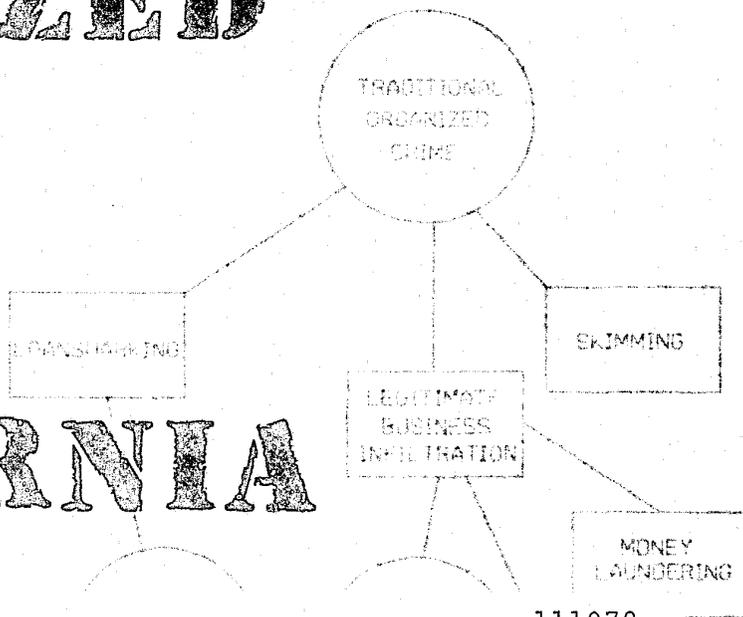


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# Annual Report to the California Legislature

# ORGANIZED CRIME IN CALIFORNIA 1986



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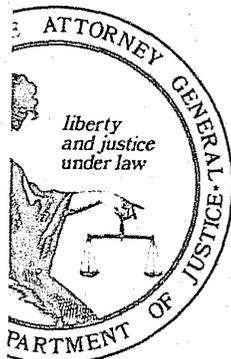
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State of California

# Department of Justice

JOHN K. VAN DE KAMP, Attorney General  
NELSON KEMPSKY, Chief Deputy Attorney General



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CHARLES E. CASEY, Assistant Director, Investigation and Enforcement Branch

## ANNUAL REPORT TO THE CALIFORNIA LEGISLATURE

Prepared by  
DIVISION OF LAW ENFORCEMENT  
INVESTIGATION AND ENFORCEMENT BRANCH  
BUREAU OF ORGANIZED CRIME AND CRIMINAL INTELLIGENCE

**B. E. SANDERSON, Chief**

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**JUNE 1987**

# New Way to Break Up Families

## L.A.'s mob sweep Using RICO, Feds Hit Mob porn ms at major sting; crime family' - 3 Mafia bosses get 100 years

20 individuals, 8 firms charged

ATLANTIC CITY, N.J. (AP) — The reputed leader of a crime family in southern New Jersey and Philadelphia, arrested along with 17 others Monday, federal indictments authorities said are aimed at the crime family. Little Nicky Scarfo, 57, arrested at the Little Nicky casino resort, has been identified as the crime family's boss.

As 3 Mafia bosses get 100 years

By TONY KRUSE  
Daily News (2007 07)

# Hitting the Mafia

Los Angeles filed obscenity day against eight adult-film companies and 20 individuals, most of them involved in distributing pornographic videotapes from a San Fernando Valley location.

Among those charged are Robert "Bucky" Caravaggio, identified in federal indictments in New Jersey as a member of the Luchese organized crime family, and Norman Arno and Noel Bloom, both of whom were indicted in the FBI's Miporn sting operation in 1980.

Bloom is the focus of a dispute in Thousand Oaks, where students have organized a pornographic film plan. Keely Smith, 3 others arrested in tax case

By Leslie Ward  
Herald staff writer

Popular singer Keely Smith, her brother and two associates who law enforcement began in early 1985 and enforcement of a vice sweep by 204 officers in July in which police seized several pornographic films.

"The videotapes seized by police during this operation go beyond the average public perception of pornography," said Attorney James R. Hahn. "These films are more than graphic. They deal with rape, sadomasochism, urination, defecation and, in one instance, multi-

John... attempting to prosecute and put out of business...

## Law Likely to Lead to Stronger Curbs on Pornographers

By DOUGLAS SHUIT and PAUL JAC

Atty. Gen. John K. Van de Kamp, a strong supporter of the legisla-

SACRAMENTO—Gov. G. Deukmejian Tuesday signed law legislation changing California's 20-year-old definition of obscenity, giving prosecutors a new weapon that sponsors of the law say will lead to more prosecutions of pornographers.

## Court warned of mob threat to Indian bingo

Los Angeles Times

WASHINGTON — Attorneys for California, seeking to curb "high-stakes gambling" on Indian reservations in Southern California, told the Supreme Court Tuesday that the unchecked growth of such bingo operations threatened to bring with it "an infiltration of organized crime."

Moreover, they said, the gambling operations on Indian lands in Riverside and San Diego counties are flourishing. Roderick Walton, a deputy attorney general for California,

## Investigation of X-rated movie actresses widens

prosecutors had to review

# Gangsterings May Be Homing In on Poi

influx is  
hared  
thousands of

By Bill Walters

A notorious Asian youth gang may be trying to infiltrate the Pal Gow gambling operations in Northern California cardrooms, according to Bay Area...

... said Emeryville Police Chief Joseph Maltby. "We have identified several Wah Ching members who are associating with the gamblers."

... and armed robbery have been attacked in San Francisco.

By Nancy Brostoff Writer

San Francisco police... Kenned was enjoying dinner with... when several young men dressed in expensive camel's-air coats entered the restaurant, saw him and quickly left.

McKenna recognized the young Asians as members of the Wah Ching (youth of China) street gang.

As chief of San Francisco's Asian Gang Task Force, McKenna predicts the takeover of Hong Kong by the People's Republic of China in 1997 will send many gangsters fleeing to his city.

China has promised to maintain Hong Kong, a center of capitalism, as next 50 years, but many doubt that a large number of criminals is included in the influx.

In Hong Kong, a city of about 6 million people, there are an estimated 100,000 members of Chinese triad societies that rival the Italian Cosa Nostra.

"There are some indications that the People's Republic of China will support organized criminal activity," said C.W. Giannetti, who authored a book on Asian crime.

Between now and the end of the century, he said, thousands of members who flee from cities with large Chinese populations where they are known and feared.

Although triads now operate in the United States, James Harmon, chief of the President's Commission on Organized Crime, said...

## Viet crime syndicate feared

US police find growing evidence of organization among

... (AP) — Rootless, mobile and far from mainstream U.S. culture, a group of Vietnamese immigrant criminals are imported for... to conclude the... an organized crime... Los Angeles homicide... Burch Harris last week tracked... a murdered Vietnamese... coast to the other...

Three Vietnamese men wanted in San Francisco for a 1985 pool hall shooting were arrested in a Boston house on fugitive of justice charges. Harris said the murder and Lowell arrests have eliminated a major information exchange between Vietnamese gangs among U.S. cities.

... What they've been an eye-witness to... came two years ago... telephone call at...

# ENTER THE DRAGON

### How Hong Kong's Notorious Underworld... Becomes...

## Violent ones' Japan's Yakuza Crime syndicate reach to U.S.

By The Associated Press

An Orange County hotel became the base of operations for an Asian crime syndicate attempting to establish a flow of heroin into the United States, authorities said. Drug Enforcement Administration agents said six men believed to be connected to one of three Chinese triads identified in California were arrested Sept. 8 at the Concord Inn in Orange, after trying to smuggle 10 pounds of the drug into the country. The drugs, worth up to \$1.5 million, were bound for New York City, DEA spokesman Dwight McKinney said.

... "Given the source of ill-gotten... expansive nature of... appears to be only a matter... before it displaces La Cosa Nostra... areas of the United States," the... report on Oriental... have great...

## Orange County uses

... without question or hesitation... ship of more than... some 2,400... al syn...

... four suspected couriers, Sai Keung Wong, 20, Sweet Kwan Chan, 23, Li Pong Lok, 29, and Sui Keung Chan, 31, were arrested by federal agents who had been tipped by Hong Kong authorities. John E. Barrett Jr., an agent with the federal Drug Enforcement Administration, said the six men were being held without bail as a grand jury looks into the case. The investigation began in late August when the Royal Malaysian Police told federal drug agents that Ip and Ho were recruiting people in Hong Kong and Kuala Lumpur to smuggle heroin into the United States, Barrett said. Those arrested are believed to be members of a secret Chinese society known as triads.

## 3rd suspect to face trial in Liu murder

New York Times

SAN FRANCISCO — A Taiwanese member of an international gang has been extradited from Brazil to New York to California to stand trial for the 1984 murder of a Chinese-American journalist.

Relatives and supporters of the journalist, Henry Liu, maintained that his murder was carried out at the behest of the Taiwan government for political reasons and condemned a terrorist act on U.S. soil. He was shot to death...

## Chinese counterparts of traditional organized crime as U.S. base

... "Chinese counterparts of traditional organized crime," a New York City police report said. The state attorney general's 1995 report based in Hong Kong with an estimated membership of 60,000.

Authorities expect the triads to become more active in the United States as the 1997 deadline approaches for Great Britain to return Hong Kong to China. "These Chinese communities in the United States are potentially fertile grounds for the triads seeking relocation," DEA agent Feehan told the President's Commission on Organized Crime...

... GELES — They call them Yakuza. The National Police refer to them as... or the violent ones... re, simply, gangsters... organized-crime fig... terrorized their own coun... more than 200 years, ever... first Samurai warriors... being soldiers and chose in... e bandits... any good Japanese busi... has now...

see CRIME, P...

**ORGANIZED CRIME IN CALIFORNIA  
1986**

This report of organized crime in California is submitted in compliance with Government Code Section 15028 requiring preparation of an annual report to the Legislature.

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## SUMMARY OF 1986 HIGHLIGHTS

- o Members of the Gambino, Luchese, and DeCavalcante organized crime families, as well as the Southern California Crime Family, were involved in various California businesses, including those related to pornography, and high-stakes bingo on Indian reservations.
- o With its active involvement in adult videotape production and distribution, organized crime has cashed in on the video pornography boom. Organized crime figures may launch a bid for control of independent pornographic film producers who are now using commercial carriers to distribute their products.
- o Although California remained free of terrorist incidents, it remained a vulnerable target, particularly as international conflicts, terrorist violence against Americans abroad, and other acts of terrorism continued worldwide.
- o Several Californians who are known to associate with violent segments of various white supremacy groups were arrested by law enforcement authorities on charges stemming from a counterfeiting operation and a series of bombings in Idaho.
- o The California operations of a major international Asian crime group, the United Bamboo, may have been thrown into disarray by the convictions of several of its leaders on racketeering charges. Another key United Bamboo member is being tried for the murder of writer Henry Liu, who was killed in 1984 at his Daly City home, in what is believed to have been a politically-motivated assassination.
- o Members of some international and domestic Asian crime groups were linked to a multi-million dollar network of prostitution rings in the United States involving perhaps thousands of immigrant Korean and Taiwanese women.
- o Although there were fewer prison gang-related homicides this year than last, prison gangs continued their heavy involvement in narcotics trafficking. The Nuestra Familia, for example, recruited members of an Hispanic group known as the Nortenos to traffic in narcotics on behalf of the gang, and provide the gang with safehouses, vehicles, and weapons.
- o The attempt to consolidate members of the street gang known as the Crips into a powerful prison gang has stalled, apparently because at this time, the strong leadership necessary to overcome infighting among the various Crips factions is lacking.
- o In 1986, state, federal, and local law enforcement agencies in Southern California seized over 6,500 pounds of cocaine, and investigators estimate that 80 percent was being distributed by Colombian nationals.
- o California led the nation in clandestine lab seizures in 1986.

PART I -- TRADITIONAL ORGANIZED CRIME

In 1986, traditional organized crime's structure and activities changed very little in California, although the year was by no means uneventful, as many key organized crime figures whose associates were active in California were tried and convicted elsewhere in the nation.

Three New York organized crime family bosses -- Carmine Persico, Anthony Salerno and Antonio Corallo -- were tried and convicted on racketeering charges, and each was given a 100-year sentence. In Kansas City, Joseph Aiuppa, head of the Chicago Crime Syndicate, was sentenced to 28 years in prison for his role in a Las Vegas skimming operation. And Frank Balestrieri, boss of the Milwaukee Crime Family, pled guilty to charges related to that same case and is now serving a ten-year sentence.

The change in leadership that is inevitable as a result of the convictions will influence East Coast organized crime activities in California. But the impact will be difficult to measure largely because organized crime hierarchies, territories, and business relationships here are less structured and more flexible than those on the East Coast.

The underworld's business interests thrived in 1986 as traditional organized crime continued to infiltrate pornography, high-stakes bingo on Indian reservations, and other legitimate California businesses.

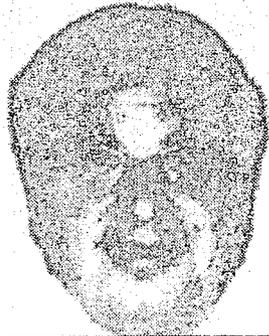
The following is an overview of organized crime activities and responsive law enforcement efforts in this state during the past year.

SOUTHERN CALIFORNIA CRIME FAMILY

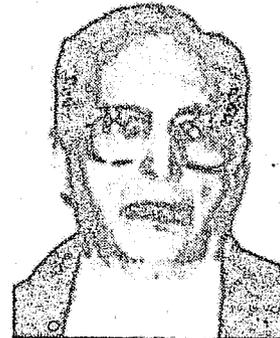
Law enforcement officials have identified 24 La Cosa Nostra families in the United States. Of these, the Southern California Crime Family is the only functioning traditional organized crime family based in this state. Although it is believed to be involved in extortion, bookmaking, and narcotics trafficking, the Southern California Crime Family is relatively weak and less capable of large-scale criminal operations compared to many other crime families. Its weakness is due largely to police scrutiny and ineffective family leadership.



PETER MILANO



CARMEN MILANO



JACK LOGICERO

LEADERSHIP OF THE SOUTHERN CALIFORNIA CRIME FAMILY



LUIGI GELFUSO



VINCENT CACI



JOHN AQUILANTE

The structure of the Southern California Crime Family remained unchanged in 1986, with Peter John Milano, the boss, his brother Carmen Milano, the underboss, and Jack LoCicero, the "consigliere," or counselor. The "caporegimes" (captains) are reportedly Luigi Gelfuso, Vincent Dominic Caci (released from federal prison in February 1987), John Aquilante, and Michael Rizzitello. The family consists of about 20 members, five of whom were recruited during the last three years. Despite earlier indications, there are no recent signs that the Southern California Crime Family has further increased its membership.

Early in 1986, law enforcement speculated that Rizzitello might attempt to form a separate organized crime faction in Southern California once he was released from prison in Spetember. Had he done so, a split in the crime family would have been likely because Rizzitello

was influential with other members. Rizzitello's movements since his release appear constrained, however, and there are no recent indications that he is organizing a group of his own.



**MICHAEL RIZZITELLO**

One indictment was handed down against a member of the Southern California Crime Family in 1986. In May, prior to his release from prison, Rizzitello, along with family associates Nick Nardi and Robert Paduano, was charged with conspiracy, interstate transportation of money and property obtained by fraud, and receipt of stolen securities. All three were acquitted.

### The La Cosa Nostra Commission Trial

Composed of about nine members of the major organized crime families in this country and dominated by the five New York families, the La Cosa Nostra Commission was set up to resolve disputes between crime families and deliberate on major issues affecting organized crime operations. But in October 1986, the Commission's influence was weakened when three of its members -- all of whom were bosses of New York crime families -- were convicted of racketeering in connection with their roles on the Commission. Convicted by a New York jury were Anthony Salerno of the Genovese Crime Family, Anthony Corallo of the Luchese Crime Family, and Carmine Persico of the Colombo Crime Family. In January 1987, each of the top racketeers was sentenced to prison for 100 years.

These convictions are not expected to put an end to traditional organized crime because, without doubt, new crime bosses will emerge. Probably one of the most significant aspects of this case was the testimony at trial confirming the long-disputed existence of both La Cosa Nostra and its national Commission.

### THE CHICAGO CRIME SYNDICATE

Joe Ferriola took over as boss of the Chicago Crime Syndicate in 1986 after former boss Joseph Aiuppa began serving a 28-year prison sentence for convictions stemming from a Las Vegas skimming operation. Ferriola might attempt to revive the Chicago influence in California that had diminished over the past several years due to the lack of leadership of its beleaguered lieutenant, the late Anthony Spilotro.

Under Aiuppa, Spilotro had watched over much of the Syndicate's criminal operations during the 1970's and early 1980's. Spilotro led a cadre of key personnel in Southern California and Las Vegas who were heavily involved in bookmaking and loansharking.

But over the last few years, Spilotro's power, and thus the influence of the Chicago Crime Syndicate, had been eroded by his ongoing legal battles. In a Las Vegas U. S. District Court, Spilotro faced burglary, racketeering and conspiracy charges. In another case, he faced civil rights charges in a 1979 contract killing of a government informant.

In June 1986, Spilotro's career as an organized crime figure came to an abrupt and violent end: he and his brother Michael were found beaten to death in a shallow grave in Indiana. There are several possible motives behind Spilotro's murder, including a possible feud between Anthony Spilotro and Ferriola, and the Chicago Crime Syndicate's dissatisfaction with Spilotro's performance in Las Vegas. In addition, several people allegedly under Spilotro's control, testified against the Chicago Crime Syndicate's leaders during their Kansas City racketeering trial that ended in 1986. It was probably a combination of all of the foregoing circumstances that led to Spilotro's death.

Until recently, the Chicago Crime Syndicate had represented the Southern California Crime Family's interests on the La Cosa Nostra Commission. But it is believed to have been replaced in this role by one of the New York crime families, probably because the breakdown in its structure diminished its influence in California. If New York now represents Southern California on the Commission, then a closer working relationship between New York

organized crime subjects and members of the Southern California Crime Family is expected, as well as an increase in the number of New York organized crime figures doing business in California.

Notwithstanding its decline in influence in California, the Chicago Crime Syndicate is a powerful organized crime family in the Midwest. Law enforcement authorities generally agree that once Ferriola consolidates his position as boss and appoints Spilotro's replacement, the Chicago Crime Syndicate might resume its former level of criminal involvement in California. It could again move in on illegal gambling and other criminal operations as it reportedly has done recently in Wisconsin after three top Milwaukee Crime Family leaders were sent to prison.

If the Southern California Crime Family declines in influence, the Chicago Crime Syndicate and the New York crime families could play a much more active role in this state, with representatives of various crime families working together in criminal activities, particularly those in Southern California.

#### TRADITIONAL ORGANIZED CRIME INVOLVEMENT IN BUSINESSES

California has a long-standing reputation of being "open territory" where organized crime figures may conduct their own businesses free from the control either of their own or other organized crime families. Consequently, in addition to the Southern California Crime Family, members and associates of the Gambino, Luchese, and DeCavalcante organized crime

families are involved in various California businesses, including those related to pornography, high-stakes bingo on Indian reservations, and vending machines.

### Pornography

Estimates of nationwide revenues from pornography range from \$7 billion to \$10 billion annually, and organized crime is believed to be connected to most of this money. Organized crime is heavily involved in adult videotape distribution nationwide, and in production primarily in Southern California.

The majority of the profits from pornography are in adult videotapes. The shift in the pornography industry from 8mm films and publications to videotapes, a trend identified in previous editions of this report, steadily gathered momentum in 1986. An adult movie industry spokesman stated that approximately 1,650 new adult videotapes would be released in 1986. According to the Video Marketing Newsletter, an estimated 15 to 20 percent of the total videocassette rental and sales market nationwide is made up of adult videotapes.

In California, pornography was a lucrative part of organized crime operations in 1986. But the disappearance of an organized crime "enforcer" from New York, who was a top figure in the nationwide pornography business, plus tougher anti-obscenity legislation and innovative law enforcement tactics may impede organized crime's pornography profiteering.

Distribution Trends: Since the 1970's, members of East Coast organized crime families have controlled the majority of the nationwide pornography

industry through distribution networks established primarily by the Gambino and DeCavalcante families. Although major producers still rely on these networks to distribute adult movies, in 1986 some of California's independent producers broke away from organized crime distribution routes and developed their own. The catalyst was the disappearance of Robert DiBernardo, enforcer for Reuben Sturman's distribution network.

Sturman is responsible for distributing much of the pornography in California through his Cleveland-based distribution network, which is one of the world's largest and includes hidden ownership in many California pornography businesses. Until recently, Sturman had relied on Robert DiBernardo, a member of the Gambino Family, to enforce participation in his pornography distribution operation. DiBernardo was also a top figure in the nationwide pornography industry, and a principal owner of Star Distributors in New York, a major distributor of pornographic material.

When DiBernardo disappeared in June 1986, believed murdered by rivals as a result of his efforts to move into a higher position in the Gambino Family, Sturman lost his enforcement powers.

As a result, some independent producers are now handling their own distribution. Rather than relying on trucking by organized crime-influenced distributors, these independents have been using commercial carriers to transport their products directly to wholesale outlets.

At the end of 1986, the outcome of the independents' breakaway from organized crime's distribution operation was unsettled. Sturman has been spending a considerable amount of time every month in California negotiating

the return of these producers to his distribution networks. If his efforts are unsuccessful, the trend towards independent marketing could continue; alternatively, other organized crime figures could move in and bid for control of the independent producers.

Enforcement Efforts: A number of diverse California statutory and law enforcement efforts during 1986 are expected to have a significant impact on the pornography industry. One of these efforts is legislation, passed in 1986 with the support of California Attorney General John K. Van de Kamp, that broadens California's 20-year-old definition of obscenity. The new law, effective January 1, 1987, defines obscene material as lacking in "significant literary, artistic, political, educational, or scientific value," thus broadening the former standard, "utterly without redeeming social importance." Although California's new standard is expected to facilitate prosecutions of obscenity cases, it first may face time-consuming court challenges because it differs from the standard adopted in 1973 by the United States Supreme Court, in which an absence of "serious" rather than "significant" value defined obscene matter.

Meanwhile, Butte County authorities were successful in 1986 with their prosecution of adult business owners on obscenity charges under California's former standard. The three owners of Fantasy Land, an adult book and film store in Chico, were convicted on 22 misdemeanor counts of exhibiting and distributing eight obscene magazines and 114 obscene films. This was one of Northern California's first criminal obscenity trials in a decade. Its isolation only underscores the extent to which California's restrictive former standard hampered enforcement efforts.

Innovation is the key in Los Angeles. Adult moviemakers have been arrested for violations of California's anti-pandering law, which prohibits procuring another person for the purpose of sex for pay. Ordinarily, this law is used to prosecute pimps and madams, but is now being applied to producers and directors of adult films who hire actors and actresses to perform sex acts in movies. As a result, many sex filmmakers are now filming in the San Francisco Bay Area. Although production and distribution are still maintained primarily in the San Fernando Valley, an estimated 60 percent or more of the producers commute to the Bay Area to film.

In another assault on producers and distributors of adult movies, the Los Angeles District Attorney's Office launched an investigation into allegations that pornography star Traci Lords was only 15, and thus underage, when she appeared in her first adult movie. The District Attorney ultimately referred the case to federal prosecutors, who expanded the inquiry to include four other actresses. As a result of these investigations, movies by Lords and another actress were pulled from video stores and sex shops nationwide. Producers and distributors were especially hurt by the crackdown because Lords is one of their most popular stars. At least one video store owner was prosecuted for selling a Traci Lords videotape to undercover officers.

Another major case in the Los Angeles area during 1986 involved obscenity charges filed against eight California corporations and 20 individuals, the result of a 1985 sting operation in which 15 obscene videotapes were

seized. Among those charged were several firms and individuals directly connected to traditional organized crime. They include:

- Norman Arno, operator of VCX, Inc. and Humphrey Sales Inc. in North Hollywood, and Bonanno Crime Family associate. Arno was convicted as a result of the 1980 Miporn sting operation in which 54 individuals, many of whom were associated with organized crime families, were charged with crimes related to pornography and piracy of legitimate films. Arno is now serving a five-year prison sentence for violating federal obscenity laws in connection with that case.
  
- Robert Caravaggio, owner of Nite-Flite, Inc. and Innovative Video Productions in Tarzana, and identified in federal indictments as a member of the Luchese Crime Family.
  
- General Video West, located in North Hollywood and part of Reuben Sturman's pornography network. Charges were also filed against two employees of this company.
  
- L.A. Video, located in Los Angeles and publicly identified as part of Robert DiBernardo's empire out of New York. Company officials Kenneth Guarino, Michael Lessa, and James Anthony Golff were also named in the complaint.

• California Video Distributors,  
located in Canoga Park. Noel  
Charles Bloom, a former associate  
of the late Michael Zaffarano of  
the Bonanno Family, is a corporate  
officer. Bloom is thought to have



**NOEL CHARLES BLOOM**

received his start in the pornography industry through financial backing from Michael Thevis, a close associate of Robert DiBernardo. He has become a major distributor of X-rated movies, and has been arrested numerous times on obscenity charges but never convicted. There were indications in late 1986 that Bloom may be divesting himself of his pornography-related businesses. There is speculation, however, that the changes in corporate structure are only on paper, and that Bloom still maintains personal control.

The status of these cases was still pending at the end of 1986.

U.S. Attorney General's Commission on Pornography: In July 1986, the U.S. Attorney General's Commission on Pornography released a 2,000 page report concluding its year-long investigation of the pornography industry. In referring to ties between the pornography industry and organized crime, the report stated, "There seems to be strong evidence that significant portions of the pornography magazine industry, the peep-show industry, and the pornographic film industry are either directly operated or closely controlled by La Cosa Nostra members or very close associates." The Commission made over 90 recommendations -- including sentence enhancement and asset seizure in specified obscenity convictions -- aimed at curbing pornography in America.

## FORECAST

- o Organized crime involvement in adult videotape production and distribution will keep pace with the steady growth of the videotape share of the pornography market.
  
- o Organized crime figures might launch a bid for control of independent film producers who are now using commercial carriers to distribute their products.
  
- o California law enforcement will continue to investigate and prosecute individuals and businesses for violating obscenity and pandering laws.

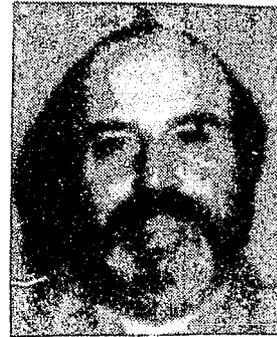
### High-stakes Bingo on Indian Reservations

Managing high-stakes bingo operations on Indian reservations generates huge profits and easy opportunities for money laundering, skimming, and illicit gambling. Moreover, the games are not subject to local or state regulation and cannot be effectively monitored. Consequently, such operations are attracting organized crime.

In 1979, the first high-stakes bingo game began operating on a Florida reservation. Other Indian reservations throughout the nation soon followed suit, with the result that 118 tribes in 30 states now offer high-stakes bingo. In 1986, California had more of these operations than any other state, with 31 of its 117 Indian reservations running or planning to run high-stakes bingo games. This figure reflects a 24 percent increase in the number of reservations on which games were held in 1985.

Traditional organized crime continued its interest in the private management companies that run high-stakes bingo games. Two companies that were the subjects of investigations in California during 1986 employed associates of the Luchese and the Southern California Crime Families:

- o In April, Stewart Siegel, general manager of American Management and Amusement (AMA) at the Barona Indian Reservation in San Diego County, pled guilty to four counts of grand theft. The charges stemmed from a 1985 case in which he hired "shills" to win large cash prizes (totaling about \$96,000) that were later deposited into the AMA bank account, which was controlled by Siegel. He was sentenced to one year in the county jail and fined \$500.



STEWART SIEGEL

Siegel claimed that part of the start-up money for the Barona operation came from Southern California Crime Family associate Rocco Passanante. He said that Passanante, who often bragged about his organized crime ties, tried to influence the operations at the Barona bingo hall.

The Barona bingo operation closed in April 1986 when AMA wanted to reorganize management and renovate the bingo hall. The tribal council responded by suing AMA, alleging that the

company kept a double set of financial records, failed to prepare monthly operating statements, undercapitalized the bingo games, and did not pay its fair share of bingo operating expenses. AMA countersued, claiming that the Indians were acting without cause in voiding the 25-year bingo management contract. In October 1986, a federal court ruled in favor of the tribal council, holding that the contract was void because it had not been previously approved by the Bureau of Indian Affairs (BIA).

- o Another management firm no longer in business was suspected of skimming from bingo receipts and laundering funds through its accounts. Some of its operators were directly linked to Anthony Accetturo, caporegime in the New York-based Luchese Crime Family. Accetturo, who resides in Florida, has been publicly referred to as the kingpin of Florida bingo. One of the firm's principals, James Williams, was convicted in Florida in February 1987 for federal tax violations. This conviction was directly related to Williams's Florida bingo operation.

California law enforcement contended with a variety of other problems associated with high-stakes bingo operations on Indian reservations during 1986. There were instances in which management firms embezzled bingo game proceeds or were sued for failing to meet conditions of their contracts. Since there has been no regulatory control, investigators have found it difficult to track management firms suspected of these activities due to the

mobility of those involved. The criminals move from one management firm to another while the firms themselves suddenly move to other reservations.

Attempts were made in 1986 to regulate high-stakes bingo on Indian reservations in California. In April, the BIA announced that the tribal councils must submit names of prospective management company personnel for appropriate background checks and obtain BIA approval before they contract with bingo operators.

Also in April, the California Attorney General's Office filed an appeal with the United States Supreme Court, asking the court to overturn a U. S. 9th Circuit Court of Appeals ruling that neither the state nor the county had any authority to enforce its laws pertaining to high-stakes bingo on Indian reservations. The state argued that two federal laws -- Public Law 280 that gives California broad criminal jurisdiction over activities on Indian reservations, and the Organized Crime Control Act of 1970 (OCCA) -- served as Congress's express consent to enforce state laws on Indian reservations.

On February 25, 1987, in a six-to-three decision, the U. S. Supreme Court upheld the lower court's ruling. The Supreme Court held that enforcement of OCCA was an exercise of federal, not state, authority. And the court upheld the distinction between "criminal/prohibitory" and "civil/regulatory" state laws with respect to the authority of Public Law 280. The court reasoned that because the California Penal Code does not prohibit bingo, but instead sets forth conditions for its legitimate operation (such as limiting the total value of prizes awarded, or designating the type of organization that may conduct the game), then California's bingo law is regulatory, not prohibitory, and as such is unenforceable on Indian land.

Finally, the Supreme Court held that under special circumstances, state and local laws may be applied to activities of tribes and tribal members on the reservation without Congress's express consent, provided that state interests are sufficient to assert state authority. But in this case, the Supreme Court found that the state's interest in preventing infiltration of tribal bingo by organized crime did not justify state regulation of bingo enterprises.

Although the full impact of the court's decision has not yet been felt, an expansion of high-stakes bingo operations is expected in this state as a result of the ruling.

Cardrooms: Although most of the gaming operations on Indian reservations consist of high-stakes bingo, the lure of additional income is causing some tribal councils to consider allowing cardrooms to operate on their reservations.

In October 1986, the Rincon Indian Reservation in San Diego County opened a cardroom with a guarantee of \$25,000 a month in new revenues to the tribe. This is the first cardroom of several that have been proposed in San Diego County. Tribal councils on the Jamul, Sycuan, and Viejas reservations are also considering opening cardrooms.

Law enforcement authorities are concerned because some cardrooms in California have attracted organized crime subjects who are involved in illicit gambling activities. Also, some cardrooms have attracted those involved in ancillary crimes such as prostitution, narcotics trafficking, loansharking, receiving stolen property, and skimming. These activities

have taken place at cardrooms that are governed by local and state regulation. Without regulation, cardrooms on Indian reservations offer organized crime the opportunity to operate with an even freer hand, exempt from regulatory constraints found elsewhere.

In December 1986, the San Diego Sheriff's Department raided the Rincon Indian Reservation and cited the cardroom manager and 26 players for illegal gambling. This action was taken when it was discovered that two of the card games were being played in a manner prohibited by the California Penal Code. In light of the recent U. S. Supreme Court decision on high-stakes bingo on Indian reservations, however, the nature of these citations -- prohibitory or regulatory -- might be challenged.

Its lucrative nature and the absence of adequate regulatory control make gaming on Indian reservations a viable target for organized crime and unscrupulous management firms. The recent U. S. Supreme Court decision puts law enforcement into a reactive role of only responding to complaints of criminal activity, rather than an active role of preventing crime.

#### FORECAST

- o Barring new, more aggressive statutory and regulatory controls, gambling on Indian reservations is expected to increase in 1987. As the number of bingo and cardroom operations increase, so will the probability for organized crime involvement.

- Given the recent U. S. Supreme Court decision regarding high-stakes bingo, some tribes may explore the possibility of allowing other forms of gambling that may be exempt from state or local regulation, such as horse racing and lottery, to operate on the reservations.

### Piggy's Vending

Although the vending business has historically been a target for organized crime infiltration in the East and Midwest, very few vending operations in California are owned or operated by traditional organized crime figures. However, one such company in Riverside County, Piggy's Vending, was the focus of an investigation after complaints were received about its operations. During the course of the probe, investigators learned that the manager and several others who were frequently observed at this vending company had ties to organized crime.

On July 19, 1986, four people who were involved in three businesses were arrested for failing to pay employees' disability insurances taxes and to withhold employees' personal income taxes. One of those arrested was Keely Smith, a.k.a. Dorothy Prima, the owner of Piggy's Vending. Trial is pending on these charges.

Smith's boyfriend is Bobby Milano, who has been publicly identified as a member of the Southern California Crime Family. Milano's brother, Vincent Dominic Caci, is a caporegime in the Southern California Crime Family.

(Milano was often seen at Piggy's Vending.) Steven Cino, the manager of Piggy's, and Rocco Zangari, who was observed unloading cartons of cigarettes at Piggy's, also have been identified as members of the Southern California Crime Family.



KEELY SMITH



STEVEN CINO



ROCCO ZANGARI

FORECAST

- o This investigation of a vending company was an isolated incident, and it does not appear that organized crime is expanding into the vending machine industry in California.

## PART II -- TERRORISTS/CRIMINAL EXTREMISTS

### TERRORISTS

The Federal Bureau of Investigation defines terrorism as:

The unlawful use of force or violence against persons or property to intimidate or coerce a government, the civilian population, or any segment thereof, in furtherance of political or social objectives.<sup>1</sup>

Even though terrorism is widespread internationally, there were no terrorist incidents in California during 1986, which is consistent with the steady decline in incidents in this state over the past five years.

Nevertheless, as described below, this year several Californians were either arrested or sought on criminal charges stemming from their active support of domestic and international terrorist groups.

#### Guns Smuggled to Irish Terrorists

In June, weapons destined for the Irish National Liberation Army (INLA), a splinter group of the IRA, were confiscated by authorities in Le Havre, France. Thirty-seven weapons, including submachine guns, assault rifles, handguns, and over 2,000 rounds of ammunition were found hidden in a false compartment of a camper van belonging to William Norton from Los Angeles.

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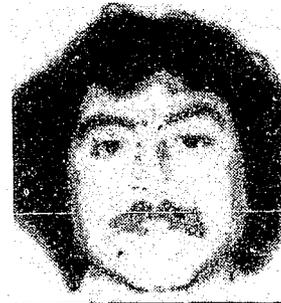
<sup>1</sup> Federal Bureau of Investigation, Analysis of Terrorist Incidents and Terrorist-Related Activities in the United States, 1985. December 31, 1985, p. 1.

Norton and his wife, Eleanor, were arrested by French police when they attempted to claim the vehicle. Arrested with the Nortons was Sean Hughes, a leader in the INLA, who was wanted on an international warrant for the 1982 murder of a police officer near Dublin, Ireland.

Although this is the first known gun-smuggling incident in which Californians were known to have colluded with Irish terrorists, during the past few years guns and ammunition suspected to have originated from the United States and destined for Irish terrorists have been seized from ships off Ireland's coast. Therefore, it is unlikely that the foregoing INLA incident was an isolated event.

**Explosives Hidden by FALN Associates**

In August, six suspected associates of the terrorist organization known as the Fuerzas Armadas De Liberacion Nacional (FALN) were linked by law enforcement authorities to explosives found in the Los Angeles area. Claude Daniel Marks and Donna Jean Willmott are wanted by federal authorities for transporting explosive material for the FALN. Four material witnesses are also being sought in the case. In addition, Marks and Willmott are wanted for conspiracy to aid in a prison escape in which they allegedly tried to free FALN member Oscar Lopez from Leavenworth Federal Prison.



**CLAUDE DANIEL MARKS**



**DONNA JEAN WILLMOTT**

The FALN is a terrorist group that is seeking Puerto Rico's independence from the United States through violence. Since 1974, the FALN has been implicated in over 100 bombings in the United States, chiefly in the New York and Chicago areas. FALN targets primarily have been multinational corporations.

#### Brink's Robbery Suspect Arrested

In February, Mutulu Shakur was arrested in Los Angeles for his role in a 1981 robbery of a Brink's armored car in Nyack, New York, that left two police officers and one security guard dead. Shakur, who allegedly was the mastermind behind the robbery, has had ties with various radical political groups. Members and former members of various revolutionary groups -- including the Black Liberation Army, the May 19 Communist Organization, Weather Underground Organization, and the Republic of New Afrika -- participated in the robbery.

Shakur had been living under a fictitious name and had been the target of a nationwide police manhunt since 1982. He is currently awaiting trial.

Still at large is Cheri Lavern Dalton, who is believed to have been living with Shakur in Southern California. Investigators suspect that she was involved in armored car robberies in New York, including the one in Nyack, and a credit union robbery in Virginia.



CHERI LAVERN DALTON

## CRIMINAL EXTREMISTS

Criminal extremists are defined as any group of people who form an alliance and commit crimes in order to advance their extreme causes or beliefs.

In 1986, several Californians who are known to associate with such groups (in particular, violent segments of white supremacy groups) came to the attention of law enforcement.

In October, federal authorities arrested William Potter Gale, an alleged leader of the Committee of the States in Congress, at his home in Mariposa County. A federal grand jury indictment charged Gale and six Committee members with threatening the lives of Internal



**WILLIAM POTTER GALE**

Revenue Service agents and a Nevada state court judge. The indictment alleges that the members conducted paramilitary training, and through the auspices of the Committee, established a procedure by which individuals who interfered with the Committee's functions or activities would be sentenced to death at the hands of the Committee's "unorganized militia."

Members of the Committee of the States in Congress believe that they have the right to set up their own local governments without regard to state or federal laws, in particular, laws requiring individuals to pay taxes.

According to newspaper accounts, Gale was a leader of the Posse Comitatus, another group that has goals similar to the Committee of the States.

Violent confrontation with law enforcement authorities has been associated with the Posse Comitatus. In 1983, a Posse member who was resisting arrest for income tax evasion shot and killed two United States marshals and wounded two other law enforcement officials in North Dakota. He fled to Arkansas, where a final gun battle took place in which the fugitive fatally shot a sheriff and was killed by the return fire.

An advocate of white supremacy, Gale associates with Richard Butler, the leader of the Aryan Nations in Hayden Lake, Idaho. The Aryan Nations and other white supremacist groups have in common a goal to establish an independent nation for whites in the states of Oregon, Washington, Idaho, Montana, and Wyoming.

Violence associated with the Committee of States occurred in December when a high-ranking Committee member died in a shootout with the California Highway Patrol:

- On December 1, 1986, David John Moran and an accomplice committed a series of five armed robberies of convenience stores in Fairfield, Davis, and Woodland. After a high-speed car chase, Moran's accomplice was arrested, but Moran eluded capture. One week later, the car in which Moran was a passenger was stopped near Garberville by two California Highway Patrol officers because of a faulty headlight. Moran shot one officer. The other returned fire and killed Moran.

Four persons calling themselves the Bruder-Schweigen Strike Force II were arrested in Idaho during 1986 in connection with a counterfeiting operation

and a series of bombings. The group took its name from the Bruder-Schweigen, also known as the Order or the White American Bastion, a white supremacist group dedicated to the violent overthrow of the United States government. (As stated in last year's report, the White American Bastion's activities have declined due to the arrests and convictions of many of its members.)

On October 20, 1986, the U. S. Secret Service arrested former Californian David Dorr for counterfeiting \$20 bills. Dorr was known to have traveled to California during the summer of 1986 to meet with members of other white supremacy groups. Also arrested for parole violations stemming from a previous counterfeiting conviction were Edward and Olive Hawley, who lived with Dorr.



DAVID DORR

Four days later, Robert Elliott Pires, another former Californian, who also resided with Dorr and the Hawleys, was arrested for a series of bombings in Coeur d' Alene, Idaho, that occurred on September 29, 1986. Law enforcement investigators suspect that the bombings were meant as diversions to abortive attempts to hold up two banks and a National Guard armory. Investigators believe that the money from the banks was to be used for purchasing food and vehicles, and the weapons from the armory were to be used against the United States government. Dorr and Edward Hawley are also accused by federal authorities of participating in the bombings.

### Animal Liberation Front 1985 Forecast Followup

The Animal Liberation Front (ALF) is an animal rights group dedicated to ending experimental research on animals. In the past, some of its members have been responsible for vandalizing and threatening animal research institutions and department stores selling fur clothing.

The ALF was relatively dormant in 1986 compared to its past levels of activity. The ALF claimed responsibility for one notable incident during the year -- the bizarre "liberation" of 127 turkeys from ranches in southern Sacramento County just prior to Thanksgiving. No one was injured, but a considerable amount of property was damaged by vandalism.

### FORECAST

- o Although California was free of overt terrorist incidents in 1986, it remained a vulnerable target, particularly as international conflicts, terrorist violence against Americans abroad and other acts of terrorism continued worldwide.
  
- o Although American gun-smuggling operations to Northern Ireland are discovered from time to time, active involvement of Californians appears to be rare. Therefore, further direct support in California for Irish terrorist groups is not expected in 1987.
  
- o Explosives found in Southern California are evidence that the FAIN has continued criminal support and that it has the means to commit acts of terrorism in California.

- The more fanatical members of such groups as the Committee of the States in Congress probably will continue to direct violence and threats against law enforcement authorities and any others perceived as interfering with the groups' activities.

PART III -- NON-TRADITIONAL ORGANIZED CRIME

Over the years, other organized crime groups have emerged to challenge traditional organized crime's dominance of the criminal underworld. Often formed along ethnic or racial lines, many of these non-traditional organized crime groups were established to protect members living in a threatening environment, such as prison or a slum neighborhood. But these groups soon began to indulge in criminal profiteering using violence as a standard business practice. Many criminal groups now prey upon the very communities from which they sprang.

Most of these non-traditional organized crime groups have a gang structure, perhaps best defined in the final report of the 1986 California State Task Force on Youth Gang Violence:

A gang is a group of people who interact at a high rate among themselves to the exclusion of other groups, have a group name, claim a neighborhood or other territory and engage in criminal and other anti-social behavior on a regular basis. <sup>2</sup>

Although addressing the specific problem of youth gangs, the above definition accurately characterizes Asian crime groups, prison gangs, and outlaw motorcycle gangs.

At one time, non-traditional organized crime gangs might have been distinguished from traditional organized crime because they lacked

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<sup>2</sup> California Council on Criminal Justice, State Task Force on Youth Gang Violence, Final Report. January 1986, p. 9.

sophistication, and had a limited sphere of influence. That distinction no longer necessarily applies as gangs employ state-of-the-art weaponry, gang organizational structures become increasingly complex with leadership insulated from prosecution, new alliances form spreading gang networks not only throughout the state but throughout the world, and illicit gang wealth expands. Perhaps only their relative newness and the speed with which they mature as criminal organizations now set most non-traditional organized crime groups apart from their more traditional counterparts.

The characteristics of many criminal gangs -- their multiplicity, sizeable membership, routine violence, and worldwide connections -- make combatting non-traditional organized crime an urgent priority of law enforcement.

#### ASIAN CRIME GROUPS

Asian crime groups, both domestic and foreign-based, continued their criminal activities in California during 1986. These groups have further extended their criminal operations in California, and new domestic Asian crime groups have emerged as significant problems for law enforcement.

The Asian crime groups posing the biggest problems for California law enforcement during the year were the Yakuza, the Chinese triads, United Bamboo, Wah Ching, and the emerging Vietnamese crime groups. These criminal groups were directly involved in murder, narcotics trafficking, extortion, prostitution, gambling, and money laundering. In addition, investigators suspect that a South Korean organized crime syndicate has become increasingly involved in prostitution in California.

### Yakuza

The Yakuza is a Japanese crime network which Japanese police officials estimate comprises approximately 2,300 gangs with more than 100,000 members worldwide. The Yakuza's estimated worldwide annual revenue since 1978 has been more than \$4 billion, with about half of that derived from drug trafficking.

In 1986, the Yakuza was involved in smuggling guns from California to Japan:

- o In June, the Bureau of Alcohol, Tobacco, and Firearms arrested Frances Macalino in Los Angeles, charging that he smuggled two shipments of handguns intended for the Yakuza. Twenty of the 36 guns seized by police in Japan were hidden inside canned hams that had been resealed. In September, Macalino pled guilty to reduced charges of failing to record firearms transactions with the U. S. government. He was sentenced to six months in jail and placed on three years probation.

Last year's Annual Report documented the arrests of several high-ranking Yakuza members for drug distribution and weapons violations in Hawaii. The crackdown on Yakuza operations in Hawaii appears to be causing the Yakuza to avoid Hawaii and instead concentrate their American criminal activities in California. In 1986, a high-ranking Yakuza member was arrested by U. S. authorities in Los Angeles when he tried to enter the country illegally:

- In March, Masayoshi Takahashi was arrested at Los Angeles International Airport on charges that he fraudulently obtained a United States visa by concealing his Japanese criminal convictions for extortion, gambling, and assault. He returned to Japan after deportation from the United States in June.

### Chinese Triads

The most active triads in California are the Wo Hop To, Luen Kung Lok, and 14K. Triads are heavily involved in narcotics trafficking; they are believed responsible for 20 to 30 percent of the heroin smuggled into the United States. Triads are also suspected of laundering money through investments in real estate development and nightclubs in Southern California.

- In September, United States Drug Enforcement Administration agents arrested six Chinese nationals, thought to be members of the 14K Triad, in Orange, California, and charged them with possession of 18 pounds of China White heroin, valued at approximately \$4,500,000.
- The owners of an exclusive, private-membership nightclub located in Los Angeles are suspected members of the Wo Hop To. There is considerable drug use and trafficking within the club, and law enforcement authorities believe the owners are laundering money through the business.

### United Bamboo

The United Bamboo crime syndicate began as an obscure Taiwan street gang in the 1950's. It has since evolved into a powerful international organized crime syndicate with approximately 15,000 members.<sup>3</sup> The United Bamboo is active in California primarily in Los Angeles, Monterey Park, San Francisco, and Daly City.

The following leaders and high-ranking members of the United Bamboo in California were convicted in 1986:

- o In September, An Lo Chang, leader of the United Bamboo in Southern California, and Bao Jing Shiang and George Qui Lu, two other high-ranking California United Bamboo members, were convicted by a federal jury in New York on charges stemming from a nationwide narcotics trafficking operation. Eight other members or associates of the United Bamboo were also convicted. Chang and Lu received 15-year sentences, and Shiang received a ten-year sentence.
  
- o In October, United Bamboo member Tung Kuei-Sen received a 20-year sentence in New York for his conviction on drug racketeering charges, and is currently being tried in Daly City for the murder of Henry Liu, a California resident. Liu, whose

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<sup>3</sup> Kaplan, David E. and Alec Dubro, Yakuza: The Explosive Account of Japan's Criminal Underworld, 1986, p. 214.

writings were critical of Taiwan's Kuomintang government, was shot to death in the garage of his Daly City home in October 1984. This was the first known case in which collusion between members of the Taiwanese government and the United Bamboo operating in the U.S. was documented: in 1985, other leaders of the United Bamboo gang, along with high-ranking officials of the Taiwanese Military Intelligence Bureau, were convicted in Taiwan for arranging Liu's assassination.

The United Bamboo gang appears to be in a state of disarray in California because of these convictions, and its criminal activities in this state may be curtailed as a result.

#### Wah Ching

Calling themselves the Wah Ching, some foreign-born Chinese youths in the United States banded together during the 1960's for protection against assaults by American-born Chinese. The Wah Ching has since evolved into a powerful organized crime group with ties to the triads in Hong Kong, and other Chinese crime groups in the United States and Canada.

According to the San Francisco Police Department's Asian Gang Task Force, there are as many as 800 Wah Ching members and associates, with perhaps 200 hardcore gang members. The Wah Ching operates primarily where there are large Chinese communities, such as Los Angeles and the San Francisco Bay Area. The Wah Ching is perhaps best known for its role in the 1977 Golden Dragon massacre in San Francisco that left five innocent people dead and 11 injured.

Like other Asian crime groups, the Wah Ching is involved in loansharking, extortion, prostitution, and robbery. In 1986, it was implicated in a drug-related gangland slaying:

- o In July, the body of David Tong, a former associate of the Wah Ching, was found in the back of his sports car in San Francisco. He had been shot twice in the head. Police believed the killing was gang-related -- Tong was a major supplier of cocaine in San Francisco.

The Wah Ching also dominates much of the Pai Gow gambling in California. In 1986, approximately 40 members of the Wah Ching had employment applications at several California Pai Gow card clubs for jobs such as "shift manager" and "public relations," and law enforcement sources report that most of these gang-connected applicants are now working at the clubs. Pai Gow, like some other kinds of gambling, attracts crimes such as assault, robbery, prostitution, and because of its high stakes (bets go as high as \$10,000), loansharking.

At least one homicide has been linked to Pai Gow gambling:

- o In December 1984, Wing Law, a pit boss for the Pai Gow gambling operation at the Huntington Park Club in Huntington Park, California, was found strangled to death in his car at Los Angeles International Airport. Law enforcement authorities believe that his murder, which is still unsolved, was a gangland slaying stemming from a reported power struggle at a Pai Gow operation.

Huge profits are luring members of other Asian organized crime groups to Pai Gow as well: law enforcement has documented that members of the United Bamboo, Yakuza, and Vietnamese crime groups are employed at various Pai Gow operations.

### Vietnamese Crime Groups

At the end of the Vietnam War in 1975, thousands of Vietnamese immigrated to California. They settled primarily in San Francisco, Oakland, Fremont, Sacramento, Stockton, Los Angeles, Orange County, and San Diego. These areas have been victimized by small groups of Vietnamese youth that, according to police reports, have been committing crimes such as extortion, residential robberies, weapons trafficking, gambling, and murder.

The majority of Vietnamese crime groups appear to be loose-knit and extremely mobile. The groups rarely have identifiable gang names (which perhaps is a deliberate attempt to avoid detection by law enforcement), and therefore, their actions are difficult to monitor.

In 1986, Vietnamese crime groups committed numerous residential robberies. The robbery targets usually were homes outside of the group's own city. Crime group members brazenly committed their crimes, breaking into the houses while the residents were at home, tying up and often assaulting the victims. Crime group members ransacked the homes and stole what valuables they could find. The robbers were well-armed, often with automatic weapons and shotguns. The following are examples of the residential robberies that occurred in 1986:

- In February, four Vietnamese gunmen invaded a home in San Jose, shot two men and pistol-whipped two others. When the police arrived, a shootout ensued in which one robber, Quang Duong, was killed and three of his companions, Sang Van Duong, Nhi Van Le, and Dao Minh Pham, were arrested.
- In May, five Vietnamese men armed with handguns broke into a family's home in Santa Ana. During the course of the robbery, one of the robbers shot and killed a mother of 14 children.
- In June, three masked gunmen entered a home in San Jose, tying up a woman and her daughter while five younger children slept in another room. Before the group fled with an undetermined amount of cash, one of the gunmen shot and wounded the mother.

When extorting money, the Vietnamese crime groups typically prey on Asian-owned businesses and threaten to kill the owner and his family if the demands for payment are not met. The following 1986 cases exemplify Vietnamese crime group extortion operations:

- In May, Danh Cong Nguyen was arrested in Santa Ana for allegedly extorting \$5,000 in protection money from a Vietnamese restaurant owner.
- In July, Van Benh Y was arrested in Sacramento for allegedly shooting into the home of a Chinese businessman who would not pay him \$5,000 in extortion money.

### Korean/Taiwanese Prostitution Rings

Law enforcement believes that in the United States, thousands of Korean and Taiwanese women are involved in prostitution rings that generated millions of dollars for their operators in 1986. Some of the larger prostitution rings are located in San Francisco and Los Angeles. Investigators believe that the United Bamboo, among other Asian crime groups such as the Wah Ching and South Korean organized crime groups, are involved:

- o In September, two associates of the United Bamboo pled guilty in San Francisco to four counts of conspiracy to bring prostitutes from Taiwan into the United States.

Although many of the women involved come into the United States legally, military and other federal authorities are investigating the participation of U. S. servicemen in sham marriages arranged by marriage brokers in Taiwan and South Korea. The broker will pay a returning U. S. military serviceman from \$2,000 to \$10,000 to marry a woman just to get her into the United States. Once in the country, they are divorced. Because the women are desperate to immigrate to the United States, they agree to "indentured servitude" as prostitutes in rings that are run by Asian organized crime groups. Many of the prostitutes work in massage parlors that are fronts for prostitution.

### FORECAST

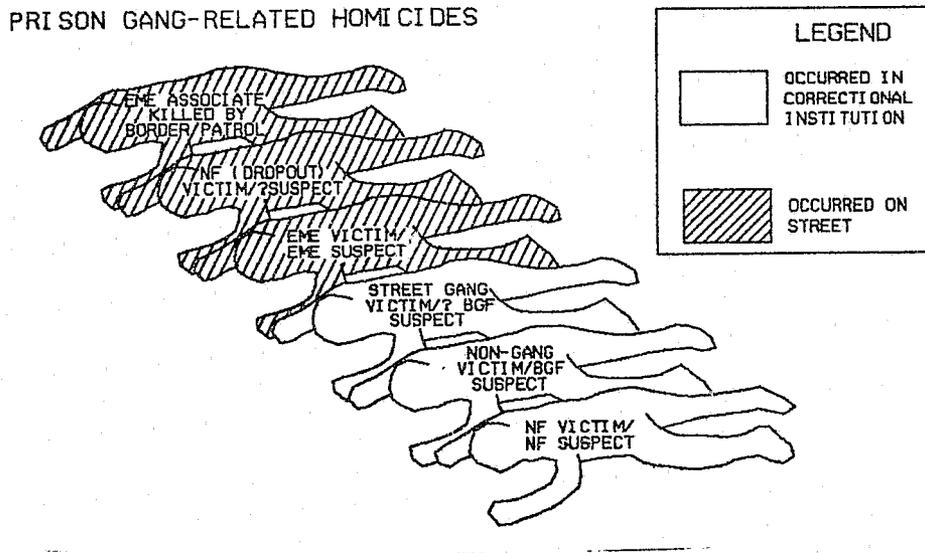
- o The Yakuza will invest illegally obtained money into California real estate and businesses, and will continue to smuggle weapons to Japan.

- Chinese triads will increase their purchases of California real estate, and will become more active in Pai Gow gambling, money laundering, and narcotics trafficking.
  
- Because the United Bamboo gang's power in California has diminished due to the convictions of several of its leaders and key members in 1986, other Asian gangs, such as the Wah Ching and Chinese triads, may attempt to take over criminal activities previously controlled by the United Bamboo.
  
- The Wah Ching will continue to control many Pai Gow operations in California card clubs.
  
- Vietnamese crime groups will be the major criminal problem in Vietnamese communities, committing violent residential robberies and extortion.

#### PRISON GANGS

Prison gangs were first observed in California correctional institutions in the late 1950's and early 1960's as groups of inmates, generally of the same race and geographical area, banded together for protection from other inmates. Over the years, prison gangs have become increasingly organized and involved with various crimes. Now, the tentacles of gang power even reach through prison bars into the street where many criminal activities -- including murder -- are directed from within the institutions.

FIGURE 1



Source: California Department of Corrections

As shown by Figure 1 above, during 1986, prison gangs were involved in six homicides, a sizeable decrease from last year's total of 25.

The major prison gangs in California are the Black Guerrilla Family, the Mexican Mafia, Nuestra Familia, and the Aryan Brotherhood.

#### Black Guerrilla Family

The Black Guerrilla Family was originally formed as a revolutionary prison organization out of the Black Family/Black Vanguard groups started by George Jackson in the 1960's. Since then, the Black Guerrilla Family has drifted away from its original revolutionary tenets, which eschewed criminal activities, and instead has become linked to serious crimes in the community

such as narcotics trafficking, bank robberies, and homicides. The Black Guerrilla Family now has approximately 475 members and associates, including others that participate in gang activities sporadically or informally, hoping to become gang members eventually (the so-called "wanna-be's"). When not in prison, members live primarily in Los Angeles, the Central Valley, and the San Francisco Bay Area.

The following incidents are examples of crimes committed by members of the Black Guerrilla Family in California during 1986:

- In May, Black Guerrilla Family member Richard Johnson, a major drug dealer, was arrested in Oakland for possession of approximately five ounces of cocaine, automatic weapons and related parole violations.
  
- In October, Black Guerrilla Family member Michael Cooperwood was arrested for the attempted murders of Glenn Jones and his companion, Cassandra Wilkerson. The victims were targeted for assassination in order to intimidate Glenn Jones's brother, a prospective witness against Black Guerrilla Family member James Benson. Benson, a high-ranking Black Guerrilla Family member, is charged with murdering Alfred Ingram in the Alameda County Jail in 1984. This case is pending.
  
- In November, Black Guerrilla Family member Billy Ray Barber was shot and killed in East Oakland, presumably because fellow gang members suspected he was a police informant. Herb Joiner, a Black Guerrilla Family associate, has been arrested for the homicide. This case is pending.

### Mexican Mafia

The Mexican Mafia has about 300 members and associates, primarily Mexican-Americans from Southern California. Gang members have committed major crimes such as murder, narcotics trafficking, and burglary.

The following are examples of crimes committed by the Mexican Mafia during 1986:

- o In May, Mexican Mafia associate Steven Bernal and two others were robbing illegal aliens crossing the U. S. border near Chula Vista. When confronted by officials, Bernal began shooting and was killed by the return fire.
  
- o In June, Mexican Mafia member Danny DeAvila was stabbed to death in the Los Angeles County jail by another prisoner, Tommy Moreno. Investigators believe that the Mexican Mafia ordered DeAvila's murder because it suspected he was a police informant.

### Nuestra Familia

The Nuestra Familia consists of Mexican-Americans from the central and coastal valleys of California. During the last several years, the size of the Nuestra Familia has declined, from 600 to about 300 members and associates. Many of the gang dropouts quit because of internal gang

violence -- members who fail to follow orders from leaders are often put on a hit list and murdered. Others quit because of conflicts in loyalty when the leadership changes.

The Nuestra Familia continued to make its criminal presence felt in the community. According to confidential sources, in 1986, members of the gang may have committed at least 30 residential robberies in the Central Valley area. Apparently, these residential robberies were unreported because the robbery victims themselves were involved in criminal activities. In addition, investigators found that eight or nine incidents that were reported as residential robberies were actually drug rip-offs, and that the Nuestra Familia was responsible.

#### Aryan Brotherhood

The Aryan Brotherhood is a white supremacy prison gang with approximately 200 members and associates. It has a long-standing alliance with the Mexican Mafia, and both gangs have assisted each other in ongoing warfare against the Black Guerrilla Family and Nuestra Familia, in carrying out murders, and in distributing narcotics both inside and outside the prisons.

In 1986, an Aryan Brotherhood member was brought to justice:

- o In May, Curtis Floyd Price, a member of the Aryan Brotherhood, was found guilty by a Humboldt County Superior Court jury of a 1983 double murder. One victim was Richard Barnes from Temple City (Los Angeles County), whose son, Stephen Barnes, was a former Aryan

Brotherhood member who was cooperating with law enforcement officials. According to prosecutors, Stephen's father was killed at the direction of the Aryan Brotherhood as retribution and to discourage other gang members from cooperating with law enforcement. The other victim was Elizabeth Hickey from Eureka, California. Investigators believe that she was murdered because she may have accused Price of stealing weapons belonging to her stepfather. Price received the death sentence for the murders and is now on Death Row.

#### The Impact of Prison Gangs on the "Outside"

Prison gangs pose a crime problem not only for correctional institutions but for the outside community as well. Prison gang members themselves are known for committing serious crimes such as homicide, robbery, and narcotics trafficking when they are released from prison. But they are also recruiting street gang members who provide additional support and protection for their criminal activities in the community.

For example, the Nuestra Familia has recently been recruiting new members from the Hispanic group known as the Nortenos (or "Northerners") from Central and Northern California. Evidently, the recruitment drive has been successful: the Nortenos are providing Nuestra Familia members with safehouses, vehicles and weapons, and are trafficking in narcotics and extorting narcotics dealers on behalf of the Nuestra Familia.

In addition, the direction and training given to young recruits by prison gang members, most of whom are hardened felons, accelerate the criminal

careers of youthful offenders. The implications for crime in the community are especially serious because many of these young prison gang recruits serve lighter sentences and return to the streets more quickly than their older counterparts.

Another ominous trend has emerged. Some street gangs are attempting to consolidate, thereby becoming powerful enough in their own right to resist the control of established prison gangs. If successful, these consolidation efforts could disrupt the balance of power between established prison gangs, and could change the structure of prison gang society as it is presently known. The sheer number of youthful offenders connected with street gangs makes the threat of consolidation particularly alarming: according to California Youth Authority (CYA) officials, almost 70 per cent of the state's 8,200 CYA inmates were identified in 1986 as gang-involved. In comparison, only 1,500 inmates out of a population of roughly 60,000 (about two per cent) in adult correctional institutions have known prison gang affiliations.

The most significant attempt at street gang consolidation is occurring with the group known as the Consolidated Crip Organization (CCO). As reported in the 1985 Annual Report to the Legislature, the CCO, composed mainly of various Crip street gang members from Southern California, appeared to have emerged as a powerful new prison gang. But by 1986, according to adult correctional authorities, the CCO had yet to establish a strong unified identity, either in the prisons or on the streets. For the time being, it appears that the CCO lacks the strong leadership necessary to overcome the infighting that has raged among the various Crip factions.

Nevertheless, potential for the unification of street gangs to form new prison gangs remains and still poses a serious threat to law enforcement and correctional authorities.

#### FORECAST

- o Over the past few years, prison gang members have become increasingly attracted to narcotics trafficking. During 1987, these gang members can be expected to continue their narcotics trafficking activities and solicit street gang members to distribute the drugs, thereby increasing their drug revenues.

#### OUTLAW MOTORCYCLE GANGS

There are approximately 145 outlaw motorcycle gangs in California, based on information distributed by the United States Marshal's Service. Of these, 55 are known to have a substantial number of active members. With 13 chapters and over 300 members in California alone, the Hells Angels motorcycle gang is the most significant -- in criminal activity as well as membership size.

With growing criminal sophistication, Hells Angels gang members are adopting tactics used by traditional organized crime: they insulate themselves from prosecution by enlisting associates to carry out day-to-day operations of illegal enterprises; they use violence to intimidate and impose their

authority; and they finance illicit activities and disguise the proceeds by laundering money through legitimate businesses.

#### Hells Angels and Illegal Methamphetamine Trafficking

Members of the Hells Angels motorcycle gang are becoming powerful and wealthy in California as a result of their control over manufacturing and distributing illicit methamphetamine.

As early as 1974, members of the Hells Angels were known to be involved in manufacturing and distributing methamphetamine or "crank." Their long-standing involvement in drug dealing, combined with their club network have enabled some Hells Angels to establish themselves as masters of the "meth" market in California.

Over the years, Hells Angels who traffic in narcotics have become more sophisticated in their methods. As their counterparts in traditional organized crime realized, intermediaries can be recruited to operate the illicit businesses, thus minimizing the "bosses" risk of arrest and prosecution.

For example, various Hells Angels have enlisted members of other outlaw motorcycle gangs to manufacture and distribute dangerous drugs. The Hells Angels gang member may take a percentage either of the drugs produced or the profits once the drugs are sold. In exchange, they offer the drug makers and dealers a supply of precursor chemicals, protection, and a ready market for the finished product.

Members of other motorcycle gangs also run their own illegal drug operations. For example, Ghost Rider Dennis Troxell, Sadistic club associate James Fugate, and another man were arrested in July when they tried to sell 21 ounces of methamphetamine to a federal undercover agent. Oakland police say the chemicals used to manufacture the drugs seized in the bust can be traced back to an Oakland warehouse. Allegedly, the three kidnapped a drug company chemist from his home, then forced him to open up the warehouse, from which they stole enough chemical precursors to manufacture over seven kilos of methamphetamine.

Several Hells Angels members were also arrested or convicted on drug charges in 1986. One California Hells Angels member was arrested with 41 pounds of methamphetamine, another with two pounds of methamphetamine, and another with four pounds of cocaine and several ounces of methamphetamine. In May, another Hells Angels member pled guilty to charges stemming from a November 1985 arrest, in which he was found with six pounds of methamphetamine and a .45 caliber assault rifle. The quantity of drugs seized in these cases is significant considering the drug's street value -- \$1,200 to \$2,500 an ounce, depending on purity and location.

The Hells Angels gang has responded aggressively to stepped-up pressure from law enforcement. During the past several years, the Hells Angels club had kept a low criminal profile and had become active in various charities -- such as the annual Christmas "Toy Run" -- which may have had the effect of brightening its tarnished public image as an unruly gang of desperados. But in 1986, the violence often associated with the Hells Angels returned, apparently as members tried to enforce the gang's "code of silence."

- The president of the Ventura Charter of the Hells Angels, George Christie, was arrested in September for attempting to kill a former Hells Angel associate in a "murder for hire" scheme.
- William Grondalski, a former Vallejo Hells Angel, and his family had been repeatedly harrassed by Hells Angels gang members after he quit the gang on his wife's urging. In October, Grondalski and his family of three, including his five-year-old daughter, were murdered.

Violent tactics such as these are used by some club members to silence defectors and warn would-be witnesses.

#### Hells Angels Infiltration of Legitimate Business

Members of the Hells Angels have been infiltrating legitimate businesses to launder illicit drug money. In 1986, the President's Commission on Organized Crime issued a report stating, "The West Coast faction (of the Hells Angels) has been especially active in buying legitimate businesses, including motorcycle and automobile services, catering operations, bars and restaurants, antique stores," and other shops. In California, Hells Angels members have been linked to various legitimate businesses:

- San Diego Hells Angel President Douglas Shultz, who pled guilty in May 1986 to drug charges, used his limousine service not only to launder money but to transport and store drugs; in one instance, according to a court affidavit, over fifty pounds of methamphetamine were stored under the back seats of his company's limousines.

- Jacob Sanchez, a Hells Angel associate sentenced in November 1986 to 15 years in federal prison for distributing methamphetamine, was co-owner of a catering business in the San Francisco Bay Area and was also listed as an owner of two catering businesses in Sacramento.

Ironically, although the Hells Angels who traffic in narcotics initially invest in legitimate businesses chiefly to launder their drug money, they have been enriched even more by the profits that the legitimate businesses generate.

#### New Drug Enforcement Laws and Their Impact on Hells Angels Narcotics Traffickers

Public concern about drug abuse and awareness of the organized nature of many narcotic operations have recently increased. Recognizing the need to escalate the war on illegal drug manufacture, the California Legislature passed new laws sponsored by the California Attorney General's Office. Among other things, these laws target clandestine labs, and require suppliers of precursor chemicals to report sales of these chemicals to the California Department of Justice. The ultimate effect of these laws on major narcotics traffickers is still undetermined.

Hells Angels members who control clandestine labs will see their vast profits diminished as a result of aggressive lab seizures and asset forfeitures. However, members of the Hells Angels who are entrenched in the illicit drug business can still reap substantial wealth from the labs that remain undetected.

Procurement of precursor chemicals will be generally more difficult for illegal lab operators. But major, well-established narcotics traffickers will attempt to exploit networks of associates in "quasi-legitimate" chemical supply companies or in other states, in order to circumvent the law and obtain the precursors without detection.

Perhaps the biggest challenge to law enforcement is reaching the upper echelons of organized crime. Hells Angels who control illicit drug networks often are only remotely involved with day-to-day lab operations and are insulated by layers of subordinates. Consequently, they may continue to elude arrest and successful prosecution.

Recent federal prosecutions of individual Hells Angels have been successful largely due to: increased use of the anti-racketeering (RICO) laws that permit seizure of illegally obtained assets; strike forces with sufficient staffing and finances to successfully investigate and prosecute complex cases; and, perhaps most importantly, federal laws that permit electronic surveillance of persons suspected of racketeering.

Electronic surveillance is probably the most effective way of gathering evidence against criminals such as members of the Hells Angels who control illegal drug manufacture and distribution, but who avoid direct personal involvement in such crimes. State legislation, modeled after federal law permitting electronic surveillance of known racketeers, would help law enforcement arrest clandestine lab operators who are in charge of the illegal drug operation.

## FORECAST

- Some Hells Angels members and associates will continue to control production and distribution of illegal methamphetamine.
  
- Hells Angels who control methamphetamine labs will attempt to circumvent the precursor chemical reporting law by using networks of associates in "quasi-legitimate" chemical supply companies, or who have access to precursors in other states.
  
- To the extent that some Hells Angels perceive an increased threat from law enforcement, they will increase their use of violence to intimidate and control club members, associates, and rivals.
  
- State prosecutions of criminals such as the Hells Angels gang members who control clandestine drug operations without risking direct involvement will remain difficult without state legislation that permits electronic surveillance of racketeers.

**PART IV -- ORGANIZED CRIME INVOLVEMENT IN NARCOTICS:**

**Report from the California Bureau of Narcotic Enforcement**

Abuse of drugs such as cocaine and methamphetamine continues to be a serious problem in California. Combatting drug misuse and abuse must consist of rigorous effort on two fronts: educating the public about the health risks and the costs to society that are associated with drug abuse, and prosecuting narcotics traffickers.

The latter is a significant task for law enforcement because most narcotics trafficking in California is carried out by sophisticated, non-traditional organized crime groups, such as networks of Colombian cocaine traffickers and groups that run illicit drug manufacturing laboratories. Aspects of these two special organized crime operations are described below.

**Cocaine Trafficking by Colombian Nationals**

Cocaine trafficking in the western United States has increased significantly during the past year, with most of the reported activity taking place in California, particularly in the southern part of the state.

Record cocaine seizures by Southern California law enforcement agencies evidence a dramatic increase in cocaine trafficking. In 1986, state, federal and local law enforcement agencies in Southern California seized over 6,500 pounds of cocaine, compared to 2,360 pounds seized only two years before in 1984. Investigators estimate that 80 percent of the cocaine seized in 1986 was being distributed by Colombian nationals.

According to U. S. Drug Enforcement Administration (DEA) officials, the record amount of cocaine seized in California is a direct result of the concentrated pressure that has been applied to narcotics barons in Florida. Colombian cocaine trafficking organizations have been forced to develop alternate smuggling routes.

Mexico now seems to be the central distribution point. Cocaine is smuggled from Mexico either by car into port-of-entry cities in California or by planes that land in remote desert areas, then transported across the United States. Seizures of large amounts of cocaine along the Mexican border are now a common occurrence. Large amounts of money have been confiscated by U. S. Customs officials from suspected money launderers who were attempting to smuggle cocaine profits from California into Mexico, en route to Colombia.

Since California has become an initial distribution point in the United States, the price of cocaine has dropped significantly. The average price of a kilo of cocaine in California is now between \$20,000 and \$25,000, down from its former price of \$37,000 minimum.

The enormity of the amounts of cocaine and cash to be transported and stored during drug deals, and methods cocaine dealers use to try to avoid detection are shown by the following 1986 cases:

- o People vs. Flores -- In April, the Burbank Police Department Narcotics Bureau capped a four-week narcotics investigation in the Los Angeles and Orange County areas with the arrest of fourteen adults and two juveniles for conspiring to distribute cocaine.

Forty pounds of cocaine were seized in the case, along with \$50,000 cash, jewelry, and eight automobiles. All but one of the suspects were Colombian; the other was Mexican. Three of the suspects pled guilty to drug charges; the dispositions of five others are pending.

Of special interest in this case was the discovery of a sophisticated hidden compartment in one of the cars seized. The compartment, well-disguised and electronically-operated, can hold at least 35 kilos of cocaine (and can be used to secrete firearms or money as well). Intelligence sources indicate that the compartment was made and installed in Southern California.

- o People vs. Sanchez -- Also in April, ten Colombian nationals were arrested in Orange County as a result of a large-scale narcotic investigation conducted by the Los Angeles Police Department Narcotics Division and the DEA. Four of the ten suspects pled guilty to drug charges and received prison sentences ranging from three years to 14 years.

This investigation culminated in one of the largest cocaine seizures to date in the western United States. Initially, 1,784 pounds of cocaine and \$730,000 in cash were seized. After three weeks of follow-up investigations in Los Angeles and Orange counties, an additional 1,300 pounds of cocaine and \$2.2 million in cash were seized. The suspects had attempted to hide the contraband inside compartments within stairwells of the various homes used for the drug operation.

Despite the recent record number and amounts of cocaine seized, it is estimated that only a very small percentage is actually being discovered. Several Colombian traffickers have candidly told law enforcement officials that they view their loss of seized drugs as simply the cost of doing business.

Intelligence information has revealed that Colombian cocaine organizations are becoming more sophisticated in an effort to protect their illegal activities. Colombian dealers are using elaborate electronic counter-intelligence devices such as police scanners, body wire detectors, and home security video cameras. Also, law enforcement agencies report that an increasing number of illegal Mexican aliens in California are being arrested for possessing large quantities of high-grade cocaine. Apparently, Colombian drug traffickers, who once allowed only other known and trusted members of the organization to play key roles in major drug transactions, now are beginning to employ Mexican nationals and other Hispanics as distributors. Sources believe that the Colombians are using non-Colombian Hispanic "runners" because they attract less attention and provide to their Colombian bosses greater insulation from prosecution.

Colombian drug traffickers are broadening their exploitation of their associates in other ways. For example, a common tactic is to infiltrate law enforcement agencies by placing their own informants in trusted positions at police or government agencies in order to gain access to confidential information. Another recently discovered tactic is for Colombian drug traffickers to retain attorneys who do nothing but monitor court hearings that involve other Colombians charged with narcotics violations. They are

there primarily in order to learn about police investigative techniques, and informants' names or positions in the drug organization.

Colombian narcotic trafficking organizations also have become more sophisticated in their money laundering operations, and are investing in businesses such as restaurants and video rental stores, to be run either as legitimate enterprises or as fronts to launder drug money.

#### FORECAST

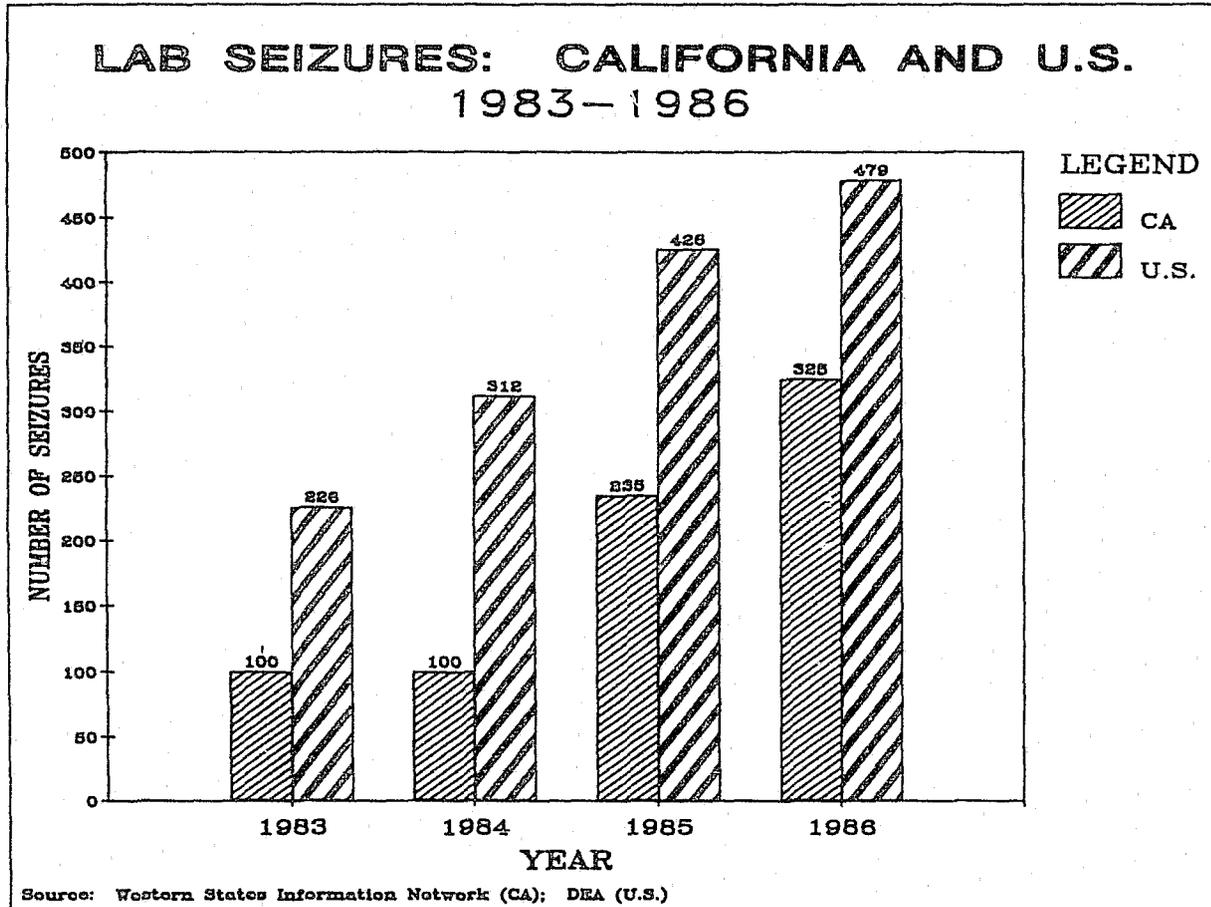
- o Colombian narcotics trafficking organizations will expand their operations in California, now that Mexico has become the central distribution point.
  
- o Colombian narcotics traffickers will develop increasingly aggressive and sophisticated operational and counterintelligence techniques, as well as more innovative ways to secrete drugs, money and weapons.

#### Quasi-Legitimate Chemical Companies — Suppliers of Clandestine Labs

California has led the nation in clandestine lab seizures for the past three years, as shown by Figure 2 on the following page. Consistent with the national trend, lab seizures in California have dramatically increased, from

235 in 1985 to 325 in 1986. These labs were primarily manufacturing methamphetamine and phencyclidine (PCP).

FIGURE 2



Controlling the manufacture of illegal drugs means not only detecting and seizing the clandestine laboratories, but also cutting off the supply of precursor chemicals.

The major suppliers of precursors are "quasi-legitimate" chemical companies. Typically, these companies do a large amount of walk-in, cash business; rely very little on business from industrial contracts and bona fide research projects; mark up known chemical precursors, often by as much

as 500 percent; and otherwise conduct precursor transactions in an unorthodox manner. Law enforcement estimates that as much as 80 percent of the purchases of precursor chemicals used to manufacture illicit drugs are from these "quasi-legitimate" companies; in fact, most legitimate companies will not even stock known precursors.

Two case histories show how the unscrupulous chemical supplier acts as a witting accomplice in the manufacture of illegal drugs.

#### Argon Chemical and ACS

James Vernon Mageean first attracted law enforcement's attention in the 1970's as the owner and operator of the Argon Chemical Company, located in Torrance, California. Argon Chemical was closed after an investigation in 1978-79 was conducted by the California Bureau of Narcotic Enforcement (BNE), U. S. Drug Enforcement Administration (DEA), the Los Angeles Police Department (LAPD), the Los Angeles Sheriff's Office (LASO), and the Torrance Police Department. Investigations into the source of precursor chemicals found at seized clandestine laboratories led law enforcement officials to Argon. The bulk of chemicals in those labs had been obtained from Argon. Investigators discovered that Argon had been distributing tons of chemicals used to manufacture PCP, methamphetamine, and other controlled substances throughout the late 1970's.

A LASO deputy working undercover inside the Argon Company verified that Mageean had knowledge of his company's illicit operations. Mageean was convicted of a misdemeanor in 1981 as a result of plea bargaining, and his company was closed.

But Mageean did not go out of business. He moved his headquarters to Martinez, California, and began running Ark Chemical Supply (ACS). He opened another ACS outlet in the San Diego area in the early 1980's. Information from sources such as his former ACS sales representative revealed that through ACS, Mageean was continuing the kind of business that had been interrupted by the closure of Argon -- selling chemical precursors to clandestine lab operators. Many of Mageean's business practices alarmed the sales representative and seemed to indicate that Mageean was involved in supplying precursor chemicals to illicit lab operators. In one instance, for example, the sales representative reported that an illicit lab operator paid for the precursor chemicals with \$40,000 in cash that he carried to the ACS store in a briefcase.

Although precursor chemicals have been controlled in California since 1972, when legislation took effect that required chemical suppliers to report sales of specified precursor chemicals, differences in state laws enabled unscrupulous chemical suppliers, such as ACS, to dodge regulation and detection by operating in states with less restrictive laws. For example, on January 1, 1983, phenylacetic acid, a chemical used to synthesize phenyl-2-propanone, a precursor of methamphetamine, became a reportable chemical. Phenylacetic acid was one of Mageean's most profitable chemicals. Mageean would buy large quantities of this chemical for \$25 or less per pound and mark it up to \$100 per pound. Often, Mageean would sell the chemical in 110 lb. drums, reaping more than \$8,000 profit per transaction.

Seeking to continue selling phenylacetic acid in the wake of its control in California, in late 1982, Mageean opened another ACS outlet, this time in

Sparks, Nevada, just across the border from California. At that time, in 1982-83, there were no precursor chemical controls in Nevada. During the next 15 months or so, Mageean made in excess of \$1 million from the sale of this chemical, and the chemical methylamine (the second primary chemical used to manufacture methamphetamine) from the Nevada store alone.

James Mageean was indicted in Reno, Nevada, in 1984 by a federal grand jury, after an investigation conducted by BNE, DEA, and several local law enforcement agencies in California, Nevada, and Arizona. The U. S. Attorney's office in Reno charged Mageean with racketeering (RICO) violations and interstate travel to violate RICO statutes. The charges involved Mageean's knowledge, which, along with his activities, constituted a conspiracy to supply chemicals for the illicit manufacture of controlled substances.

Mageean was convicted in 1985 after a lengthy trial, during which many clandestine chemists who were either serving time or under indictment testified about long-term relationships with Mageean, and his assistance with their illicit operations. Mageean was sentenced to 35 years in federal prison, and after a secondary asset trial, was ordered to forfeit 100 percent of his assets (including his companies) to the U. S. Government. The ACS precursor supply dried up.

The conviction sent shock waves through the chemical industry, and as a result, most of the reportable chemicals became unavailable from chemical suppliers in California. Also in response to the conviction, Nevada, through its Board of Pharmacy, made it illegal to possess many of the chemicals reportable in California, including methylamine and phenylacetic acid.

### The San Diego Ephedrine Connection

The alacrity with which many who are involved in illicit drug manufacture evade chemical controls underscores the difficulty of preventing such manufacture through chemical regulation. Mageean merely took advantage of the proximity of more lenient state laws to stay in business.

Another tactic commonly used is that when a chemical becomes controlled, illicit chemists try to find ways to substitute non-controlled chemicals in their formulas. The chemical ephedrine has been commonly used as such a substitute. Of the 299 methamphetamine labs seized in California in 1986, 82.5 percent were using the ephedrine manufacturing process.

Ephedrine became popular for several reasons: ephedrine was not a reportable chemical, and therefore, was easy to obtain; manufacturing methamphetamine using ephedrine is an easy synthesis; and the methamphetamine produced is more pure, in that the body absorbs more drug produced from ephedrine than that produced from phenyl-2-propanone and methylamine.

One San Diego company in particular has been involved in large-scale distribution of ephedrine to clandestine lab operators. The precursor chemicals found in 120 methamphetamine labs seized in San Diego County in 1986 originated from this particular chemical company. (The seizures in San Diego county accounted for more than one-third of all the labs seized in California in 1986.)

The only legitimate use for ephedrine is as an ingredient -- usually in milligram amounts -- in medicines used to treat colds and other respiratory ailments. But investigators from BNE, DEA, and local law enforcement agencies in San Diego found that this company had ordered more than 10,000 pounds of ephedrine for resale over a two-year period. Because no ephedrine is lost during chemical synthesis, 10,000 pounds of methamphetamine can be manufactured from 10,000 pounds of ephedrine.

This company has not confined its business to San Diego or even California. Clandestine labs producing hundreds of pounds of methamphetamine have been seized in Oregon, Montana, South Dakota, Indiana, Texas, and even Mexico. Each lab was supplied by the San Diego company.

As part of the response to the clandestine laboratory problem in the San Diego area, Assembly Member Lucy Killea (San Diego) met with legislators from neighboring states such as Utah, Arizona, Oregon, and Washington, as well as Texas, Florida, and New York, to urge them to enact legislation in their states that would control precursor chemicals. Without uniform regulation, illicit lab operators can circumvent California's laws simply by obtaining chemicals in other states that have few or no precursor chemical controls.

Also, recognizing the need for control of additional precursor chemicals, the California Legislature in 1986 enacted AB 3977 (Katz), which requires transactions involving ephedrine and other ephedrine-like chemicals to be reported to the California Department of Justice beginning April 1, 1987.

As emphasized by these two accounts, the organized criminal distribution of precursor chemicals by quasi-legitimate chemical companies is contributing to the growing clandestine lab problem in California.

## PART V -- DEPARTMENT OF JUSTICE EFFORTS

During 1986, the California Department of Justice responded to the problem of organized crime by sponsoring crime-fighting legislation; by providing criminal intelligence and investigative support to other law enforcement agencies; and by actively seeking criminal prosecutions in organized crime cases.

### NEW PROGRAMS

As part of the Department of Justice's anti-drug plan of action, California Attorney General John K. Van de Kamp sponsored legislation designed to combat the burgeoning problem of clandestine drug laboratories, and attack the business of money laundering, which was called "the lifeblood of the drug syndicates and traditional organized crime" by the U. S. Attorney General.

These crime-fighting bills were passed by the California Legislature in 1986, and as a result, three major Department of Justice programs will be initiated or enhanced in 1987.

### Clandestine Laboratory Enforcement Program

This program was established by the passage of AB 2692, which was introduced by Assembly Member Katz. The legislation creates a program that is designed to assist state and local law enforcement and prosecutorial agencies in apprehending and prosecuting persons involved in the illicit manufacture of controlled substances. Because local law enforcement officials in many small jurisdictions lack the training, specialized equipment, and resources to adequately enforce existing law, the program will provide:

- Increased funding for investigating and prosecuting clandestine lab cases, and for removing and disposing of or storing the toxic wastes from the clandestine lab sites;
- Enhanced enforcement teams assigned to the investigation of clandestine laboratories, especially multi-jurisdictional lab cases;
- Protective clothing and other safety equipment on a case-by-case basis to local law enforcement agencies that are involved in clandestine laboratory abatement;
- Specialized training for local law enforcement personnel on the unique problems posed by clandestine lab cases; and
- Public information materials on the danger to health and safety created by the labs, and the hazards of ingesting the drugs they produce.

To implement the program, the Department of Justice's Bureau of Narcotic Enforcement will coordinate its activities concerning hazardous and toxic waste management with county Department of Health officials, the California Department of Health Services, and the Federal Environmental Protection Agency. Law enforcement investigation and safety training will be conducted in cooperation with the Commission on Peace Officer Standards and Training. The Crime Prevention Center of the Department of Justice will prepare and disseminate public informational materials.

### Precursor Reporting Program

Existing law requires chemical manufacturers, wholesalers, retailers, or anyone else engaged in the sale, transfer or furnishing of precursors of specified controlled substances to report all such transactions to the Department of Justice (Health and Safety Code section 11100 et seq.).

The new precursor reporting program, created by the passage of AB 3977, introduced by Assembly Member Katz, establishes a comprehensive regulatory system. Under this system, on and after April 1, 1987, those engaged in the sale of certain specified chemical precursors that may be used in the unlawful manufacture of controlled substances are required to obtain a permit in order to furnish such chemicals to anyone in California. In addition, the seller of precursor chemicals must obtain proper identification from a purchaser and report it to the Department of Justice prior to the sale. Finally, the following chemicals are added to the list of substances subject to reporting: ephedrine, pseudoephedrine, norpseudoephedrine, and phenylpropanolamine.

### Money Laundering Program

Two companion bills that address the problem of money laundering were introduced and passed by the Legislature -- SB 1470, introduced by Senator McCorquodale, and AB 2570, introduced by Assembly Member Clute. Effective January 1, 1987, it is a crime to launder money in California.

The legislation gives California law enforcement the tools to detect, investigate, and prosecute money laundering operations. The law requires

California financial institutions to report each currency transaction in excess of \$10,000 to the Department of Justice. The new Money Laundering Program in the Department of Justice will enforce this statute.

The primary responsibilities of the Money Laundering Program are to collect currency transaction reports, manage and analyze transaction data, conduct investigations and audits of suspicious financial activities, and report possible violations to appropriate criminal justice, tax, and regulatory agencies. The Department estimates that approximately 500,000 currency transaction records will be received from financial institutions annually.

In order to provide law enforcement with the ability to identify and prosecute persons involved in money laundering and ultimately other organized crime activities, an efficient Money Laundering Data Processing System is currently being designed. When fully operational, this system will permit efficient data entry and analysis, and employ sophisticated data retrieval methods that will enable staff to respond rapidly to search requests and generate reliable investigative leads.

The Money Laundering Program requirements will be enforced by teams of investigators and financial auditors, who will be responsible for the major investigative activities of the program.

#### Drug Penalty Enhancements

On January 1, 1987, AB 2362, sponsored by the California Attorney General's Office and introduced by Assembly Member Condit, became effective. The new law requires that phencyclidine (PCP), or stimulants such as methamphetamine and amphetamine be included within increased penalty provisions of

Health and Safety Code sections 11370.2, 11370.4 and 11379.8. Possession for sale or the actual sale of any of the above-listed drugs, as well as heroin or cocaine, may carry an enhanced penalty if the individual has previously been convicted of selling or manufacturing any controlled substance. The penalty may also be enhanced depending on the quantity of the drug involved.

### INTELLIGENCE

The Department's Bureau of Organized Crime and Criminal Intelligence (BOCCI) continues to serve a critical role in the fight against organized crime. Its primary responsibility is to collect, analyze, and store intelligence pertaining to organized crime. Intelligence support -- such as analytic reports, specialized equipment, data base searches, visual investigative aids -- is given to law enforcement agencies throughout the state and occasionally, the nation.

Through its Automated Criminal Intelligence Index (ACII), the Bureau operates an effective intelligence file system that promotes the statewide coordination of organized crime investigations and prosecutions. In response to inquiries from other law enforcement agencies, the Bureau made 4,250 identifications of persons suspected of organized crime or terrorist activities, and 388 identifications of organized criminal groups. During 1986, the Bureau's assistance to local, state, and federal law enforcement agencies contributed to the arrests of 1,401 persons.

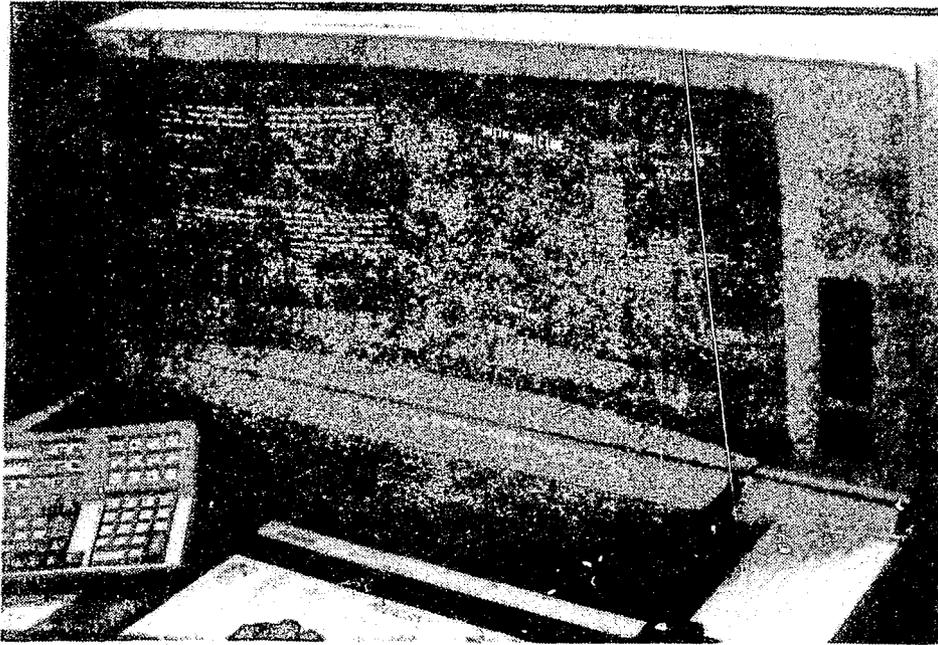
The Specialized Equipment Unit loaned advanced communications and surveillance equipment to agencies for use in 826 organized crime

investigations. The California Witness Protection Program provided financial assistance for the protection of witnesses testifying in 59 new or continuing cases. Seventy-six convictions were obtained in cases that involved protected witnesses.

In 1986, the Bureau acquired a new automated graphics computer system that will revolutionize graphics support for law enforcement investigation and prosecution of complex cases. In cases involving, for example, narcotics trafficking, major financial frauds, and organized crime activities, a huge volume of documents must be accurately digested and tracked. In the investigation and prosecution of such cases, a variety of graphics, such as link analysis charts, telephone toll displays, visual investigative analysis charts, and crime scene diagrams, are now widely used to clarify complicated webs of association. Graphics are especially useful in courtroom presentations.

For many years, the Bureau has provided manually-drafted criminal investigation graphics to law enforcement agencies throughout the state. But the widespread acceptance of graphically displayed information has created a demand for streamlined graphics production and sophisticated applications. In response, the Bureau now houses the newly acquired Computer Assisted Graphic Evidence (C.A.G.E.) system. Whereas drafters once had to make corrections to a chart or other graphic presentation by hand, the new system will allow a terminal operator to make changes at the press of a button. Text, symbols, and colors can be added and deleted before a print-out is ever made. And once the design and content of the graphic product is finished, a giant color plotter can print out the final form, three feet wide and up to 100 feet long.

The state-of-the-art C.A.G.E. system is expected to reduce production turnaround time and duplicating expense, and allow BOCCI's graphics staff to double its caseload. Moreover, the new system will encourage development of novel applications that were not possible with manual design and production.



Visual Investigative Analysis Using C.A.G.E. System

### PROSECUTIONS

During 1986, the Special Prosecutions Unit continued to convict persons involved in organized crime. Of the cases which the Unit helped to prosecute, 95 percent resulted in felony convictions. Over 50 percent of those arrested by the Unit were committed to state prison, up from 41 percent last year.

In 1986, "task force" kinds of investigations and joint prosecutions were more common because of the increasing complexity of the cases being undertaken by the Unit.

#### New cases

Several new cases of interest were opened in 1986:

- o Organized Crime Associates in Real Estate Fraud: Peo. vs. Fritz and Eggleston

Two associates of a Santa Clara County organized crime figure who were active in the Sacramento area were charged with the theft of more than \$100,000. They entered felony pleas and are awaiting sentencing.

- o Organized Bookmaking: Peo. vs. Veltri, Veltri, Armstrong, and Hertz

The Special Prosecutions Unit, in conjunction with law enforcement officials from Orange, Riverside, San Diego and Los Angeles counties, is pursuing a series of cases directed at what is believed to be one of the major bookmaking operations in Southern California. Two of the cases include forfeiture actions under the California Control of the Profits of Organized Crime Act.

- o Multi-State Land Fraud: Peo. vs. Bailey, Chodak, Parrish, Hayden, Mobley, Fairbanks, Techak, Ramos, Weiss, and Furst

This case, which involves numerous organized crime associates, has been the subject of a joint investigation and prosecution effort by federal, Orange County, and Special Prosecutions Unit personnel. Three of the four persons accused in the first segment of the case were indicted and convicted. Another six persons entered felony pleas.

## 1985 Case Update

The status of each of the cases highlighted in the 1985 Annual Report is updated as follows:

o **Five Million Dollars in Fraudulent Loans: Peo. vs. Miller and Lockmiller**

As reported last year, two of the three defendants in this case pled guilty to theft charges. Marvin Miller, a principal defendant who had not yet been to trial at the time of last year's report, also pled guilty to theft charges. He was also tried for securities violations stemming from the case and was found guilty. Miller was sentenced to five years and six months in state prison. He is free on bond pending his appeal.

o **Jerry Lee Owens Auto Theft Ring**

The prosecution of this case grew out of a multi-agency investigation of a theft/Vehicle Identification Number switch operation that had been active for about seven years. All three defendants who had entered guilty pleas, but had not been sentenced as of last year, fled before sentencing. Two were apprehended. They were permitted by the court to withdraw their pleas and are now in custody awaiting trial. Additional charges were filed against one of the two. The third defendant remains a fugitive.

o **Bonanno Brothers Fraudulent Activities: Peo. vs. Bonanno and Bonanno**

Salvatore "Bill" Bonanno is free on bond while he appeals his 1985 conviction. His brother, Joe Bonanno, Jr., is awaiting trial.

- o False Insurance Claim Ring: Peo. vs. Diaz and Sbrissa; Peo. vs. Maglio and Guzzetti

After the principal defendant pled guilty, the other defendants entered guilty pleas and were given probation. This case is now closed.

- o Extortion/Murder Operation: Peo vs. Hunt, Pittman, Dosti, and Eslaminia

This case, involving the homicide of a former high Iranian official by his son and others, has yet to go to trial. A Los Angeles murder case involving two of the same four defendants is presently being tried.

- o Loansharking in Palm Springs Area: Peo. vs. Shapiro and McDermott

This case has been delayed because one of the defendants, Irving "Slick" Shapiro, claims to be ill. Shapiro and his co-defendant, Gloria McDermott, an alleged member of the "Goldfinger" gang, are currently awaiting trial.

# LA man in drug raid

By Bill Lindelof  
Dee Staff Writer

Police burst into a midtown motel Sunday and arrested a man they suspect is part of an operation that routes cocaine into Sacramento via Mexico and Los Angeles instead of Florida.

# linked to cocaine ring

to a confidential informer at LNO Pompeii.  
—On Feb. 19, 1985, Guglucci sold cocaine to an undercover agent in the parking lot of Cecil's, a former discotheque on East Palm Canyon Drive. At the same location, Guglucci sold the same agent four ounces of cocaine after

Pompeii to go to "Lisa" to purchase cocaine and the informant made a buy from "Lisa," the complaint states. Lisa was not further identified and the complaint does not mention her again.

# Howard was arrested

# Bolivia sees cocaine exports rise

...assy official here ...ctivities had picked ...nowledge

...ia has refused to outlaw coca plant growing because of the country's centuries-old tradition of chewing the leaf and making tea

The laboratories that turn coca paste into read-for-sale cocaine powder are mainly found in Beni, a vast, underpopulated territory with virtually no foreign bordering Brazil.

...drug experts said, exports of cocaine from Bolivia almost dried up at least part of September and Chapare found few buyers for prices, which were more than 50 percent below the a... in July, fell

# Sudden coke deaths

# puzzle research NARCOTICS

By Ellen Robinson-Haynes  
Dee Medical Writer

MONTEREY — Medical researchers are beginning to unravel the mysteries about how small amounts of cocaine can kill or damage the heart.

sphere has medical community importance to the previously well-documented psychosocial consequences," Isner said.

While the Bias case has drawn national attention because of the basketball star's fame, it is not the normal type of life-threatening event seen in adverse reactions to cocaine.

Rather, it is heart attacks that account for about 75 percent of such incidents.

# Hell's Angels' Schultz gets 5-year term

...for dealing in methamphetamine in federal prison.

Schultz, facing U.S. District Judge Judith N. Keep minutes before she imposed the penalty, said he was proud to have served as president of the local Hell's Angels, which he described as "the most loyal people on the face of the earth."

Speaking in a firm voice, Schultz made a number of public

# Illicit labs leave deadly legacy — toxic

In report by Travis Brown and Glenn Brank  
Dee Staff Writers

Partic... Because armadillos don't live in California, Slim the methamphetamine maker had to find new ways of dumping the chemical wastes from his drug labs when he moved from Texas to the Golden State.

"When I was in Texas, they'd pour it down armadillo holes," said Slim, who turned government witness and is now serving time in a federal prison for drug-related convictions.

"You'd see these dead armadillos and nothing would touch them. Birds wouldn't even eat them."

In California, Slim and his fellow law-breaking chemists have been dumping tons of toxic wastes down toilets, into streams and in trash dumpsters, authorities say.

Among the greatest concerns about the California drug lab

all over the floor. And after about an hour I noticed I was having trouble walking, and I looked down, and the cans were just melting right on my feet."

In some instances, drug lab chemicals dumped into toilets and down drains have affected sewer systems.

The state Bureau of Narcotics Enforcement office in Sacramento is investigating a case in which the bacteria in a nearby small town's sewage plant kept dying. Plant personnel kept seeding the plant with new bacteria, which are necessary for sewage treatment, but they kept dying.

A test of the sewage coming from the presence of toxic

At a lab he operated near Clear Lake thing up in 25-gal trash bags, take it to center and dump it in a dumpster," he said. "We were cooking on some property, we'd take it out on a hill and just dump the vegetation overnight."

"One time we spilled some stuff in meat floor and it ate through three a matter of days."

The DEA estimates that

# Shooting blamed on drug cartel

WASHINGTON (UPI) — U.S. investigators said Tuesday the assassination attempt on a former Colombian justice minister is part of a wide-ranging "retaliatory assault" by international drug traffickers against U.S. and Colombian officials.

Justice Department officials said Enrique Pezota, Colombian ambassador to Hun-

ing the traffickers, who they believe are linked to the self-proclaimed "Hernand Botero Moreno Commande" that took responsibility for Tuesday's shooting.

Hernand Botero, a financier, was the first Colombian extradited to the United States for prosecution in February 1985. He was convicted four

The command group surfaced in November to oppose the 1982 extradition treaty between Colombia and the United States. On Dec. 12, the Colombian Supreme Court voided the treaty, but Colombian President Virgilio Barco quickly reinstated it, preserving U.S. ability to bring traffickers to trial in the United States.

...to further narcotics transac...  
The distribution count...  
sentencing...