May 1982, the Drug Enforcement Administration seized or verified the expenditure of over \$870,000, of which \$418,000 in cash was laundered through Resorts International.

## The Golden Nugget

A recent investigation by the Drug Enforcement Administration and the Internal Revenue Service resulting in indictments of Anthony Castelbuono, Gaetano Giuffrida and others in the Eastern District of New York involved over \$3 million in cash from heroin and cocaine sales being deposited at cashier's cages at four Atlantic city casinos -- the Tropicana, Caesar's World, Bally's Park Place and the Golden Nugget. According to the indictment which is pending in the Eastern District of New York, Giuffrida and his accomplices conspired to support a heroin importation network by utilizing an international system of money laundering. The system worked this way: Small denominations of heroin cash were converted into larger denominations at various Atlantic City casinos. In turn, the heroin cash, its bulk in weight considerably reduced, was transported to places outside the United States, including Bermuda, Canada, and Switzerland. The conspiracy was initiated in Spring of 1982 when Antonio Turano and several other accomplices counted a large quantity of money. The first apparent movement of heroin cash took place on May 28, 1982, when Anthony Castelbuono a Harvard-trained lawyer, who used the alias of "Anthony Cakes" and "Tony Cakes" transported approximately \$1 million to Atlantic City, New Jersey.

The charts displayed here recount subsequent deposits which began on May 28, 1982. The majority of the money, over \$2.5 million was deposited in three transactions on three separate days at the Golden Nugget beginning on November 26, 1982, the day after Thanksgiving.

Five days after the last transaction at the Golden Nugget, on December 16, 1982, one of Castelbuono's accomplices deposited approximately one million dollars (\$1,000,000) into an account at the Credit Suisse bank in Switzerland, a bank which was also used by the Pizza Connection heroin traffickers to launder money in 1982.

You will recall that, on February 7, 1985, the Bank of Boston pleaded guilty to currency reporting violations for failing to report currency received from Switzerland. In 1982, Credit Suisse shipped more unreported cash to the Bank of Boston than any other Swiss bank.

#### Prior Testimony Regarding Gaetano Giufrida

The Commission has heard twice before of the money laundering handiwork of Gaetano Giufrida. At a Commission hearing on money laundering in March of 1984 Giufrida and his Sicilian Mafia accomplice, Antonio Turano, were identified as

customers of Eduardo Orozco, now convicted of laundering \$97 million in drug money through the Deak-Perera foreign exchange firm in New York, City.

In October 1984, when the subject was Asian organized crime, the Commission heard how Giufrida and Turano used banks to move money from New York to Milan, Italy through Zurich, Switzerland. Their contact in Hong Kong, headquarters of the criminal Chinese Triad Societies and a major laundering point, was likewise identified.

Turano was found murdered on March 3, 1983 in Queens, New York. Giufrida has recently (June 1985) been prosecuted and found guilty in Italy for trafficking in eighty (80) kilos of heroin destined for the United States which was seized in Florence, Italy on January 21, 1983, less than five weeks after the last Golden Nugget transaction.

The experience with the Giufrida network demonstrates several points:

First, the versatility and sophistication of one heroin money laundering operation which used a foreign exchange firm, banks and casinos in New York, Hong Kong, Atlantic City, and Switzerland;

Second, the absolute need for organized crime to have access to financial institutions of all kinds;

Third, the crucial role which financial institutions must play in closing their doors to the money launderer, if there is to be a successful interdiction of the flow of cash into the coffers of organized crime.

To provide the perspective of casino management on these issues, the next witness is Steve Wynn, Chairman of the board of the Golden Nugget who has accepted an invitation to testify here today.

Mr. Wynn has been asked to explain what measures casino operators can take to make it more difficult for organized crime to profit from casinos. In particular, Mr. Wynn has been asked to examine Golden Nugget practices with an eye toward policy changes called for by the Castelbuono/Giufrida laundering operations, as well as measures to insure compliance with the Bank Secrecy Act.

The staff of the Commission continues to believe that the impetus for effective internal anti-laundering measures must come from the top in the form of clear, articulated management policy.

Before concluding my statement, we would do well to recall the prior testimony of another chairman whose institution was used by Eduardo Orozco, a launderer for the Giufrida organization.

During the Commission's hearings on cocaine trafficking in November 1984, Nicholas Deak, Chairman of Deak Perera, gave these responses to questions about a laundered deposit made at Deak Perera in New York on October 5, 1981:

MR. HARMON: Would you consider it suspicious, in your many years of experience, for somebody to bring into your company a deposit of \$3,405,000, weighing 230 pounds, consisting of 13,300 one dollar bills, 6,200 fifty dollar bills, 79,900 twenty dollar bills and 17,100 ten dollar bills?

MR. DEAK: I would consider that suspicious, of course.

\* \* \*

MR. HARMON: So is it correct, Mr. Deak, that as you sit here today, if a money launderer came to one of Deak's companies, wherever located in the world, that he could expect to be turned away if he presented the kind of deposit that I described, 230 pounds in the amount that I've

described and in the kinds of denominations that I've described, because that is the conscious policy of you and, therefore, your company?

MR. DEAK: I don't think that they will be turned away. I think that they would be reported.

Mr. Chairman I would be pleased to answer any questions.

**STATEMENT  
OF  
STEPHEN A. WYNN  
CHAIRMAN, GOLDEN NUGGET, INC.**

**BEFORE THE  
PRESIDENT'S COMMISSION ON ORGANIZED CRIME  
NEW YORK CITY, JUNE 26, 1985**

MR. CHAIRMAN, MEMBERS OF THE COMMISSION, I AM PLEASED TO ACCEPT YOUR INVITATION TO APPEAR AND I HOPE THAT WHAT I HAVE TO SAY WILL BE OF ASSISTANCE TO YOU IN YOUR DELIBERATIONS.

HISTORICALLY, NEWS STORIES LINKING CASINOS WITH PERSONS ALLEGED TO BE PART OF OR ASSOCIATED WITH "ORGANIZED CRIME" HAVE BEEN SURE-FIRE, FRONT-PAGE STORIES. LAS VEGAS AND ATLANTIC CITY DATELINES ON SUCH STORIES SEEM TO MAKE THEM EVEN MORE NEWSWORTHY.

THERE IS AN ASSUMPTION THAT BROADBRUSH ALLEGATIONS OF ORGANIZED CRIME INVOLVEMENT ARE TRUE, AND THAT THE BUSINESSES INVOLVED HAD THE SAME KNOWLEDGE ABOUT THE ALLEGED "BAD GUY" AS THE LAW ENFORCEMENT "SOURCE" USUALLY QUOTED. THAT ASSUMPTION, HOWEVER, IS FAULTY. WHILE CERTAIN "INFORMATION" MAY BE AVAILABLE TO THE CASINO OPERATOR, THE QUALITY OF THE INFORMATION IS, AT BEST, QUESTIONABLE.

THE LAW ENFORCEMENT COMMUNITY GENERALLY REFUSES TO PROVIDE CASINOS WITH INFORMATION IN THEIR POSSESSION THAT CAN BE TRACED TO THEM OR BE ATTRIBUTED TO THEM, APPARENTLY FEARING CIVIL LIABILITY, BUT THEY EXPECT CASINO OPERATORS TO LAUNCH A FRONTAL ASSAULT ON INDIVIDUALS ON THE BASIS OF A NEWSPAPER STORY, OR LESS.

TO PUT THE ISSUE IN PERSPECTIVE, WE NEED ONLY TO LOOK AT THE DEFINITION OF THE TERM TO SEE THE PROBLEM. WHAT CONSTITUTES "ORGANIZED" CRIME? AND WHAT DEGREE OF INVOLVEMENT WITH A PERSON IDENTIFIED AS BEING "ORGANIZED CRIME" MAKES ONE AN "ASSOCIATE" OF "ORGANIZED CRIME"? "ORGANIZED CRIME" IS A LABEL APPLIED BY LAW ENFORCEMENT, THE CRITERIA FOR WHICH IS DETERMINED BY LAW ENFORCEMENT AND CAN VARY FROM ONE LAW ENFORCEMENT AGENCY TO ANOTHER. TO THE NEWS MEDIA, A PERSON IS "ORGANIZED CRIME" IF SOMEONE IN LAW ENFORCEMENT SAYS SO. OF COURSE, THEY USUALLY ONLY SAY SO FOR THE RECORD WHEN THEY ARE IN A FORUM WHERE THEY HAVE IMMUNITY FROM LAW SUITS FOR LIBEL AND SLANDER.

THEN THERE IS THE INFORMATION PROBLEM. LAW ENFORCEMENT THEORETICALLY HAS ACCESS TO "INTELLIGENCE" INFORMATION ABOUT PEOPLE SUSPECTED OF CRIMINAL BEHAVIOR, THAT IS NOT GENERALLY AVAILABLE TO THOSE OUTSIDE LAW ENFORCEMENT. AND LAW ENFORCEMENT IS IN THE BEST POSITION TO EVALUATE THE VALIDITY OF THE "INTELLIGENCE" INFORMATION, AND THEREAFTER ASSUME RESPONSIBILITY FOR ITS USE.

BUT, TO DATE, LAW ENFORCEMENT DOES NOT, AND WILL NOT, TAKE ACTION ON INTELLIGENCE INFORMATION THAT WOULD EXPOSE THEM TO A LAW SUIT. YET IT IS SOMEHOW EXPECTED THAT BUSINESSMEN, WITHOUT REGARD TO CIVIL LIABILITY, CAN READILY TAKE ACTION AFFECTING SOMEONE'S RIGHTS AND PRIVILEGES. THIS IGNORES THE VERY REAL POTENTIAL FOR CIVIL LIABILITY THAT CAN FLOW FROM TAKING ACTION AGAINST A PERSON BASED ON UNSUBSTANTIATED INFORMATION OF A DEROGATORY NATURE.

MOVING FROM GENERALITIES TO SPECIFICS, I WILL DISCUSS WHAT I PERCEIVE TO BE THE PROBLEM AREAS WHERE LAW ENFORCEMENT HAS OFTEN FOUND, OR ALLEGED, ORGANIZED CRIME ACTIVITY INVOLVING CASINOS.

#### LABOR UNIONS

I HAVE NEVER EXPERIENCED ANY PROBLEMS WITH LABOR UNIONS ALLEGED TO BE CONTROLLED BY ORGANIZED CRIME, BUT THERE IS SUCH A LONG HISTORY IN THE NEWS MEDIA LINKING LABOR UNIONS WITH ORGANIZED CRIME THAT GAMING AUTHORITIES AND STATE LAW ENFORCEMENT AGENCIES SHOULD HAVE THE MEANS TO DEAL WITH WHATEVER PROBLEMS MAY EXIST. FEDERAL AUTHORITIES SHOULD ALSO HAVE THE AUTHORITY TO DEAL WITH THIS PROBLEM BECAUSE OF THE FEDERAL PRESENCE IN LABOR LAW MATTERS.

CERTAINLY LABOR LEADERS POSSESS TREMENDOUS POWER AND THERE IS NO COMPELLING REASON WHY THEY SHOULD NOT MEET THE SAME STANDARD OF PERSONAL SUITABILITY IMPOSED UPON THE EMPLOYEES THEY REPRESENT AND THE MANAGEMENT WITH WHOM THEY NEGOTIATE.

#### JUNKETS

WE DO NOT USE JUNKETS, IN THE TRADITIONAL FORM OF GROUPS BROUGHT TO CASINOS BY INDEPENDENT CONTRACTORS, PREFERRING INSTEAD TO RELY ON EMPLOYEES WHO HAVE BEEN PERMITTED TO FUNCTION IN A MARKETING CAPACITY BY STATE GAMING AUTHORITIES. USING APPROVED, SALARIED EMPLOYEES INSTEAD OF OUTSIDE PARTIES BEING PAID ON THE BASIS OF CUSTOMERS DELIVERED, AMORPHOUS PLAYER RATINGS, OR SOME OTHER VARIATION OF PIECEWORK COMPENSATION ALLOWS A CASINO TO POLICE, STRICTLY AND DIRECTLY, ALL COSTS ASSOCIATED WITH MARKETING ACTIVITY AND THEREBY HELPS PREVENT ORGANIZED CRIME FROM PROFITING FROM CASINOS.

## VENDORS

INVESTIGATION AND/OR LICENSING OF SUPPLIERS OF GOODS AND SERVICES BY STATE GAMING AUTHORITIES COSTS THE INDUSTRY MORE FOR THE PRODUCTS AND SERVICES IT USES AND FOR THE BUREAUCRATIC SYSTEM NECESSARY TO PERFORM THE LICENSING FUNCTION.

THE PROSPECT OF LICENSING AND THE COST NO DOUBT CREATE ENTRY LEVEL BARRIERS AND REDUCE THE NUMBER OF BUSINESSES ABLE TO BENEFIT FROM SUPPLYING THE GAMING INDUSTRY, BUT IN THE LONG RUN IT CAN HELP PREVENT ORGANIZED CRIME FROM PROFITING FROM CASINOS. AND IT CREATES A WONDERFUL INSULATION FOR THE CASINO OPERATOR WHO CAN SIMPLY TELL A SUSPECT VENDOR THAT VENDORS MUST BE LICENSED BY THE STATE BEFORE THEY CAN BE CONSIDERED FOR BUSINESS.

## CUSTOMERS

APPLICANTS FOR CASINO LICENSES, WHETHER AS OWNER, EMPLOYEE OR SUPPLIER MUST WAIVE CERTAIN CONSTITUTIONAL RIGHTS, INCLUDING MOST RIGHTS OF PRIVACY. BUT SOME LAW ENFORCEMENT PEOPLE APPARENTLY BELIEVE THAT BY ENTERING A CASINO, CUSTOMERS WAIVE THEIR CONSTITUTIONAL RIGHTS AS WELL

IT IS NOT CLEAR WHY A PERSON WHO MAY BE CONSIDERED "ORGANIZED CRIME" BY LAW ENFORCEMENT DOES NOT CONSTITUTE A THREAT TO THE AUTO INDUSTRY CLOTHING INDUSTRY, JEWELRY INDUSTRY, RETAIL FOOD INDUSTRY, REAL ESTATE INDUSTRY, MEDICAL PROFESSION, OR LEGAL PROFESSION WHEN HE SHOPS AND PURCHASES GOODS AND SERVICES, BUT THE MINUTE HE STEPS INTO A CASINO HE BECOMES A THREAT THAT REQUIRES ACTION BY THE OPERATOR TO DISCOURAGE HIS PARTICIPATION. ASSUMING, OF COURSE, THERE IS SOME RELIABLE WAY OF IDENTIFYING SUCH PERSONS.

WE RECOGNIZE, HOWEVER, THAT WE ARE A HIGHLY REGULATED INDUSTRY AND MAY BE HELD TO HIGHER STANDARDS THAN OTHER INDUSTRIES, EVEN WHEN THE PUBLIC POLICY RATIONALE IS QUESTIONABLE. BUT WE SHOULD NOT BE REQUIRED TO TAKE ACTION AGAINST PERSONS BASED ON UNCONFIRMED SUSPICIONS OF SOME LAW ENFORCEMENT OFFICIALS AND A CLASSIFICATION OF A PERSON AS A THREAT TO SOCIETY WITHOUT EVEN MINIMAL DUE PROCESS BEING ACCORDED. AND WE SHOULD NOT BE CRITICIZED FOR FAILING TO ACT IN SITUATIONS WHERE ACTION BY US WOULD EXPOSE US TO CIVIL LIABILITY.

THERE IS A READY ANSWER TO WHAT CAN BE DONE TO KEEP PERSONS IDENTIFIED AS ORGANIZED CRIME FROM PARTICIPATING IN CASINO ACTIVITIES: HAVE LAW ENFORCEMENT IDENTIFY THOSE PERSONS WE CANNOT DO BUSINESS WITH AND COMMUNICATE THAT INFORMATION IN WRITING. HAVE LAW ENFORCEMENT ASSUME THE RESPONSIBILITY FOR LIMITING THE RIGHTS OF PRIVATE PERSONS. FREE US FROM CIVIL LIABILITY FOR DENYING SERVICES BASED ON IDENTIFICATION OF THE PERSON AS UNSUITABLE BY AN APPROPRIATE AGENCY.

THERE IS PRESENTLY AN EXCLUSION LIST IN BOTH NEW JERSEY AND NEVADA THAT PROHIBITS LISTED PERSONS FROM BEING ON THE PREMISES OF A CASINO. PERHAPS WHAT IS NEEDED IS A LIST FOR DENIAL OF SERVICES SUCH AS COMPS AND CREDIT THAT MIGHT BE BASED ON A LESSER STANDARD OF PROOF THAN THAT NEEDED FOR EXCLUSION.

IN ANY CASE, WHETHER A PERSON SHOULD BE DENIED COMPS OR CREDIT OR OTHER DISCRETIONARY SERVICES BY A CASINO LICENSEE SIMPLY BY REASON OF REPUTATION OR CRIMINAL HISTORY, SHOULD BE A DECISION WITH UNIVERSAL APPLICATION. ONLY GOVERNMENT CAN DO THAT AND PROPERLY PROTECT THE INDIVIDUAL'S RIGHTS IN THIS SITUATION.

LAW ENFORCEMENT HAS THE TOOLS TO IDENTIFY SUCH PERSONS, WE DO NOT. AND SINCE THE TERM IS SO VAGUE AND IT IS LAW ENFORCEMENT THAT NOT ONLY DECIDES WHAT ORGANIZED CRIME IS, BUT WHO IT IS THAT SHOULD BEAR THE LABEL OR BE PAINTED WITH THE SAME BRUSH BY VIRTUE OF ASSOCIATION, THEN LAW ENFORCEMENT IS THE PROPER LOCUS FOR THE RESPONSIBILITY OF IDENTIFICATION AND COMMUNICATING THAT INFORMATION TO THE CASINOS.

WE WILL CERTAINLY ACT ON THE WRITTEN DIRECTION FROM APPROPRIATE GAMING REGULATORY OR LAW ENFORCEMENT AGENCIES THAT TELL US A PERSON SHOULD BE DENIED ACCESS TO SERVICES THAT WOULD OTHERWISE BE AVAILABLE TO THEM.

ON THE OTHER HAND, A RECENT CASE SHOWS THAT EVEN WHEN YOU TAKE STEPS TO OBTAIN INFORMATION AND APPRISE LAW ENFORCEMENT OF YOUR CONCERNS, YOU CANNOT ALWAYS OBTAIN THE NEEDED INFORMATION ON A TIMELY BASIS.

ANTHONY CASTELBUONO APPEARED AT THE GOLDEN NUGGET ONE EVENING IN NOVEMBER 1982. HE DEPOSITED OVER ONE MILLION IN CASH AND BY THE TIME HE DEPARTED THREE DAYS LATER HE HAD LOST OVER \$300,000. BECAUSE HE WAS UNKNOWN TO CASINO EXECUTIVES, OUR SURVEILLANCE DEPARTMENT WAS REQUESTED

TO CONDUCT AN INVESTIGATION. THEY LEARNED HE WAS A GRADUATE OF FORDHAM UNIVERSITY AND HARVARD LAW SCHOOL AND IDENTIFIED LAW FIRMS HE HAD BEEN ASSOCIATED WITH AND IDENTIFIED A COMPANY OF WHICH HE WAS PRESIDENT. NO ARREST RECORD WAS LOCATED. THIS INFORMATION WAS CONVEYED TO GOLDEN NUGGET EXECUTIVES, THE CASINO CONTROL COMMISSION AND THE DIVISION OF GAMING ENFORCEMENT.

RECENTLY MR. CASTELBUONO WAS INDICTED. THE INDICTMENT AND THE NEWS-PAPER STORIES MENTIONED MR. CASTELBUONO'S ACTIVITIES AT THE GOLDEN NUGGET, BUT THEY DID NOT INDICATE WHETHER THE INFORMATION RECEIVED FROM GOLDEN NUGGET PLAYED ANY PART IN THEIR SUBSEQUENT INVESTIGATION, THOUGH IT MAY WELL HAVE.

MORE IMPORTANTLY, RATHER THAN IDENTIFYING THE EFFORTS OF GOLDEN NUGGET IN PERFORMING ITS "DUE DILIGENCE", THE MEDIA CHARACTERIZED OUR INVOLVEMENT IN A MONEY LAUNDERING SCHEME. THE FACT OF THE MATTER IS THAT MR. CASTELBUONO LOST ABOUT ONE MILLION DOLLARS AT THE GOLDEN NUGGET. HE DEFINITELY DID NOT APPEAR TO BE LAUNDERING MONEY FROM OUR PERSPECTIVE. YET WE DID REPORT HIS ACTIVITY TO THE APPROPRIATE LAW ENFORCEMENT AGENCIES ON A TIMELY BASIS.

NOW TREASURY HAS SADDLED THE INDUSTRY AND ITS CUSTOMERS WITH A REPORTING REQUIREMENT FOR CASH TRANSACTIONS OVER \$10,000. BECAUSE WE CASH CHECKS, MAKE CHANGE AND GIVE CREDIT FOR GAMING PURPOSES, TREASURY INSISTS WE ARE A FINANCIAL INSTITUTION AND SUBJECTS US TO THE SAME REQUIREMENTS AS BANKS. THEY HAVE OVERLOOKED THE FACT THAT WITH THE POSSIBLE EXCEPTION OF SOME BADLY MANAGED BANKS THAT HAVE FAILED RECENTLY, PEOPLE DO NOT EXPECT TO LOSE THE MONEY THEY DEPOSIT IN A BANK AND THEIR CASH TRANSACTIONS AT A BANK ARE NOT LIKELY TO RESULT IN MULTIPLE REPORTS FOR THE SAME CASH.

ON THE OTHER HAND, OUR SUCCESS IS PREDICATED ON THE PROVEN THEORY THAT WHILE PLAYERS CAN WIN IN THE SHORT RUN, WE WILL ALWAYS WIN IN THE LONG RUN. MOREOVER, THE SAME FUNDS CAN BE REPORTED NUMEROUS TIMES IN ONE GAMING TRIP.

FOR EXAMPLE, A PLAYER CAN BUY IN FOR \$15,000, PLAY FOR A PERIOD OF TIME, LOSE \$2,000 AND CASH OUT TO ATTEND A SHOW AT ANOTHER CASINO. WHILE THERE HE BUYS IN FOR \$13,000, WINS \$3,000, CASHES OUT AND RETURNS TO THE FIRST CASINO WHERE HE BUYS IN FOR \$16,000, LOSES \$5,000, CASHES OUT AND

QUITS. HE WILL HAVE GENERATED SIX REPORTS PROVIDING TREASURY WITH THE INDICATION THAT THIS PERSON HAS "MOVED" \$84,000, WHEN IN FACT HE HAS LOST \$4,000 AND STILL HAS \$11,000 OF HIS ORIGINAL \$15,000.

WE HAVE ONLY HAD AN OPPORTUNITY TO REVIEW ONE MONTH'S EXPERIENCE UNDER THE TREASURY REGULATIONS IN NEW JERSEY AND THE STATE ALTERNATIVE IN NEVADA, AND IT IS TOO SOON TO DRAW ANY FIRM CONCLUSIONS.

WE HAVE HAD SOME CUSTOMERS LEAVE AND REFUSE TO PLAY WHEN INFORMED OF THE REPORTING REQUIREMENTS. OTHERS HAVE REDUCED THEIR PLAY SO AS NOT TO HAVE REPORTABLE TRANSACTIONS. WE KNOW THERE IS A NEGATIVE EFFECT ON OUR BUSINESS, BUT HAVE NOT YET DETERMINED THE MEASURE OF THAT EFFECT.

HOWEVER, ONE NEW JERSEY PLAYER ACCOUNTED FOR 30% OF THE TOTAL REPORTS AND 45% OF THE TOTAL AMOUNT REPORTED. THUS, ONE PERSON CAN END UP WITH NUMEROUS REPORTS THAT SUGGEST MUCH AND PROVE LITTLE. BECAUSE THESE REPORTS WILL SO FREQUENTLY REPRESENT MULTIPLE REPORTS OF THE SAME FUNDS THERE CAN BE NO REASONABLE PRESUMPTION OF ILLEGALITY DRAWN AND THE REPORTS THEREFORE WOULD SEEM TO HAVE LITTLE IF ANY PROBATIVE VALUE. THEIR ONLY VALUE IT SEEMS IS AS INTELLIGENCE INFORMATION AND THAT WILL ALL TOO OFTEN BE IN THE HANDS OF I.R.S. AND OTHER LAW ENFORCEMENT OFFICIALS WHO DO NOT FULLY UNDERSTAND WHAT IT MEANS. WE ARE CREATING A TREMENDOUS INTELLIGENCE NETWORK WITH THESE CASE REPORTS THAT HAS GREAT POTENTIAL FOR ABUSE AND, I SUBMIT, LITTLE POTENTIAL FOR REAL ASSISTANCE TO LAW ENFORCEMENT'S LEGITIMATE GOALS.

NOT EVERY GAMBLER IS A DRUG MONEY LAUNDERER, TAX EVADER OR CRIMINAL. AND THEY SHOULD BE ENTITLED TO A CERTAIN DEGREE OF ANONYMITY WHEN THEY GAMBLE AND NOT BE SUBJECT TO AN AUDIT OF THEIR ENTIRE TAX RETURN JUST BECAUSE THEY HAVE SOME CASH TRANSACTION REPORTS ON FILE. YET THAT IS A VERY REAL POSSIBILITY AND ONE THAT IS BASICALLY UNFAIR TO THOSE WHO CHOOSE CASINO GAMBLING AS A PASTIME OR FORM OF ENTERTAINMENT.

AN UNINTENDED BENEFICIARY OF THE TREASURY CASH TRANSACTION REGULATIONS WILL UNDOUBTEDLY BE THE ILLEGAL CASINO OPERATORS AND ILLEGAL BOOKMAKERS. WE DO NOT HAVE A RACE OR SPORTS BOOK IN OUR CASINO, BUT I HAVE HEARD THAT THE CASH REPORTING REQUIREMENT IS DRIVING THE SPORTS BETTOR UNDERGROUND TO THE ILLEGAL BOOKMAKER WHO, OF COURSE, WILL NOT REPORT THE TRANSACTION. I BELIEVE WE CAN EXPECT SIMILAR BEHAVIOR BY CASINO CUSTOMERS. THE MAJOR DIFFERENCE MAY BE ONE OF AVAILABILITY. THERE ARE PROBABLY

FEWER ILLEGAL CASINOS THAN THERE ARE ILLEGAL BOOKMAKERS-- AT PRESENT, THE TREASURY REGULATIONS MAY SPAWN AN INCREASE IN ILLEGAL CASINOS IN CITIES SUCH AS NEW YORK.

CONCLUSION

IN PROVIDING TOOLS FOR LAW ENFORCEMENT TO DEAL WITH SERIOUS PROBLEMS, WE SHOULD BE CAREFUL NOT TO GIVE THEM A BROADAXE WHERE A SCALPEL WOULD SUFFICE.

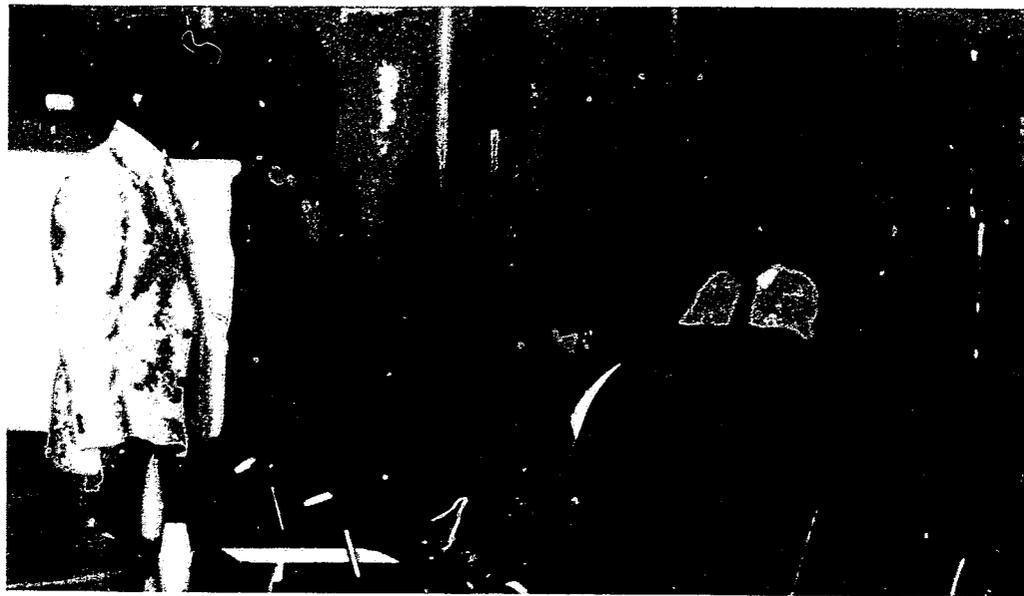
IN ORDER TO DEVISE THE MOST PRECISE TOOL THE ISSUES MUST BE FULLY EXPLORE WITH DISCUSSION OF THE ISSUES BY PERSONS HAVING DIFFERENT PERSPECTIVES AND A WILLINGNESS BY ALL TO LISTEN TO DIFFERENT VIEWS. WE ARE ALWAYS WILLING TO ENGAGE IN MEANINGFUL DISCUSSIONS OF IMPORTANT ISSUES.

IN CLOSING, I WOULD REAFFIRM OUR WILLINGNESS TO ENGAGE IN A DIALOGUE WITH LAW ENFORCEMENT. WE SHARE THE CONCERNS OF ALL AMERICANS FOR CRIME, ESPECIALLY DRUGS AND CORRUPTION OF PUBLIC OFFICIALS, AND WE WANT TO HELP FIND SOLUTIONS TO THE PROBLEMS THAT AFFECT THE QUALITY OF LIFE FOR OUR FAMILIES AND THOSE OF OUR EMPLOYEES AND CUSTOMERS.

6/19/85



James D. Harmon Jr., Commission Executive Director and Chief Counsel, listens to a witness's testimony. Behind him (left to right) are Commissioners Judith R. Hope, Chairman Judge Irving R. Kaufman and Justice Potter Stewart.



Commission investigator C. Raymond Mollenhoff describes the subjects of testimony scheduled for presentation.

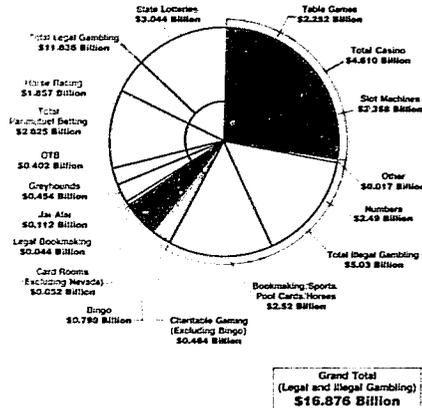
## STRIKE FORCE GAMBLING CONVICTIONS 1980-April 1985.

	<u>ALL GAMBLING RELATED CASES</u>	<u>IGB CASES</u>
Number of Defendants	181	82
% Receiving Prison Sentences	71%	77%
Average Prison Sentence	3.6 yrs. 2.5 yrs.	2.6 yrs.
Average Probation Sentence	2.8 yrs.	2.4 yrs.
Average Fine Imposed	\$13,509*	\$11,621

\* These Numbers Reflect the Unusually Large Fines Sentences Imposed in U.S. v. DeLuca et al. a Casino Related Case in Kansas City. Excluding Those Penalties the Average Prison Sentence was 2.5 yrs.

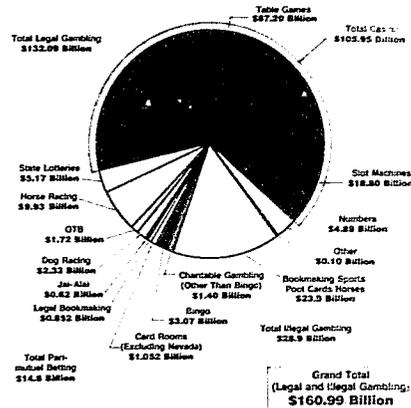
Total Federal Organized Crime Strike Force gambling convictions, 1980-April 1985.

**Estimated Gross Revenues**  
for the Major Forms of Commercial Gambling  
(All Statistics Calendar 1967)



**Gross Revenues:**  
The gross revenue from any commercial gambling game—parimutuel takeout of rielation, casino win or gross gaming revenue, gross revenue from lottery games and so on—is, in all cases, identical with the collective losses of the game's players.

**Estimated Gross Wagering (Handle)**  
for the Major Forms of Commercial Gambling  
(All Statistics Calendar 1967)



These charts first appeared in an original article by Eugene Martin Christman in the June 1964 and August 1964 issues of *Business Gaming Magazine*. The data supporting these charts were gathered and analyzed by Dr. Victor A. Di. James F. Smith and Mr. Christman, who are co-authors of *The Business of Risk: A Sociology of Gambling in Mainstream America*.

Graphic depiction of revenues and amounts wagered in various legal and illegal gambling areas.



Jerome Skolnick, Professor of Law at the University of California at Berkeley, testifies on the phenomenon on gambling in America.



Reporters cover the hearing.



A panel of law enforcement experts give the Commission an overview of organized crime's interest in gambling. From left to right: Lieutenant Robert Gaugler of the N.J. State Police; Frank J. Storey, Assistant Special Agent in Charge of the New York office of the FBI; and Joseph DiPierro, Deputy Inspector in the New York Police Department.



Commission investigator Anthony Lombardi (center at witness table) profiles Jose Battle Sr., alleged head of a Cuban organized crime group known as "The Corporation." He is accompanied by Officer Joseph Pellicone of the New York Port Authority (to his right) and Officer James Leggett of the Metro Dade Police Department who described their knowledge of "The Corporation."

**JOSE M. BATTLE  
"THE CORPORATION"**

WEEKLY GROSS PER RETRIEVED "SPREADSHEET"	\$2,100,000
PROFIT RATIO (ESTIMATED FROM CONFIDENTIAL INSIDER)	<u>× 43%</u>
ESTIMATED WEEKLY NET PROFIT	\$903,000
CONVERSION TO ESTIMATED YEARLY NET PROFIT	<u>× 52</u>
ESTIMATED YEARLY NET PROFIT	\$46,900,000

Chart depicts illegal profits of "The Corporation," the criminal organization headed by Jose M. Battle Sr.



Jose M. Battle Sr., head of the "Corporation" listens to testimony.

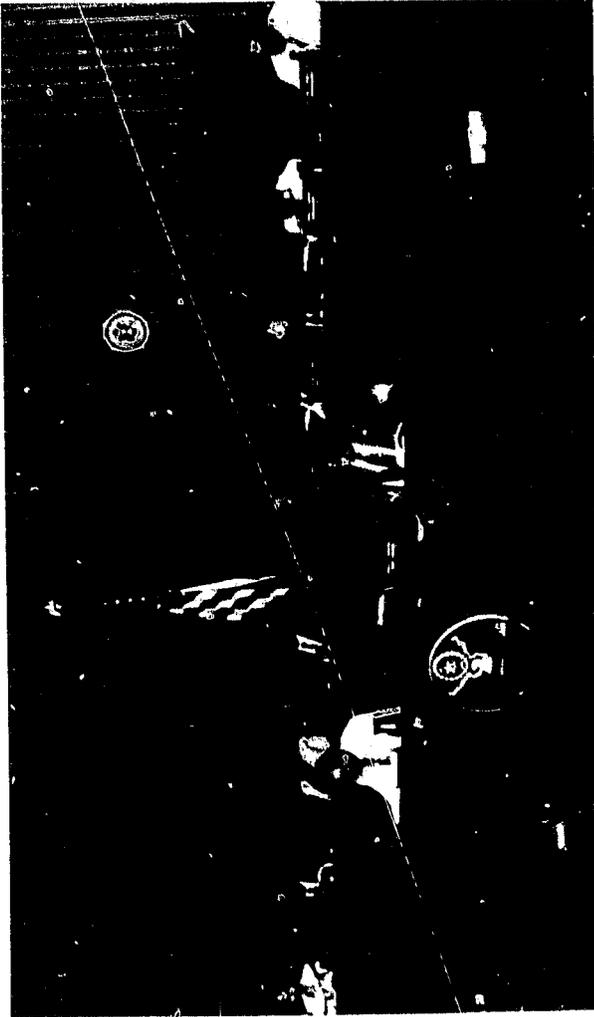
SEIZED - JFK - APRIL 8, 1983

BABY → 176874	GALLO → 14095	cipt → 19578
CANDY → 48295	VICE → 153346	
TIENDAS → 41187	GUERRA → 14600	
/ / / /		
CANDY → 1146123	GATO → 19578	
BABY → 541332	BABY → 176874 //	
TIENDAS → 485993	GALLO → 169602 //	
	VICE → 153346 //	
	GUERRA → 100041 //	
	TIENDAS → 141187 //	
	DAVID → 174176	
	NAPPA → 552226 - 18300 + 1076	
	MIKE → 129439	
	SAMMY → 410521	
	NENE → 104829	
	BARBA → 79600	
	UNESCO → 2029	
/ / / /		
2173448	2173448	
Wm → 25953		
Gos → 25962		
Plat →		
(4)		

Data sheet seized from Jose M. Battle Jr. by authorities at John F. Kennedy International Airport which illustrates the extent of the proceeds of the "The Corporation."



Commission Deputy Chief Counsel C. Stanley Hunterton questions a witness.



The Commission awaits the next witness.



Wearing a black robe and hood to disguise his identity, a witness testifies on a Cuban organized crime group known as "The Corporation".

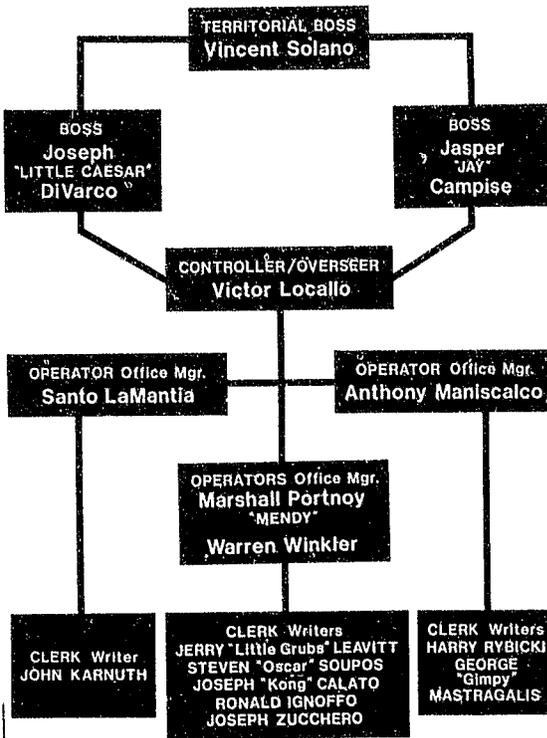


**Sgt. Donald Herion of the Chicago Police Department, demonstrates flash paper used in illegal wagering operation, along with water soluble paper, to destroy betting records before they can be confiscated by law enforcement.**



A panel of law enforcement experts describes the connection between gambling and organized crime. Left to right: Judith Dobkin and Mark Vogel, prosecutors with the Chicago Strike Force of the Justice Department, and Sgt. Donald Herion of the Chicago Police Department.

The LCN in CHICAGO  
 "THE OUTFIT"  
 DIVARCO GAMBLING OPERATION



Organization chart of the gambling operation headed by Joseph "Little Caesar" DiVarco of the Chicago LCN family.



Michael A. DeFeo, Deputy Chief of the Organized Crime and Racketeering Section of the Criminal Division of the Justice Department, describes the Department's policy on enforcement of illegal gambling laws in organized crime cases.



Chief Daryl Gates of the Los Angeles Police Department (left) and Superintendent Clinton Pagano of the New Jersey State Police, describe law enforcement problems with gambling.



Ronald C. Chance, a supervisory agent with the Labor Department, describes the relationship between the LCN, unions and casinos.



DEA Special Agent James Bannister (left) and Peter Bennett, Executive Assistant U.S. Attorney for New Jersey, detail gambling prosecutions.



Former Boston College basketball player Richard Kuhn (left), who was convicted of sports bribery; Edward McDonald (center), Chief of the Brooklyn Organized Crime Strike Force, and Commission Investigator Edmundo Guevara describe the Boston College point shaving scandal.

**COLLEGE BASKETBALL SCANDALS  
RESULTING IN PROSECUTION  
1951-1985**

YEAR	NO. OF COLLEGES INVOLVED	INVOLVEMENT OF PLAYERS	PAYOFF	COURT IMPOSED PENALTIES
1951	7	32	\$100- \$500	PLAYERS — FELONY CONVICTIONS — PRISON SENTENCES FROM 6 MONTHS SUSPENDED TO 1 YEAR BOOKMAKERS/GAMBLERS — 8-16 YEAR PRISON SENTENCES
1961	22	37	\$750- \$4,450	PLAYERS — FELONY CONVICTIONS — SUSPENDED SENTENCES BOOKMAKERS/GAMBLERS — 10-15 YEAR PRISON SENTENCES
1981	1	3	\$500- \$2,500 PLUS COCAINE	PLAYERS — FELONY CONVICTIONS — 10 YEAR PRISON SENTENCE BOOKMAKERS/GAMBLERS — 4-20 YEAR PRISON SENTENCES
1985	1	5	\$400- \$4,000 PLUS COCAINE	PLAYERS — 3 HAVE PLEADED GUILTY — 2 OTHERS PENDING BOOKMAKERS/GAMBLERS — PENDING

List of college basketball scandals mentioned in the testimony of Commission investigator Edmundo Guevara.



Vincent Doria, sports editor of the Boston Globe (left), John Davis (center), NCAA president; and St. John's University basketball coach John Carnesecca testify on gambling and college sports.

## **SPORTS BRIBERY STATUTE**

---

### **Title 18 USC, Section 224 Bribery in Sporting Contests**

(a) Whoever carries into effect, attempts to carry into effect, or conspires with any other person to carry into effect any scheme in commerce to influence, in any way, by bribery any sporting contest, with knowledge that the purpose of such scheme is to influence by bribery that contest, shall be fined not more than \$10,000, or imprisoned not more than five years, or both.

The Federal sports bribery statute mentioned in the testimony of John Davis of the NCAA.

## ATHLETE'S PROMISE

I (THE UNDERSIGNED) HEREBY SOLEMNLY PROMISE  
TO REPORT TO MY COACH AND THE MODERATOR OF  
ATHLETICS ANY ATTEMPTED BRIBE. WHETHER I  
CONSIDER IT SERIOUS OR A JOKE. OR, FOR FAILURE  
TO REPORT SUCH EVENT, TO ABIDE BY THE DECISION  
OF THE PRESIDENT OF ST. JOHN'S UNIVERSITY TO  
DISMISS ME DISHONORABLY AND IMMEDIATELY FROM  
THE UNIVERSITY.

DATE .....

.....  
COACH

.....  
MODERATOR OF ATHLETICS

**Athlete's pledge, mentioned in testimony of Lou Carnesecca, head basketball  
coach of St. John's University.**



Journalist Howard Cosell testifies about boxing and organized crime.



Special Agent Ryan Corrigan, group manager of the IRS's Reno office, testifies about casinos and organized crime.



Detectives William Kisby (left) and Gregory Seitz of the New Jersey State Police describe the activities of gambling junkets in Atlantic City.

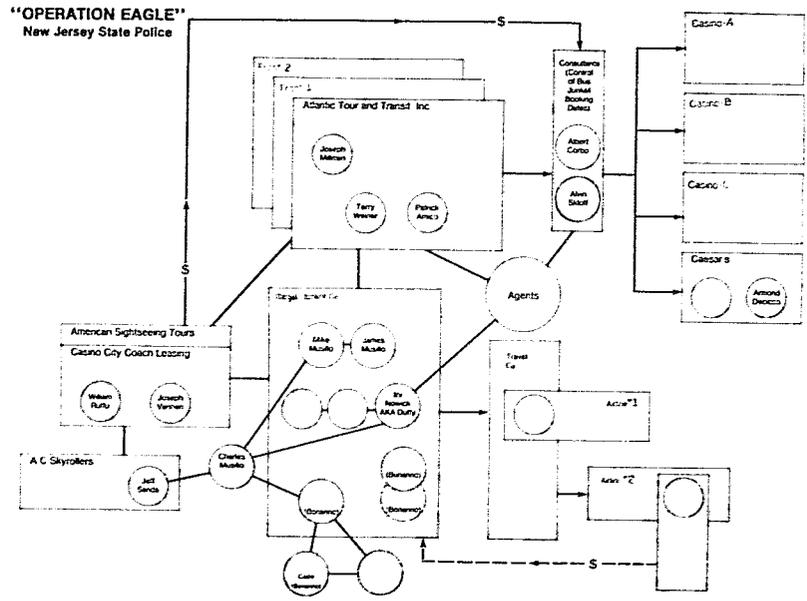


Chart used by witness William Kisby to illustrate gambling junket activity.

<u>Estimated Annual Gross Revenue</u>	
Payments to:	
Licensed Junket Enterprise for Air and Bus Operations	\$ 13,000,000
Air Carriers:	
Overbilling 1 TRIP/DAY 12 x 30 x \$3,000	1,080,000
Kickback 12 x 30 x \$3,000	1,080,000
Super Bus:	
Kickback (226 TRIP/MONTH AVERAGE) 12 x 226 x \$200	542,000
<b>TOTAL</b>	<b><u><u>\$ 15,702,000</u></u></b>

Chart depicting the breakdown of revenues and expenditures of one Atlantic City casino which dealt with an unlicensed junket operation associated with the Bonanno crime family, as mentioned in testimony of William Kisby.



Commission Director of Public Affairs Arthur P. Brill Jr. briefs the press.



**Richard C. Wassenaar (left), IRS Assistant Commissioner for Criminal Investigation, and Charles Parsons, FBI Special Agent in Charge of the Kansas City office, testify on organized crime's involvement in casino gambling.**

EXCLUSIVE OPTION TO PURCHASE  
SHARES OF ARGENT CORPORATION

This Agreement entered into this 15th day of June, 1974 by and between . . . Allen R. Glick . . . and . . . Joseph P. Balistrieri and John J. Balistrieri . . .

- 3. At the time of the execution of this agreement Corporation is presently negotiating for the purchase of all the Shares of Recrion Corporation which, if successful, will result in the ownership and control of the Stardust Motel and Casino and also the Fremont Hotel and Casino both of Las Vegas, Nevada which fact is known to all parties and first part of the consideration of this agreement.
- 4. Both Corporation and GLICK, in his dual capacity as above stated hereby gives, sells, transfers, and passes for said mutual consideration to BALISTRIERIS, their heirs, executors, and assigns, the exclusive option to purchase fifty-percent of all the outstanding shares of ARGENT CORPORATION as of the date of the exercise of this option . . .
- 5. This agreement shall be for a term of ten years from the date of the execution of this agreement . . .
- 6. The price is to be paid by Balistrerio for said fifty percent of the shares of ARGENT CORPORATION is TWENTY-FIVE THOUSAND DOLLARS . . .

WHERETO WE HAVE ALL PUT OUR HANDS AND OUR SEALS AT MILWAUKEE, WISCONSIN THIS FIFTEENTH DAY OF JUNE 1974.

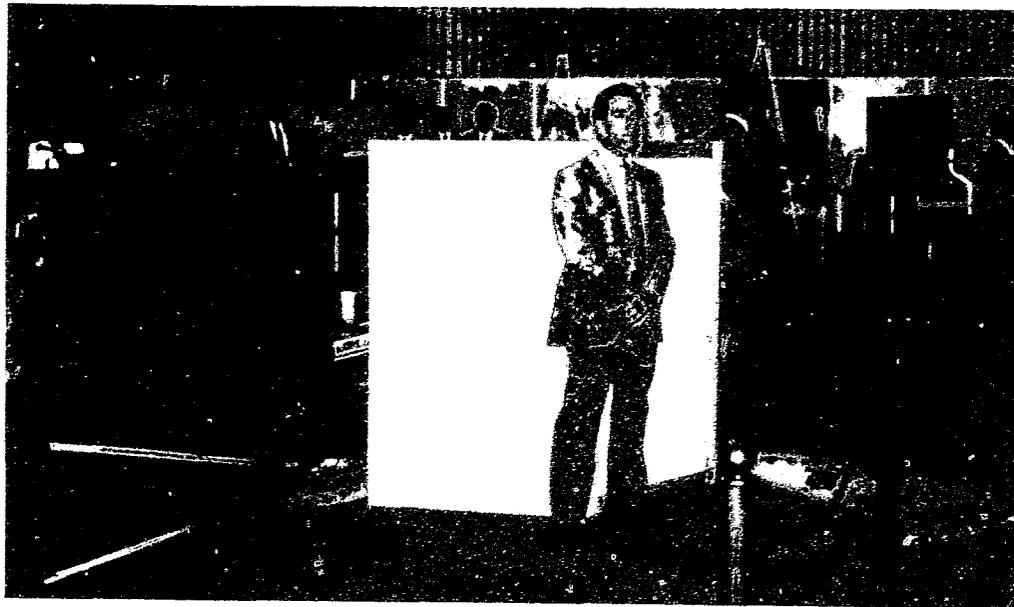
ARGENT CORPORATION	JOSEPH P. BALISTRIERI
By <u><i>Allen R. Glick</i></u> (SEAL)	<u><i>Joseph P. Balistrieri</i></u> (SEAL)
ALLEN R. GLICK, individually	JOHN J. BALISTRIERI
<u><i>Allen R. Glick</i></u> (SEAL)	<u><i>John J. Balistrieri</i></u> (SEAL)
ALLEN R. GLICK, as sole shareholder and officer and director of ARGENT CORPORATION	
<u><i>Allen R. Glick</i></u> (SEAL)	

FBI agent Charlie Parsons described how Frank Balistrieri obtained an option to purchase half interest in two Las Vegas casinos, as shown in this excerpt from the agreement.

Allen R. Glick  
SMM  
7/5/80

SLOTS - JAY VAN DENMARK  
CARD ROOM - BILLY SMITH  
FREMONT - SAM DIAMOND  
(GENERAL MGR.)  
FOOD, BEVERAGE - VICTOR GREGOR

Document showing responsibilities given to four individuals within the Argent organization. Allen Glick was the registered sole owner of the Argent Corporation.



Testifying from behind a screen to protect his present appearance, Frank Cullotta discusses organized crime's influence peddling with casinos.



• Commission Investigator Thomas Sheehan testifies on money laundering and casinos.

## MONEY LAUNDERING CASH DEPOSITS

Anthony C. Castelbuono

Date	Tropicana	Caesars	Sally's Park Place	Golden Nugget
May 28, 1982	152,000	50,000		
May 29, 1982		60,000	100,000	
May 30, 1982			135,000	
May 31, 1982			19,000	
Nov 24, 1982	50,000		150,000	
Nov 25, 1982	150,000 41,800 151,640			
Nov 26, 1982				1,187,450
Dec 2, 1982				500,000
Dec 11, 1982				815,000
Total Cash Deposits \$3,561,890				

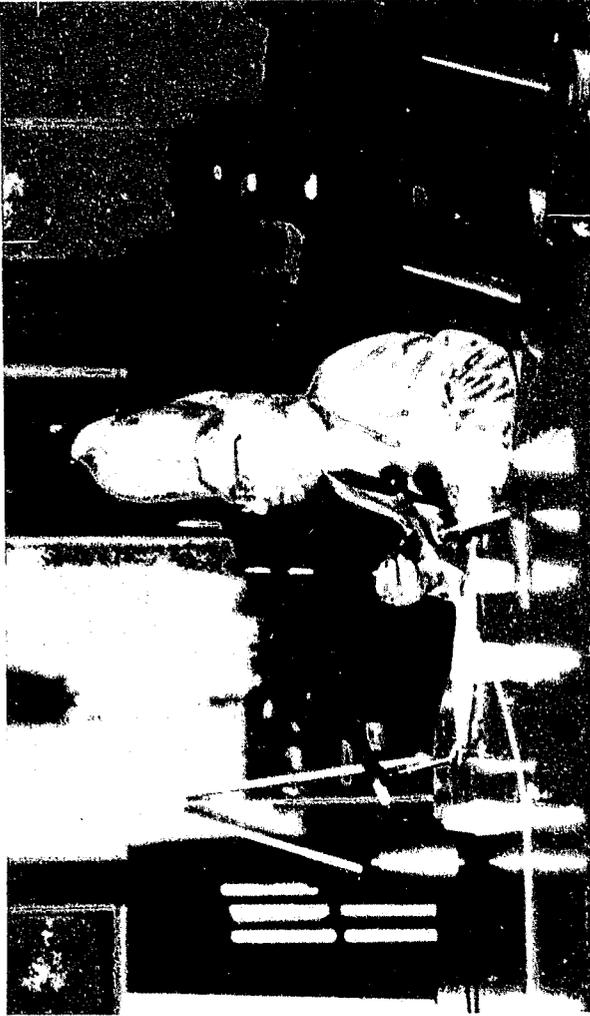
Chart showing amounts laundered through Atlantic City casinos by Anthony Castelbuono in 1982.



Stephen Wynn (center), Chairman of the Board of the Golden Nugget, answers questions on measures casino operators may take to prevent organized crime from profiting from casinos. He is accompanied by Golden Nugget attorneys Marilu Marshall and Alfred Luciani.

Form <b>8362</b>		<b>Currency Transaction Report by Casinos</b>		OMB No. 1545-0066	
February 1985 Department of the Treasury Internal Revenue Service		File a separate report for each transaction. Please type or print. (5010-104-802-0020-0070-1-85-001-012-001)		EIN-99 (2-81)	
<b>Part I Individual or Organization for Whom This Transaction Was Completed</b>					
Individual's last name		First name		Social security number	
Name of organization		Address (street, city, state, ZIP code)		Passport number (if any) Country	
Number and street		City, state, ZIP code		A-13 filing station number (if any) Country	
REFUSED INFORMATION		REFUSED INFORMATION		REFUSED INFORMATION	
City, state, ZIP code		City, state, ZIP code		City, state, ZIP code	
<b>Part II Identity of Individual Conducting the Transaction (Complete only if an agent conducts a transaction for the person in Part I)</b>					
Last name		First name		Social security number	
Number and street		City, state, ZIP code		A-13 filing station number (if any) Country	
City, state, ZIP code		City, state, ZIP code		City, state, ZIP code	
<b>Part III Patron's Account or Receipt Number</b>					
<b>Part IV Description of Transaction. If more space is needed, attach a separate schedule and check this box <input type="checkbox"/></b>					
1. Nature of transaction (check the appropriate box):					
a. <input type="checkbox"/> Currency exchange (currency for currency)					
b. CASH IN					
(1) <input type="checkbox"/> Deposits (time and savings) (2) <input type="checkbox"/> Checks cashed (see item 6 below) (3) <input type="checkbox"/> Collection on account					
(4) <input type="checkbox"/> Checks purchased (4) <input type="checkbox"/> Wire transfer of funds (6) <input type="checkbox"/> Other cash in (specify)					
c. CASH OUT					
(1) <input type="checkbox"/> Withdrawal of deposit (time and savings) (3) <input type="checkbox"/> Checks received (5) <input type="checkbox"/> Other cash out (specify)					
(2) <input type="checkbox"/> Check cashed (see item 6 below) (4) <input type="checkbox"/> Credit advance					
2. Total amount of currency transaction (in U.S. dollars)		3. Amount in item 2 in \$1000's (or higher)		4. Date of transaction (month, day, and year)	
\$ 11,700		\$ 117.000		JAN 18, 1985	
5. Whether this U.S. currency is involved or base currency (if the following information is not provided, assume U.S. dollars):					
Currency name		Country		Total amount of each foreign currency (in U.S. dollars)	
				\$	
6. If a check was involved, provide the check number, payee name, and amount (See instructions)					
Date of check		Amount of check (in U.S. dollars)		Payee of check	
Maker of check		Cashed bank and city			
<b>Part V Casino Reporting the Financial Transaction</b>					
Name		Address (street, city, state, ZIP code)		Identity number (EIN)	
GNOC, Corp. d/b/a GOLDEN NUGGET HOTEL & CASINO		BOSTON & PACIFIC AVENUES		22-2494608	
Number and street		City, state, ZIP code			
BOSTON & PACIFIC AVENUES		ATLANTIC CITY, NJ 08401			
City, state, ZIP code					
Sign Here		Date			
[Signature]		1/18/85			
[Signature]		[Signature]			
For Paperwork Reduction Act Notice, see page 2.					

Enlargement of an incomplete Currency Transaction Report mentioned in examination of Stephen Wynn by Executive Director James D. Harmon Jr.



IRS Agent Martin Molod testifies on Golden Nugget casino records.



Jeffrey H. Silver, former Deputy District Attorney in Clark County, Nevada and former member of Nevada's Gaming Control Board (left), and Thomas R. O'Brien, Director of the New Jersey Division of Gaming Enforcement, testify on state regulation of casino gambling.

☆ U S GOVERNMENT PRINTING OFFICE 1 9 8 5 4 6 1 5 3 9 3 4 5 8 4