

I. INTRODUCTION

This is my fourth report as the Monitor of the Hotel Employees and Restaurant Employees International Union (International Union or HEREIU). My earlier reports, dated February 15, 1996, January 8, 1997, and August 14, 1997, covered my term of service as Monitor through June 30, 1997. This report summarizes activities of my office for the entire period of September 5, 1995, to August 25, 1998. Currently, disciplinary charges are pending against five additional individuals. Until those charges are resolved, the final report cannot be submitted. However, in this report, I will give findings as to the current state of the International Union, including recommendations for future improvements. The final report will include complete financial data on my monitorship.

A. HEREIU Structure and Organization

The International Union headquarters is located in Washington, D.C. During my term as Monitor, the International Union was led by a General Executive Board headed by General President Edward T. Hanley, General Secretary-Treasurer John W. Wilhelm, General Vice-President John M. O'Gara, and Director of Organization Thomas Hanley. In addition, 14 District Vice-Presidents and 12 Vice-Presidents At-Large are also members of the General Executive Board. The powers of the General Executive Board are outlined in Article IV of the International Constitution.

On May 18, 1998, the General Executive Board elected John W. Wilhelm, former General Secretary-Treasurer, to succeed Edward T. Hanley as General President beginning August 1, 1998. Ted T. Hansen, an International Vice-President from Sacramento, California, has succeeded Mr. Wilhelm and Ron Richardson, the Executive Vice-President, has taken the General Vice-President's position, replacing John M. O'Gara, who has retired. Mr. Edward T. Hanley, Jr., Co-General Counsel of the HEREIU, resigned his position effective July 31, 1998. Robert J. Rotatori, Esq., is now the General Counsel.

According to the Labor Organization Annual Report Form, LM-2, filed by the HEREIU for fiscal year 1997 (May 1, 1996 - April 30, 1997), the General Executive Board members received salaries, allowances, and expenses totaling \$3,538,940. Additionally, disbursements to employees of the International Union for salaries, allowances, and expenses amounted to \$8,666,901. These employees range from administrative staff to International Organizers, State Organizers, and International Auditors. Total receipts for the HEREIU for that same period were \$30,852,667.

The number of local unions in the International Union stands at 138. There are also eight State Councils and two Joint Executive Boards, one in Las Vegas, Nevada, and one in Chicago, Illinois. Joint Executive Boards exist to adjudicate differences between local unions located in the same community and State Councils do the same at the state level. The current membership of the union is 244,423.

The General President has the power to appoint a trustee, called an International Trustee, to take control of the affairs of a local union, a Joint Executive Board, or a State Council. The allowable bases for such action are set forth and explained in the International Constitution. When my term as Monitor began, 26 local unions were under trusteeship.

B. HEREIU History

The history of the International Union dates back to 1891 in Chicago, Illinois, when a national union, the Waiters and Bartenders Union, was founded. By the late 1940's and early 1950's, the total membership of the union was around 400,000. The current name was adopted at the 39th General Convention in 1981.

Criminal infiltration has been an ongoing problem with the union. During the 1930's, a Special Commission on Crime headed by Thomas Dewey of New York revealed massive racketeering in the restaurant business in New York, including criminal influence in local labor unions. In 1958, the Select Committee on Improper Activities in the Labor or Management Field, chaired by United States Senator John L. McClellan, established that organized crime figures in Chicago, Illinois and, elsewhere, had assumed control of some local unions. Again in 1983, the Permanent Subcommittee on Investigations of the United States Senate conducted lengthy hearings that, again, indicated the influence of criminal elements in union affairs. The full history of the International Union can be found in Senate Report 98-595, 98th Congress, 2d Session, "Hearings Before the Permanent Subcommittee on Investigations of the Committee on Government Affairs, United States Senate," August 27, 1984.

C. Consent Decree

On September 5, 1995, the United States Government filed suit against the International Union and its General Executive Board seeking equitable relief under the Racketeer Influenced and Corrupt Organizations (RICO) statute, Title 18 U.S.C., Section 1961 et seq. The complaint alleged that "[f]or over 25 years, various members and associates of organized crime groups have exercised influence over the HEREIU and [its] various constituent entities." Specifically, the complaint alleged that the defendants, together with members and associates of organized crime, unlawfully, knowingly and willingly conspired to violate Title 18 U.S.C., Section 1962 (c), in conducting the International Union's enterprise through a pattern of racketeering activity.

On the same day, September 5, 1995, the parties entered into a Consent Decree which, among other things, permanently enjoined all current and future members of the union from violating RICO, from knowingly associating with organized crime members or associates or any barred persons, and from interfering with the efforts of anyone effectuating the Consent Decree. The remedial objective of the Consent Decree is that the International Union and its constituent entities be free from the direct or indirect influence of any organized crime group or the threat of such influence now and in the future. As stated in the Consent Decree, all officers and other persons holding positions of trust in the

International Union and its constituent entities are required to have a heightened fiduciary duty to the membership and are required to promote democratic participation in union affairs as guaranteed by the Labor-Management Reporting and Disclosure Act.

That same day, September 5, 1995, and pursuant to the Consent Decree, the Court appointed me as Monitor to oversee the affairs of the International Union and its various constituent entities such as Districts, District Councils, local unions, and other subordinate bodies as defined by the International Constitution.

The Consent Decree also directed the International Union's General Executive Board to create a Public Review Board and to adopt an Ethical Practices Code. The Public Review Board and Ethical Practices Code were presented to the International Union's convention in 1996, and adopted as part of the International Constitution, effective September 9, 1996.

The purpose of the Ethical Practices Code is to insure high standards of executive and administrative practices in the International Union, its subordinate bodies, and local union officials. Under the Ethical Practices Code, the International Union is required to maintain adequate safeguards for the prevention of corruption, discrimination, anti-democratic procedures, and the association of any official of the International Union or its subordinate bodies with organized crime figures or anyone that would bring disrepute to the union.

The Public Review Board was established to review complaints and conduct hearings whenever necessary to insure the high moral and ethical standards in the administrative and operational practices of the International Union, its subordinate bodies and local unions, and to review all matters arising under the International Union's Ethical Practices Code. Now that my term as Monitor has expired, the Public Review Board is providing oversight to the International Union under the terms of the Consent Decree. I have joined two other individuals to make up the membership of the Public Review Board. The other two members are Archbishop James P. Keleher of Kansas City and James R. Thompson, former governor of Illinois, who is Chairman of the Public Review Board.

Under the terms of the Consent Decree, my term as the Monitor was set to expire March 5, 1997, i.e., within 18 months of the filing of the Consent Decree on September 5, 1995. In February 1997, I requested an extension of my term based on a showing of probable cause to believe that corruption or the influence of organized crime exists in the International Union or its constituent entities. The Court agreed and granted the extension for a period of 12 months, ending March 5, 1998. However, for purposes of disciplinary proceedings still pending, my office continues until all proceedings are completed.

D. The Monitorship

My office staff remained the same throughout my term as the Monitor. Daniel F. Sullivan served as my Chief Investigator and LaVerne Waller as my Administrative Assistant. My Investigations Officer, Howard E. O'Leary, Esq., of the law firm Dykema Gossett in Washington, D.C., was responsible for the evaluation and presentation of the evidence in disciplinary proceedings authorized by the Consent Decree. He was assisted by Judy Jenkins of the same firm. The investigative work was performed by retired law enforcement officials available to the Office of the Monitor from all over the country.

Throughout my term as Monitor, invaluable assistance was provided by the Office of the United States Attorney for the District of New Jersey, the Organized Crime Section of the Department of Justice, the Federal Bureau of Investigations, and the United States Department of Labor.

After my appointment as Monitor in September 1995, I spent the remainder of 1995, in large part, reviewing the history of the International Union, as well as pertinent reports of government agencies and the records of the U.S. Senate Permanent Investigations Subcommittee, which conducted hearings on the International Union. My office began its actual investigative work in January, 1996. Since then, I have reviewed the operations and actions of the International Union in a systematic way. In doing this, I have relied on the Consent Decree's mandate that the International Union give me unfettered access to all records or documents and officials, agents, employees, and members of the International Union and its constituent entities. Investigators from my office have conducted reviews of select local unions and the International Union headquarters. Investigations have also been conducted in response to unsolicited complaints and allegations. Finally, investigators from my office have conducted investigations regarding specific programs, issues, topics, and individuals associated with the International Union.

The Consent Decree gives the Monitor the authority to investigate, audit, and review all aspects of the International Union and its constituent entities to advance its remedial objective. The Monitor is also given authority to disapprove International Union actions that he believes may violate the injunctive prohibitions of the Consent Decree, may constitute a crime involving labor organizations or the employee benefit plans, or may further the direct or indirect influence of any organized crime group or the threat of such influence now or in the future. In accordance with this authority, I have reviewed the International Union's hiring, appointment, and reassignment decisions. I also have reviewed contracts, leases, and other obligations. I am pleased to report that the International Union has been very cooperative in submitting matters to me for review and has given members of my staff unfettered access to records.

The Consent Decree, as required, was published in the November/December 1995 issue of the [Catering Industry Employee](#) magazine. I included a "Message to All Members" asking them to help me carry out my responsibilities. An 800 number was provided to facilitate member participation in the process. This has resulted in the receipt of many unsolicited complaints and allegations that were processed by my office. Many of the complaints concerned grievances that were not within my jurisdiction, as defined by the Consent Decree. Other complaints required us to conduct preliminary investigations in order to obtain sufficient facts to determine whether the matter was appropriate for handling by the Office of the Monitor or by the International Union. In those matters that were referred to the International Union for handling, I am happy to report that these items were handled in a responsible manner.

II. REVIEW OF LOCAL UNIONS / CANDIDATE CLEARANCE

A. Findings

One of the most productive procedures followed by my office was the review of local unions. My office conducted reviews at the International Union's headquarters and at 16 local unions. Some were terminated short of a complete review. The local unions were selected for review because of their location in an area or region historically known to be susceptible to the influence of organized crime. Others were reviewed as a result of specific allegations or known problems. Reviews were conducted of the following local unions:

Local 1, Chicago, Illinois	Local 2, San Francisco, California
Local 4, Buffalo, New York	Local 5, Honolulu, Hawaii
Local 6, New York, New York	Local 7, Baltimore, Maryland
Local 10, Cleveland, Ohio	Local 11, Los Angeles, California
Local 25, Washington, D.C.	Local 57, Pittsburgh, Pennsylvania
Local 69, Secaucus, New Jersey	Local 77, Rhinelander, Wisconsin
Local 84, Toledo, Ohio	Local 122, Milwaukee, Wisconsin
Local 274, Philadelphia, Pennsylvania	Local 340, San Mateo, California
Local 450, Forest Park, Illinois	Local 631, Phoenix, Arizona
International Union Headquarters, Washington, D.C.	Chicago Joint Executive Board, Chicago, Illinois

Many of the reviews demonstrated that some local unions were not being operated and managed in a manner consistent with the best interests of the membership, and some reviews resulted in disciplinary charges. We found that:

1. Many of the local unions do not obey their bylaws.
2. Notice to membership meetings is not adequate, resulting in lack of quorums for General Membership meetings.
3. Expenses are not presented to the membership for approval as required, or, if presented, are vague or not presented in the full context of the expenditures.
4. Raises and bonuses are not presented to the membership for approval as required, in many instances, they were not even presented to the local union's Executive Board.
5. Per capita taxes are delinquent with no effort to make arrangements for payment to the International Union.
6. Personal expenses are placed on union credit cards, including personal meal and beverage expenses.
7. Expenses are charged to the union without adequate documentation to verify that the expense was necessary for conducting union business.
8. Automobiles are provided for employees who only use them to commute to and from work.
9. Training of officers, business agents, and organizers is minimal or nonexistent.
10. Organizing projects are not coordinated or supervised.
11. Severance and insurance programs are set up for the officers, which are not in the best interest of the membership.
12. Members are not permitted to inspect LM-2 reports as required by the Labor Management Reporting and Disclosure Act, and, in many cases, members are unaware they exist.
13. Personnel policies, salary pay scales, job descriptions, performance standards do not exist.
14. The International Union's audit program is not properly designed to detect fraud or abuse by officers and employees of local unions.
15. Many local unions do not require Business Agents to file any documentation or weekly report describing what they did during the preceding week.
16. Executive Board members have little or no understanding of their fiduciary obligation to ensure that the local's funds are spent solely in the

best interests of the membership.

17. Many locals do not have an annual audit despite the requirement for such an audit in the HEREIU Constitution.

As noted above, most locals failed to follow the HEREIU Constitution and their own local bylaws with respect to salary increases and bonuses. The HEREIU Constitution, Article XI, Section 23(c), and local bylaws require that all wages, salaries and expense allowances must be determined by a recommendation of the local's Executive Board and approval by majority vote at a regular or special meeting of the General Membership.

The actual practice relating to salary increases and bonuses varies widely among HERE locals. At a number of locals, salary increases are discussed, approved and recorded in Executive Board meeting minutes. An oral motion is then made to approve the Executive Board meeting minutes at the next regular General Membership. The membership does not know that the Executive Board meeting minutes include salary increases and/or bonuses for the officers and no motion is made or vote is taken at the General Membership meeting on the proposed salary increases. Instead, the increases are implemented unbeknownst to the members, in violation of the HEREIU Constitution and the bylaws.

At certain locals, the Executive Board meeting minutes are available for inspection on request by individual members. Such access is no excuse, however, for failing to accord the members their right to be informed of, and participate in, compensation decisions with their money. Members who sought to exercise his or her right to oppose a proposed salary increase would have to scrutinize the Executive Board meeting minutes prior to the General Membership meeting, oppose the oral motion to approve the Executive Board meeting minutes and demand a vote on the proposed salary increase.

The International Union should promulgate uniform policies to be followed in connection with salary increases and bonuses for local union officers and employees. Local 69 in Secaucus, New Jersey, for example, followed a practice of listing the current salaries of officers and employees and the proposed salaries after implementation of the recommended increases. Prior to taking a vote on each proposed salary increase, the Executive Board's recommendation should be disseminated to the members in writing at a General Membership meeting, namely, the employee's current salary, the amount of the proposed increase and the proposed salary after the increase. A motion should then be made for a vote on the proposed increase for each officer and/or employee, and approved by the General Membership prior to being implemented.

Practices vary widely among local unions with respect to the issuance of credit cards. Local 450 in Forest Park, Illinois issued no credit cards, while Local 1 in the same metropolitan area issued credit cards for use by its president, secretary and treasurer.

Union issued credit cards present great opportunity for abuse, and stringent controls are necessary to protect the General Membership from such abuse. A number of locals issued credit cards for the use of the top two or three officers. Typically, the local's office manager pays the monthly statement on the assumption that all such charges were necessary for conducting official union business and trusts the officers to reimburse the local for any charges that were personal. It is unrealistic to expect that the local's office manager will confront his or her superiors about charges that appear to be personal. Instead, there must be a system of controls in place to ensure that sufficient documentation exists to establish the business necessity for all such expenditures.

The International Union should establish uniform policies for the use of credit cards by local union officials. At periodic intervals, possibly bi-weekly, the local union official should fill out and sign a form identifying the individuals present, briefly explain why the expenditure was necessary for conducting official union business, and attach both the receipt and charge slip relating to the expenditure. The local union official's signature shall constitute a certification that the expense was, in fact, necessary for conducting official union business. All local union officials should understand that a knowing false certification shall constitute grounds for disciplinary charges, including removal from office and termination of employment with the local.

The bylaws of HERE locals typically provide for the election of three trustees who are members of the Executive Board. The trustees generally are not (and should not be) salaried employees of the local. The trustees are given the responsibility of verifying the locals' quarterly financial reports and the annual audit required by Article XIV, Section 11, of the HEREIU Constitution. As part of their responsibilities, the trustees should be required to review each month the forms, certifications and supporting documentation submitted by the officers relating to their credit card charges. After reviewing these materials, the trustees should be required to certify that to the best of their knowledge, information and belief, the expenses in question were necessary for conducting official union business and that adequate documentation exists to verify or substantiate the business necessity for such expenses. With such a system of controls in place, recurring charges at a particular restaurant or bar should prompt inquiry by the trustees and the local's independent auditors.

Our investigations of HERE locals found that not only trustees, but Executive Board members, generally had little or no understanding of their fiduciary responsibilities under the Labor Management Reporting and Disclosure Act and the HEREIU Constitution. The Labor Management Reporting and Disclosure Act, Title 29 U.S.C., Section 501(a), provides that Executive Board members have a duty to hold the money and property of the local solely for the local's benefit and that of its members and to expend same only in accordance with the HEREIU's Constitution and local union bylaws. The HEREIU Constitution, Article XI, Section 23(a), provides that all funds of a local shall be held for the sole benefit of its membership, and no local may make any expenditure other than for the best interest of the local. Under the Labor Management Reporting and Disclosure Act, the Executive Board members are legally liable to the members for violations of their fiduciary duties to the local and its membership.

Unfortunately, Executive Board members generally had no understanding of their obligations or exposure under the Labor Management Reporting and Disclosure Act. Few were familiar with the HEREIU Constitution and their own local's bylaws, although the Labor Management Reporting and Disclosure Act requires that all of the local's expenditures be in accordance with the HEREIU Constitution and the bylaws. At Local 122 in Milwaukee, Wisconsin, for example, many of the Executive Board members were retirees, some in their eighties, who were

unlikely to question, much less oppose proposals from the incumbent management. When our investigation disclosed that Local 122 owed in excess of \$100,000 in per capita taxes to the International Union, the Executive Board members who were not part of the incumbent management were "shocked" to learn of this delinquency. What is more shocking, of course, is that these individuals -- each of whom had a fiduciary obligation to see that the locals funds were expended in the best interests of the membership -- had absolutely no understanding of their own local's financial condition.

The International Union should develop educational materials and provide training to Executive Board members of HERE locals about their fiduciary obligations to the local and its membership, including the obligation to oppose salary increases, bonuses and the like when such expenditures are not in the membership's best interest.

Similarly, some locals, like Local 1, require their Business Agents to file weekly reports describing their activities for each day of the preceding week, while others do not require any documentation to verify that the Business Agents actually worked and/or describe what he or she did.

The Business Agents performs a substantial portion of his or her duties on their own outside of the office, namely, servicing collective bargaining agreements, handling grievances or attempting to organize new employers. A requirement that Business Agents fill out and sign a weekly report describing their activities during each day of the preceding week is necessary to ensure that the employees are actually working and fulfilling their responsibilities to the membership. Requiring such documentation makes it more difficult for "no-show" or "partial show" employees to defraud the membership. For example, the weekly reports of one Local 1 Business Agent indicated that this individual reportedly spent portions of approximately 70 days annually attempting to organize a particular riverboat casino. Our investigation disclosed that, in truth and fact, this Business Agent was gambling at the casino and unknown to many of the individuals involved in this organizing campaign.

The International Union should promulgate uniform reporting policies and forms for use by all Business Agents employed by HERE locals. Such policies should have provisions for periodic review of such weekly reports by the Business Agent's superiors.

There also appears to be wide disparity among HERE locals on the necessity for having audited annual financial statements. The HEREIU Constitution, Article XIV, Section 11, provides:

. . . Local unions shall have their books audited annually and a copy of such audit must be filed with the General Secretary-Treasurer within sixty (6) after the expiration of the audit period.

Despite the above requirement, many locals are not audited at all, including, for example, a local as large as Local 1 with more than 15,000 members. An annual audit performed by a certified public accounting firm is an important safeguard against corruption, embezzlement and non-feasance. All HERE locals -- or at least all HERE locals above a certain size threshold -- should be required to have an annual certified audit.

Clearly, not all of the above problems exist in the majority of local unions; however, the HEREIU should be sensitive to these problems and take corrective action if they occur.

B. Local 1

This local union is the home local of the former General President, former General Vice-President, and former Director of Organization. Their association with this local union has resulted in considerable International Union assistance. A report prepared by the International Union in February 1997, revealed that assistance to Local 1 over the years amounts to \$2,608,337.81. This was the largest amount of assistance granted to any local union, with the exception of Local 226, Las Vegas, Nevada, which had been involved in a protracted strike. The report also showed that 18 International Union employees were assigned to this local union. The International Union's W-2's issued for 1995 list 40 employees with Chicago area home addresses. The records of the International Union also revealed that in 1996 there were 14 automobiles leased by the International Union and garaged in Illinois.

Despite all of the extra attention and assistance granted to Local 1, it has been in a bad financial condition for many years. Local 1 officials could not produce any accounting reports when requested. They suggested that Thomas Havey & Company, Chicago, Illinois, was the accounting firm which would be in a position to provide accounting reports. Havey employees provided annual compilation reports for the period 1990 through 1996. They explained that their compilations are limited to presenting, in the form of financial statements, information that is the representation of Local 1 officers. They expressed no opinion or other form of assurance on these statements.

It is unclear where the compilations go when presented by Thomas Havey & Company to officials of Local 1. Havey's compilations, including the attached cover letter, are directed to the Executive Board of Local 1; however, when shown the compilations during an interview, all of the Executive Board members advised they had never seen them before. The current Secretary-Treasurer of Local 1, who has been in this position since May 1, 1991, advised he had never seen the compilations before and was unaware of the extent of the financial difficulties of this local union. He appeared shocked to learn that the compilation, dated December 31, 1993, reflected (by notes attached to the compilation) that Local 1 had a 22-month financial delinquency owed to the pension plan. He advised that when he assumed the position of Secretary-Treasurer, he requested Thomas Havey & Company to conduct an audit. Upon completion of that audit, Havey officials met with him, the President, and Secretary-Treasurer of Local 1 and advised them that Local 1 was overstaffed. The Havey officials suggested cutting the number of Business Agents at Local 1. This did not happen because the President of Local 1, Thomas Hanley, advised he was not running a bank, and he did not want to cut employees. The Secretary-Treasurer was aware of per capita delinquencies being forgiven by the International Union in 1991, and it was obvious that the President of Local 1 did not feel he needed to work from a balanced budget principle. The Secretary-Treasurer did not know how the per capita delinquencies would be handled, but he assumed the President would find a way to resolve this problem.

A review of the compilations shows that in May, 1984, the International Union granted a \$304,522 loan to Local 1 to cover past due per capita taxes and various other expenses incurred prior to April 30, 1984. Terms of the loan called for Local 1 to make monthly payments in the amount of \$3,000 between 1985 and 1990, which never occurred. Additionally, as of December 31, 1990, Local 1 owed another \$440,000 in per capita payments to the International Union. The \$440,000 debt was deleted because of the International Union's "forgiveness" of per capita loans at the 1991 International Union convention, but the 1984 loan of \$301,522 continued as a debt until 1993, when a prior period adjustment was made indicating it had been determined that this loan had also been forgiven in 1991.

The 1993 compiled report contained comments from Thomas Havey & Company regarding Local 1's capacity to exist as a going concern. The going concern comment is set forth as follows:

Note 8. Going Concern

As shown in the accompanying financial statements, the Union incurred a deficiency of receipts over expenditures of \$33,536 for the year ending December 31, 1993; as of that date, there was a fund balance deficit of \$23,905. Those factors, as well as the Union being approximately \$200,000 delinquent on various administrative expenses and pension plan contributions create an uncertainty about the Union's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Union were unable to continue as a going concern.

The Union is currently implementing a plan to eliminate delinquent expenses as well as reduce the overall cost of administration. In addition, dues rates were increased January 1, 1994.

The debt reduction plan referred to above apparently did not work because the December 30, 1994, compilation reflected that the Local 1 was still 11 months delinquent (\$99,000) in payments to the pension plan and \$88,000 delinquent in various administrative expenses. The December 30, 1995, compilation continued to show approximately \$92,000 in delinquent pension plan payments and \$29,000 delinquent in various administrative expenses. The December 31, 1996, compilation lists a pension delinquency of \$81,000 and a \$233,000 per capita delinquency. This \$233,000 delinquency was in addition to the \$1,300,300 interest free loan which was granted to Local 1 by the International Union during 1996. The loan is to be repaid at the rate of \$7,500 per month.

After reviewing the above identified compilations, it would seem logical to ask why the International Union's officials allowed this local union to continue from 1984 to the end of 1996, ignoring loan repayments, accumulating large per capita, pension payments, and administrative debts. The former International Union's General Secretary-Treasurer, Herman Leavitt, advised he did not see the compilations prepared by Thomas Havey & Company for Local 1. He acknowledged there were conversations and communications between his department and the General President regarding the financial problems at Local 1. The problems never seemed to go away and no one pressed to resolve them.

During all the years of financial difficulty, the officers and employees of Local 1 received salary increases on a regular basis and former General President Hanley collected \$31,000 per year as Executive Director of the Local.

The failure of the HEREIU General Officers to deal with this never-ending Local 1 problem is, of course, due to the fact that many of the general officers come from Chicago and this is their home local. The national leadership never tried to run the International Union from Washington, D.C. Mr. Edward T. Hanley never spent more than 25 days per year at the International Union's headquarters and his son, the Director of Organization, averaged a day or two per month in Washington, D.C. Hopefully, the new national leadership will give the HEREIU the national and international attention it deserves. Local 1 should have been placed in trusteeship many years ago. I am informed by General President Wilhelm that Local 1 is currently timely on both per capita and loan repayments.

C. Chicago Joint Executive Board

Review of the records of the Chicago Joint Executive Board reveals that the stated purpose of this Board is to provide coordinated management of the various local unions in the Chicago Metropolitan Area and to resolve disputes between local unions. The minutes for this Joint Executive Board for the period 1989-1997 show that the only local unions participating are Local 450, Forest Park, Illinois, and Local 1, Chicago, Illinois. During this entire period, Local 450's Secretary-Treasurer, Frank Riggio, has served as the Executive Director-President of the Chicago Joint Executive Board. John O'Gara served as the Secretary-Treasurer of the Joint Executive Board until June 5, 1989. He resigned when he was appointed General Vice-President of the International Union. At that time, Thomas Hanley was named Secretary-Treasurer of the Chicago Joint Executive Board.

The positions of Executive Director-President, Secretary-Treasurer, and Office Secretary are all paid positions. The salaries are \$300 per week for the Executive Director-President; \$300 per week for the Office Secretary; and \$200 per week for the Secretary-Treasurer. The Office Secretary also serves as the Office Manager of the International Union's Midwestern Regional Office and has the title of Administrative Assistant to the General President of the International Union. The Chicago Joint Executive Board usually meets at the Midwestern Regional Office location.

A review of the minutes of the Chicago Joint Executive Board's meetings reveals that the Executive Director-President is almost always present and presides at the meetings. The usual business consists of the Executive Director-President providing information regarding Local 450's activity for the past month and someone from Local 1 also discussing what had occurred at Local 1 over the past month.

The Secretary-Treasurer has been a very infrequent participant in the Chicago Joint Executive Board's activities over the past several years. In 1994, he attended only one of the twelve meetings that year. His attendance for several other years was never more than 50 percent of the Joint Executive Board's meetings, yet he has continued to receive in excess of \$10,000 from the Board each year. The Office Secretary of the Board receives an annual salary of approximately \$15,600 and also is enrolled in a pension plan which is funded by the Joint Executive Board. This is all in addition to the pension plan benefits, salary and allowances (\$68,705 in fiscal year 1997), and an automobile leased for her by the International Union. The Chicago Joint Executive Board is funded by a 25 cent per month per capita fee on all members of the participating local unions (Local 450 and Local 1). In 1996, the Chicago Joint Executive Board's cash receipts were \$50,252.

The paid officers and the Office Secretary are all also highly paid officers/employees of the International Union and/or Local 1 and Local 450. The work performed by this Joint Executive Board appears to be that of both Local 1 and Local 450 keeping each other informed of their work in order to coordinate their efforts in overlapping areas. This kind of inter-local cooperation would appear to be a routine function of both Local 1 and Local 450. That should not require a Joint Executive Board to accomplish.

I am aware of the fact that the Chicago Joint Executive Board is a signatory to a multi-employer collective bargaining agreement with the Chicago Hotel Association. The most recent agreement, executed in early 1997, is for a term of five years and eight months. Consequently, during the five year period between collective bargaining agreements, there is little justification for the Joint Executive Board's existence, much less for the payment of salaries to its personnel.

Recommendation:

That the salaries for the Chicago Joint Executive Board personnel be discontinued.

D. Candidate Clearance

Union democracy is a fundamental tenet of union governance, and the International Constitution deals at length with rules and procedures for electing high level International Union officials and conducting elections in local unions. Furthermore, the Consent Decree, under paragraph 27, specifically sets out procedures for the Monitor to oversee the election of officers in the International Union and its constituent entities. The objective is to ensure that elections are free from corruption and the influence of any barred person. The Consent Decree requires that the Monitor be advised in advance of all candidates for elections, both at the International Union headquarters and within the union's constituent entities.

The Office of the Monitor has reviewed 1,064 candidates for elective office in 64 local unions. In addition, we have reviewed 64 individuals appointed as Business Agents or

similar positions of trust. If the background materials included recent run-ins with the law, investigators conducted interviews, at my request, to provide individuals an opportunity to explain the circumstances of those situations. We have conducted approximately 25 such interviews. No candidate for elective or appointive office has been disqualified as a result of these reviews. It is not known how many potential candidates did not apply, or withdrew, because the screening process was in place.

III. REVIEW OF INTERNATIONAL UNION

A. Financial and Administrative Management

Representatives of the Office of the Monitor conducted an on-site review of administrative operations and detailed audits of certain financial records at the International Union headquarters in Washington, D.C. From the onset, it was clear that the International Union suffered from a management deficit and did not subscribe to generally accepted business practices. Despite an apparent abundance of personnel, the staff of 35 employees was neither prepared nor expected to carry out certain functions normally deemed basic and essential to most business entities of any size.

There is a program to develop a budget for the Research Department. General President Wilhelm has implemented a computer accounting program which will be the basis of a HEREIU budget. He hopes that all departments of the HEREIU will be operating on a budget within a year or two. He, in his capacity as Secretary-Treasurer, took the initiative to implement a budget procedure for the International Union's overall operations.

Interviews of officials, employees and some consultants confirmed that the International Union has traditionally operated without some absolute basics. There is no budget, no organization chart, no job description for employees, and no policy manual.

One consultant commented that the former General President had not seen a need for "structure". However, the consultant added that the time for structure in the management of the International Union had probably arrived.

While the lack of an organizational chart may not, on the surface, appear to be critical, it is clearly a deficiency in the overall management of the International Union. Time and again during the interview of officers, employees and consultants, the interviewees were unable to define lines of authority on matters in which they were directly involved. For example, one might assume that the Director of Organization would have a degree of responsibility either directly or indirectly over every employee in the Department of Organization. During an interview, he denied having any degree of responsibility over certain individuals and/or initiatives, however, other officials involved in organizing efforts made specific comments contradicting his remarks.

The staff of the International Union was asked to provide an organizational chart, position descriptions and job titles for employees of the International Union, but the only existing internal document provided was a listing of headquarters personnel arranged alphabetically by first name. Consequently, my staff conducted interviews of all employees to determine the duties of each and to develop an understanding of the work flow. These interviews revealed expressions of confusion, questionable workload distribution, duplication of effort and, in some cases, animosity attributed to a lack of clearly defined duties and lines of authority. In some instances, for example, employees' duties were taken from them when their superiors vacated assignments or new bosses brought in their own assistants. In those instances, the pay of the former incumbents was not impacted, but they were left without clearly defined duties. Aside from the obvious insensitivity to the affected employees, there is an apparent disregard for cost-effective management.

While salaries of most employees seem to be very generous, there were no uniform standards for selection of appointees, no uniform compensation standards, no performance review process, and no established criteria for promotion or pay increases.

The lack of documents accounting for authority, responsibility, and performance of employees was not only an indication of poor management, but, in some cases, it clearly facilitated intentionally inflated compensation and the concealment of ghost employees. In several instances, the Monitor's inquiries about organizers, special assistants and consultants precipitated abrupt departures through retirement and resignation.

Recommendation:

1. Prepare a budget for the next fiscal year.
2. Establish written policy establishing a system for evaluating performance of employees.
3. Prepare an organizational chart defining lines of authority/responsibility for officers and employees.
4. Define standards for compensation of all employees.

B. Credit Cards

The International Union maintains a credit card account with the American Express company which allows each of the General Officers (General President, General Vice-President, Secretary-Treasurer, and Director of Organization) to charge expenses. Additionally, retired General Officers John Gibson, John Kenneally, and Herman Leavitt have credit cards, as well as the Executive Vice-President. The American Express cards were utilized by these individuals during the period 1993-1996 to charge approximately \$645,000 in expenses to the International Union. Additionally, the former General President has a VISA credit card (First Card) assigned to him, and the General Vice-President obtained a VISA card (Citibank Advantage) in June, 1995. These two cards were utilized to make additional charges of \$237,316 (First Card) and \$89,487 (Citibank Advantage) during the same period, 1993-1996. As a result, the International Union disbursed approximately \$971,803 for routine credit card purchases during this period.

The justification for obtaining second credit cards for the General President and General Vice-President was not fully documented; however, it was noted that both the First Card and the Citibank Advantage card provide free air miles based upon usage. No evidence of utilization of free air miles was noted in the union's records.

Formal policy regarding the use of above identified credit cards appears to be non-existent. The secretaries to each of the officers have been given the responsibility of reviewing the credit card expenses and insuring that receipts are attached to the monthly statements. During interviews, these employees identified items which could not be charged, such as cigarettes, movies and laundry/dry cleaning. It was noted that on several occasions these items were detected on the credit card bills, and the individual officers reimbursed the International Union for these expenses. It appeared that staff employees did not have a clear understanding as to whether alcohol is an allowable expense.

The fragmented credit card utilization policy for the International Union is set forth in two memoranda; one prepared by the Department of Organization in January, 1991 and another bearing the name of Director of Organization dated February, 1994. This second memoranda stated that Thomas Havey & Company, the International Union's auditors, had advised that International Union employees had been in violation of the U. S. Department of Labor laws and regulations with regard to meal expenses. It stated that any meal charges by the cardholder and any other union employee from their home city would not be reimbursed. When questioned about this memoranda, the Director of Organization did not recall preparing it. He also suggested that this policy might not apply to officers of the International Union.

Clearly, the U.S. Department of Labor and the Internal Revenue Service (IRS) regulations make no distinction between officer and employee. Department of Labor International Compliance Audit Program (I-CAP) investigators were concerned that International Union officials were attempting to circumvent their directive in this matter. The file of the Department of Labor documents this and indicate that the directives regarding expenses must apply to "all officials, the highest ranking general officers, as well as employees".

A review of the documents maintained by the Department of Labor regarding an I-CAP audit conducted at the International Union during 1990-1992 presented a much clearer picture of the International Union's policy (or lack thereof) regarding business expenditures. The audit directed that officers and employees incurring reimbursable expenses should submit timely, adequate, written documentation sufficient to corroborate the business purpose of the expenditure. The Department of Labor files reflect that International Union officials were not keeping adequate records regarding officers expenses. They pointed out that, in many cases, explanations were not given for charges and, in other cases, incomplete or insufficient explanation was given. They directed that documentation for these expenses must include who, what, where, when, and why, and that this documentation must be completed when the expense occurs. They pointed out that, if recorded in a timely manner, this accurate documentation would minimize the risk that the expenditures would be considered personal in nature, and it would greatly assist the Accounting Department in accurately recording these expenditures. These instructions as given by the Department of Labor were set forth in a management letter prepared by Thomas Havey & Company for the General Executive Board of the International Union.

When my review of the International Union's records began, it became immediately obvious that the Department of Labor's instructions regarding timely recording and sufficient documentation had been totally ignored. We discovered that the secretaries were still trying to obtain documentation for credit card charges that had occurred eight to ten months earlier. The credit card bills were sent to the Accounting Department in a timely manner, but, in many cases, the supporting documentation would not be sent to the Accounting Department until after the end of the fiscal year. In other words, the bills were being paid with no documents attached. Additionally, when the documentation was finally received, it consisted of receipts and cryptic comments such as "locals", "skychefs", or "health and welfare". This was the very type of documentation that the Department of Labor had previously advised was totally unacceptable.

My review also revealed that the responsibility for approval of these miscellaneous expenses was not properly assigned. A secretary was given the responsibility to insure the appropriateness of charges incurred by the highest officials of the International Union. This resulted in expenses being reviewed to determine if specific disallowed expenses have been charged, for example, if video movies are rented or cigarettes purchased. The bulk of the charges were not,

however, being reviewed by anyone to determine the appropriateness of the expense. A cursory review of these records immediately spotted numerous problems which could have been addressed by an appropriate approval process. For example, records for restaurant and bar purchases made by one senior official disclosed a pattern of excessive tipping. It was not uncommon for the tips to be greater than the restaurant/bar purchase amounts, as set forth below:

<u>Date</u>	<u>Purchase</u>	<u>Tip</u>	<u>Total</u>
10/6/94	\$ 5.80	\$ 80.00	\$ 85.80
12/7/94	\$ 97.20	\$50.00	\$147.20
3/9/95	\$34.38	\$ 50.00	\$ 84.38
6/21/95	\$150.29	\$100.00	\$250.29
6/21/95	\$ 98.80	\$100.00	\$198.80
2/9/96	\$ 33.00	\$ 50.00	\$ 83.00
4/29/96	\$116.45	\$150.00	\$266.45

An International Union employee assigned to drive this official to and from area restaurants at union expense confirmed that this official was known to give very generous tips.

Records for another senior International Union official revealed a pattern of extensive purchases at restaurants/bars in his home-base area with fellow employees from that geographical area.

Examples are as follows:

12/5/95 \$ 48.28 Miller's Pub

12/5/95 \$136.00 O'Callaghan's

12/5/95 \$105.00 Jilly's

12/5/95 \$ 35.50 The Boss Bar

TOTAL \$317.78

5/15/96 \$ 54.50 Lino's

5/15/96 \$ 38.50 Gibson's Bar & Steakhouse

5/15/96 \$211.88 Gibson's Bar & Steakhouse

5/15/96 \$ 11.50 Lola's/Roulette

5/15/96 \$ 15.50 The Redhead

5/15/96 \$ 15.70 White Star Cafe

TOTAL \$347.58

The above expenses at Chicago, Illinois area establishments are all attributed to this senior International Union official and, in each case, one other individual (different individuals on December 5, 1995, and May 15, 1996) who share office space in Chicago, Illinois.

When questioned regarding these expenses, the official and the employees contend they were conducting union business (talking to bartenders, etc.) at all of the business establishments where charges were incurred. This does not appear to be responsive to the Department of Labor instructions or the Director of Organization memoranda of February 28, 1994.

While it is recognized that this International Union has a special interest in insuring the economic well-being of the hotel-restaurant industry, it is doubtful that this is accomplished by a select few officials frequenting bars and restaurants.

Since we examined the credit card abuses, the HEREIU has initiated a two-level verification process, first, in the user department and then in the General Secretary-Treasurer's office, which is designed to curb the abuses disclosed by our review.

Clearly, a system of stringent controls should be in place to ensure the credit card charges by International Union officials are necessary for conducting official union business. At least monthly, International Union officials should fill out and sign a form identifying the individuals present when the expense was incurred, briefly explain why the expense was necessary for conducting official union business, and attach both the receipt and charge slip relating to such

expenditures. If an International Union official fails to submit such documentation in a timely fashion, the expense should be deemed personal and deducted from the official's compensation. The International Union official's signature on the form along with the supporting documentation shall constitute a certification that the expense was, in fact, necessary for conducting official union business. All International Union officials should understand that a knowing false certification shall constitute grounds for disciplinary action, including removal from office and termination of employment with the International.

Semi-annually, the expense forms and supporting documentation submitted by International Union officials relating to credit card charges should be reviewed by a select number of General Executive Board members who should certify that, to the best of their knowledge, information, and belief, the expenses in question were necessary for conducting official union business and that adequate documentation exists to verify or substantiate the business necessity for such expenditures.

Recommendation:

1. Terminate issuance of union credit cards to retired officials.
2. Assign responsibility for review and approval of credit card expenditures to a select number of General Executive Board members and ensure that these individuals are familiar with the Department of Labor and Internal Revenue Service regulations regarding business expenditures.
3. A sufficient sample of expense forms and supporting documentation should be reviewed by the certified public accounting firm conducting an audit of the International Union's financial records to ensure that the system of control relating to credit card charges is adequate.

C. Per Diem / Allowances

On June 19, 1990, John Reynolds, General Counsel for the International Union, advised a representative of the U.S. Department of Labor that the International Union was attempting to influence their employees to switch from per diem allowances to salary. He pointed out that IRS tax codes changed in 1986 or 1987 making per diem allowances taxable, and effective July 1990, they were required to begin withholding FICA on per diem payments. He also pointed out that it would be less work for the International Union to include these monies as salary because it reduces the bookkeeping within the organization. The International Union converted all employees from per diem to salary, except for some reasons not altogether clear, the current and retired general officers. The four current General Officers continue to receive \$100 daily per diem, 365 days per year, even when they are on vacation or sick leave. Certain retired officers (John Gibson, General Secretary-Treasurer Emeritus; Herman Leavitt, General Secretary-Treasurer Emeritus; and John C. Kenneally, General Vice-President Emeritus) also receive daily per diem payments. Mr. Gibson receives \$40.00 per day, Mr. Leavitt receives \$100 per day, and Mr. Kenneally receives \$50.00 per day.

The per diem payments do not appear to be related to actual expenses incurred by the officers because some of them are additionally reimbursed for miscellaneous cash expenses, such as taxi and skycap tips. The payment of per diem, and recording it as an allowance on the LM-2 form also tends to present a distorted picture of the total salaries paid to the officers. Payment of a per diem allowance for possible expenses to a retired employee is incomprehensible. Even after receiving this \$14,600 per year in per diem payments, John Gibson still submits bills for miscellaneous expenses when he attends conventions or other similar functions.

In addition to the above per diem allowances, the International Union has for many years awarded officers and select employees for attending International Union conventions and General Executive Board meetings. International Vice-Presidents, Administrative Aides, and Administrative Assistants were each given \$4,000 for attending the 1996 Convention. The allowance for attending General Executive Board meetings is usually \$2,000-\$2,500. This International Union granted \$478,150 in allowances in fiscal year 1997.

The 1996 LM-2 for the Laborers International Union of North America, an organization with 793,730 members, lists no money expended for officer/employee allowances.

Recommendation:

Eliminate per diem payments and General Executive Board/Convention payments to officers and select employees, current and retired.

D. Leased Vehicles

Historically, the International Union has maintained a fleet of nearly 60 leased vehicles, ostensibly for the business use of certain union officials, employees, and consultants. In addition to this fleet, the International Union owns limousines based in Washington, D.C. and Chicago, Illinois, and a motor home which is based at an automobile dealership in suburban Chicago, Illinois near the residence of the General President. The motor home was acquired during 1988 at a cost of \$100,000 and currently has approximately 17,000 miles on the odometer.

The International Union spends about \$425,000 annually for leased vehicles and another \$100,000 on miscellaneous automotive maintenance expenses. In the interest of expediency, the Monitor's audit did not address the dollar value of automobile insurance premiums or the cost of liability judgments/claims. However, the amounts in the latter two categories are assumed to be substantial because the International Union provides automobile insurance coverage not only on vehicles leased and owned by the union but also on several vehicles owned by employees who are reimbursed for mileage expenses in lieu of being provided with union cars. Anecdotal information obtained during the course of several interviews suggests that the International Union has incurred significant costs for legal expenses and payment of claims emanating from automobile accidents.

Some of the local unions also lease vehicles. Local 1, Chicago, Illinois, for example, has maintained a fleet of approximately 16 vehicles despite its failure to pay per capita taxes and its chronic inability to meet other financial obligations.

Clearly, the total cost of automobile-related expenses incurred by this International Union and its constituent entities is at a level that deserves the close scrutiny of management on a continuing basis, and program management sufficiently structured to provide managers with the information necessary to make fiscally sound decisions. Unfortunately, that has not been the case in the past. It has not been overlooked that about one year ago, and probably as a reaction to the Monitor's inquiries, then General Secretary-Treasurer Wilhelm published a document announcing the terms of an agreement between the International Union and a vendor who is to be the sole source provider of leased vehicles. It is hoped that the publication of the General Secretary-Treasurer's memoranda is intended as an initial step in a much greater effort toward fiscal responsibility.

A review of International Union practices with regard to acquisition, assignment, maintenance and disposal of vehicles revealed that the International Union had no uniform program in place to ensure fiscal responsibility. Accounting and reporting for this very costly segment of the International Union's total expenditures were sorely lacking and, in some cases, suggests the possibility that expenses may have been deliberately concealed from the general membership of the International Union and government oversight.

For example, the International Union's submissions of the required Labor Organization Annual Report (U.S. Department of Labor Form LM-2) for the past several years contains the statement, "It is not practical to make a precise distribution of automobile expenses..." While the word "practical" is by definition a relative term, it is difficult to believe that any competent manager exercising generally accepted business practices would not see the absolute need for this information. In fact, other labor organizations, including the International Brotherhood of Teamsters and the Laborers International Union of North America, do conduct a precise accounting for automobile expenses (itemized by individual) and report that information annually on Form LM-2.

The International Union's LM-2 also asserts that, "Union owned and leased automobiles were used more than 50 percent on official business. They were also used the remainder of the time, if any, for personal use." This very general statement was found to be far from accurate.

A review of International Union lease agreements and interviews of International Union personnel revealed that many, probably most, vehicles leased by the International Union are assigned to individuals who use them primarily for commuting and personal use rather than union business. In some instances, individuals to whom cars are provided have sedentary work assignments which rarely, if ever, require travel outside the workplace. Others are rewards for a privileged group of individuals favored by the General President. Ironically, the leased vehicles for which there appeared to be a clearly perceivable business justification were the more modest and the least costly in the fleet. Virtually all vehicle assignments are approved by the General President who personally signs every lease agreement.

According to officials of the International Union, the principal document governing policy on leased vehicles known to have existed prior to the Monitor's term was a memorandum dated April 6, 1992, addressed "Dear Employee" and signed by both the General President and the General Secretary-Treasurer. This memorandum restricted monthly lease payments to no more than \$600 and announced that, "You will not receive any reimbursement for gasoline charges."

Despite the 1992 memorandum, a master list of leased vehicles provided by the International Union headquarters staff in November, 1996, as well as other documentation reviewed by my staff, revealed that 19 (33 percent) of the 57 vehicles listed were then being leased at monthly rates significantly exceeding the \$600 limitation. Ten of the 19 vehicles exceeding the \$600 limitation were being leased at monthly rates ranging from \$861 to \$1,483. Further examination of records, as well as interviews of officers and employees, determined that there was an assumed, but unwritten, exclusion of General Officers from the restrictions in the policy memorandum and that other individuals were granted exemptions by virtue of the purported relationships they claim to have with the General President. No one interviewed was aware of any limitation ever being placed on leased vehicle and automobile related expenses incurred by General Officers. In fact, the International Union also bears the cost of leased vehicles, automotive maintenance expenses and automobile insurance premiums for retired General Officers and places no cost restrictions on the retirees. In essence, the leased vehicle "program" was clearly micro-managed by the former General President, and the only documented restrictions on the "program" are selectively, if at all, enforced.

Given the premise that vehicles are provided primarily to be used in connection with union business, the rationale behind a policy of not reimbursing gasoline expenses is difficult to understand. Several employees and officials were asked about the policy, but none could offer an explanation of the logic. One General Officer said he was unaware of the policy, admitted that he routinely approves reimbursement of gasoline expenses for employees under his supervision, and said he had never before been questioned about it. Former General Secretary-Treasurer Leavitt recalled that the policy of not reimbursing gasoline expenses was established as a cost-saving measure at the specific suggestion and insistence of the General President whose decisions, according to the former General Secretary-Treasurer and many others, are never challenged. He said he could not explain the logic of the decision other than to describe it as one of many examples of "union politics", i.e., a rule is made and then selectively enforced or ignored.

In the absence of any substantive explanation to the contrary from those interviewed, it would appear plausible that the rationale behind suggesting such a policy may be a perception that vehicles are provided as perquisites and the drivers do not incur gasoline expenses as a result of conducting the International Union's business.

Despite the fact that the International Union's outlay for automobile-related expenses are well over one half million dollars per year, there is no budget for vehicle leases and related costs, nor are there any administrative controls to provide management with timely information pertinent to controlling costs throughout the fiscal year. The decision to provide an individual with a leased vehicle is made by the General President and ratified by the General Executive Board. At this time, members of the General Executive Board are not provided with any information to justify the business need for providing a vehicle, nor are they informed of any anticipated costs when they are asked to affirm the decision to provide an individual with a leased vehicle. Document reviews and interviews revealed no evidence of any General Executive Board member ever voting "no" on a proposition recommending that a leased car be provided. With the exception of certain low level employees, most individuals were permitted to use vendors of their choice and negotiate their own lease deals. In every case, however, the lease agreement contract was ratified by the General President.

Officials at the highest level in the International Union enriched themselves by manipulating the leases of luxury vehicles. Top officials, including the former General President, former General Vice-President, and former General Secretary-Treasurer engaged in a practice referred to as "front-end loading", whereby they committed the International Union to highly inflated monthly payments on leased vehicles so as to reduce the lease end values and/or pre-negotiated prices for which they could then buy the vehicles. This practice enabled them to personally acquire several vehicles for thousands of dollars below the used car wholesale prices and, in some cases, to facilitate sales of vehicles to friends and relatives at bargain prices. Not only did these officials subsidize their

purchases at the International Union's expense by "front-end loading", but, in two instances, also converted the International Union's security deposits of \$700 and \$1,350 to reduce even further their bargain prices.

In addition, they arranged to each have more than one vehicle leased for their exclusive use. All had vehicles at their homes of record, away from Washington, D.C. Presumably, a portion of the cost on those cars was attributed to personal use of the drivers and reported to the Internal Revenue Service as required. However, these three officials also had cars garaged in Washington, D.C., which are referred to in the International Union's records as "guest cars". The "guest car" designation incorrectly implied that the cars were for the use of visitors to the International Union headquarters, which clearly was not the case. Some of the so called "guest cars" were driven as few as 2,800 and 3,000 miles during the entire terms of three year lease contracts and then purchased for thousands of dollars below the published wholesale values.

One of the lease deals involved a "guest car" assigned to the former General President. The lease was for a customized GMC Suburban, valued at \$47,000, leased at \$1,483 per month and having a pre-negotiated purchase option of \$5,000 at the end of a three-year term. The vehicle had approximately 3,000 miles on the odometer, was garaged at the International Union's condominium location, and had been under lease for two years. When the former General President was informed of the Monitor's interest, he abruptly ordered that the International Union terminate the lease and that the International Union purchase the vehicle. He acknowledged that he had personally been involved in arranging for the lease of the Suburban, but stated that he did not intend to purchase the vehicle and did not notice when agreeing to the terms of the lease agreement that the monthly payments were extraordinarily high or that the lease end value was extremely low. He did, however, acknowledge having purchased other vehicles which had been previously leased by the International Union. One of those, for example, was a 1993 Cadillac Allante, a two seat convertible, Illinois license plate KEH8 (Mrs. Hanley's name is Kathryn E. Hanley) at the time it was leased, the capitalized cost of which was \$63,212 and for which the General President paid \$6,000 less than the wholesale value after the International Union made monthly payments of \$1,685 for three years. Another International Union leased vehicle purchased by the General President at lease end was one which had 5,000 miles on the odometer and for which he paid \$5,000.

The practice of "front-end loading" International Union lease agreement contracts has been so flagrant in some cases that the manager of a leasing company took to preparing letters to International Union officials in which he openly provided a variety of payment options with corresponding termination values. One of the letters, for example, was addressed to the former General Secretary-Treasurer and stated in part, "A \$802 lease payment brings the Jeep lease down to the same termination value as your previous lease. Please advise me the termination value you want to place on your new lease. The lower the termination value the higher the monthly payment."

Investigation confirmed that former General Secretary-Treasurer Leavitt had, in fact, purchased that vehicle and that he paid \$15,000 below wholesale for and \$10,000 below wholesale for another. He acknowledged these transactions in a deposition and, when asked about the propriety of inflating lease payments to personally profit at lease end, he said he saw nothing wrong with it. In fact, he insisted that he was deserving because of his many years of service to the International Union.

The former General President, in a deposition, insisted that he and other International Union officials were provided with leased vehicles for the primary purpose of using them to conduct union business.

However, an audit of auto leases revealed that the International Union continues to lease luxury vehicles for the exclusive use of three retired General Officers and for a favorite charity of the former General President's in Chicago, Illinois -- Maryville Academy, a school for problem children. Notwithstanding the fact that these retirees continue to receive full salary and "emoluments of office", they clearly do not participate in International Union business beyond occasional appearances at social events. By no stretch of the imagination could there be a business justification for International Union funding of vehicles for these individuals, the cost of which is more than \$3,100 per month. Beyond the direct costs involved, it would appear to be less than prudent to unnecessarily expose the International Union to the potential liability associated with aging drivers and the environment of a school for problem children.

In summary, the International Union has suffered a severe financial loss in vehicle lease transactions. I am informed that the HEREIU is in the process of correcting existing problems, eliminating unnecessary costs and establishing a basis for accountable, more efficient management in the future.

Recommendations:

1. Prohibit the lease-end purchase of any International Union leased car by any union official, employee or consultant.
2. Prohibit International Union funding of leased vehicles on behalf of any retiree and recover the three vehicles currently assigned to retirees for reassignment or disposal by the most cost effective means.
3. Discontinue the practice of providing leased vehicles for consultants and consider other means of compensation in lieu of vehicles.
4. Discontinue the practice of contributing a leased vehicle to any charitable organization. In situations where it is deemed to be in the best interests of the general membership to donate, the contribution should be monetary and in an amount approved by the General Executive Board.
5. Assure the use of correct accounting and reporting procedures to include a precise accounting for automobile expenses on Form LM-2 and to correctly report income to IRS. This should take into account that the Internal Revenue Service business/personal use formula does not apply to any consultant, any retiree, and any employee who cannot document more than 50 percent use on International Union business.
6. Conduct a cost benefit study of the International Union's \$100,000 motor home and consider disposing of it by the most cost effective means if its projected use does not justify operational, maintenance, and storage costs.

E. Per Capita Delinquencies

The International Union has had a long history of problems in connection with collection of per capita dues from its local unions. At the International Union's 41st general convention in July, 1991, the General President acknowledged this problem and advised the Convention delegates that if the constitutional provision that excluded participation by delinquent local unions were enforced, there would be only about 14 people allowed to be seated at the convention. He announced that the International Union had made loans totaling \$9.5 million to all of the delinquent local unions so that they could attend the Convention. Prior to the conclusion of the Convention, the General President announced that he was going to recommend to the General Executive Board that the \$9.5 million in loans be forgiven. He went on to state, "in the future this per capita tax will be paid on time, not 30 days delinquent, not 60 days delinquent, in some cases not five years delinquent. It will be paid like you pay your mortgage or your rent, because if you don't pay it then you are going to lose the services that you get through that per capita. Subsidies will be canceled, staff will be withdrawn and reassigned to areas that will pay the per capita. You have to pay for the services. You are going to pay for the services."

In March, 1990, the Assistant to the General Secretary-Treasurer was asked by the Department of Labor to provide a list reflecting the per capita delinquency of all affiliates. He informed the Department of Labor that the International Union did not have records reflecting delinquent amounts of each local union. He stated that these records are maintained only on the local union level and that he could provide only an estimate.

My review has revealed that the 1991 "forgiveness" and threat of losing services and subsidies did nothing to correct the delinquency problems. By 1996, as stated earlier, Local 1 had a per capita delinquency exceeding \$1 million and was granted a \$1.3 million loan by the International Union so that its delegates could be seated at the 1996 Convention. A report prepared by HEREIU in February, 1997, revealed that since March 1, 1992, the International Union had assigned 18 of its employees to Local 1 and incurred total assistance cost for this local union in the amount of \$2,608,337.81. The only local union that exceeded this amount was the Las Vegas, Nevada local union which had endured a lengthy strike.

By letter dated February 3, 1997, the International Union's Co-General Counsel, Robert Rotatori, forwarded to me a copy of a memorandum dated January 27, 1997, prepared by the International Union's General Secretary-Treasurer. This memorandum captioned "Status Report, General Secretary-Treasurer's Office", addressed, among other things, the per capita and loan collection problems. The following is set forth in this memorandum regarding these problems:

1. Per capita enforcement

The International Union has had a chronic problem with delinquent I.U. per capita payments by a noticeable minority of local unions. A program is being developed to ensure timely per capita payments, in accordance with the Constitution:

- A list of delinquent local unions is now produced on the 1st and 10th of each month.

- Letters are sent each month to all local unions which are delinquent by two or more months.

- Phone calls are made to the delinquent local unions.

A policy must be established in the next several weeks on a course of action for any local union which fails to meet its obligations in spite of the above process. Any remedy must be applied even-handedly to all local unions.

That recommendation has now been implemented, and I am informed by General President Wilhelm that all per capita and loan repayments are on schedule.

F. Donations

The International Constitution, in Article XIV, Section 13, clearly authorizes the International Union, through the General Executive Board, to expend funds of the International Union for charitable purposes. At the same time, the International Constitution indicates in Article I, Section 2, that the objective of the International Union is "to organize all persons within its jurisdiction for the economic, moral and social advancement of their condition and status in life". Furthermore, the Ethical Practices Code, as codified in the International Constitution in Article XXII, Section 2, states that "Union funds are to held in sacred trust for the benefit of the membership. The membership is entitled to assurance that Union funds are not dissipated and are spent for proper purposes. The membership is also entitled to be reasonably informed as to how Union funds are invested or used".

With these principles in mind, my office has reviewed the large number of substantial donations to various charities, civic organizations, and causes that were approved by the General Executive Board during the period September 5, 1995, and December 31, 1996. The study revealed that donations totaling \$418,870 were approved by the General Executive Board during that period. Other donations were made during that period, but they were based on approvals secured prior to September 5, 1995. Even a cursory look at the list of donations during this period raises serious questions about whether the donations meet the standards of the International Constitution, how the donations were solicited, by whom they were recommended, how the donation would benefit the International Union memberships; and whether the General Executive Board members were provided enough information when they were asked to approve the donations.

General Executive Board members occasionally make handwritten comments on their copies of the proposition ballots returned to the International Union headquarters. In one such instance, the member voted "yes" in regard to a particular donation, but remarked, "I vote yes on the assumption that this is a legal

use of [International Union] money - I assume that has been researched". In another case, a member abstained and commented, "Do not know reason for this donation". In neither of the cases cited was there an indication that the Board members' questions were ever answered.

While many of the donations made by the International Union suggest a compassionate response to human need, the objectives of others are far less obvious. A prime example of the latter is a donation of \$2,000 to the Headwaters Classic Sled Dog Race in Land O'Lakes, Wisconsin, authorized by General Executive Board Proposition 4605, dated January 27, 1992. Although this proposition fell outside the time period of our study, since Land O'Lakes, Wisconsin is where former General President Hanley, former General Vice-President O'Gara, Director of Organization Thomas Hanley, and several other union officials maintain vacation homes, this proposition raises serious questions about whether the International Union's funds are being spent in the best interest of the membership.

Listed below are recipients of International Union donations of \$5,000 or more approved during the period of the study:

\$45,500 St. Joseph Seminary [at Loyola University]

20,000 University of St. Mary of the Lake Mundelein Seminary

14,500 Eithne Fitzpatrick Memorial fund [and Gold Tournament]

14,000 Labor of Love Tournament

14,000 Palm Springs Charities

14,000 Robert Gamez Charity Golf Classic

11,000 American Ireland Fund

10,000 Local 610, San Juan, Puerto Rico - hurricane relief fund

10,000 The Culinary Institute of America

10,000 Las Vegas Anti-Defamation League

10,000 The Meadows School

9,000 St. Martin De Porres Catholic School

8,000 American Jewish Committee

7,700 Guide Dogs of the Desert

7,250 The Thorek Foundation

7,000 All-American Collegiate Golf Foundation

6,500 Jewish National Fund

6,000 Carnegie Mellon University

5,000 Maryville Academy (\$5,000 cash and a leased vehicle)

5,000 National Jewish Center for Immunology & Respiratory Medicine

5,000 Chicago Convention and Tourism Bureau

5,000 Catholic Charities of Chicago

5,000 Catholic Church Extension Society

5,000 St. George Orthodox Church of the Desert

5,000 Saipan Relief fund

5,000 American Police Center and Museum

5,000 Leukemia Society of America

5,000 Bishop Gorman High School Endowment Fund

Even a cursory review of these donations will reveal general themes of similarity among the recipients. For example, six of the 33 recipients (18 percent) are related to the Catholic Church, which received \$94,500, or 29 percent, of all donations. Other themes are also apparent. For instance, many recipients are located in Chicago, Illinois or Palm Springs, California where the former General President resides. There are also large numbers of significant donations to Irish causes and to organizations related to golf.

The Irish American Sports Foundation has received about \$450,000 from the HEREIU. This foundation was started in 1983 for the specific purpose of providing recreational facilities for Irish youth. In 1993, the Edward T. Hanley Basketball Arena was dedicated outside Dublin, Ireland. Mr. and Mrs. Hanley led a 34 member delegation of union officials and guests to the dedication. The General Executive Board authorized the payment of all expenses for that trip.

The contributions by the HEREIU to this organization are clearly authorized, however, it is difficult to imagine how this contribution is even remotely related to the concerns of union members across the United States and Canada. The only Irish connection for the HEREIU is that General President Hanley and other senior officers are of Irish descent.

Similarly, contributions to the All-American Collegiate Golf Foundation have been very generous. In 1992, for example, the HEREIU paid \$25,000 for union officers and guests to play in a tournament at Rancho Mirage in California and to pick up the transportation and lodging expenses of all participants. In 1994, Mr. Hanley was Tournament Chairman for another event by this organization and the HEREIU paid \$10,000. This foundation was started by Arnold Palmer and Lee Iacocca to provide about 400 golf scholarships to needy students to attend universities. We did not compute the cost for lodging and transportation for union officials and guests to these events, but the credit card charges by Mr. Edward T. Hanley for the January 1996 tournament include \$6,385 for a reception at Riccios, a non-union Palm Springs, California restaurant, and \$2,436 at the Cafe Tropez at Palm Desert, California. The all too frequent participation by HEREIU officials and their favorite guests, all expenses paid, in golf tournaments needs to be reexamined.

The purpose of this examination is not to suggest which recipients are worthy to receive donations. Rather, it is to suggest that donations are being made without apparent regard to reasonable standards of relationship to union objectives. It appears that these recipients have greater connection to top officials of the International Union than to its members.

Recommendations:

1. Prepare written guidelines for the expenditure of International Union funds for charitable purposes.
2. Establish a committee to make recommendations to the General Executive Board regarding charitable donations.
3. Require all solicitations and recommendations for donations to pass through the committee before being forwarded to the General Executive Board for action.
4. Require the committee to work from an annual budget establishing the maximum amount of money that can be donated to charity for the year.
5. Provide union members with detailed information of all donations made through the Catering Industry Employee magazine.

G. Audit Program

It would seem critical that the audit staff of nearly any organization would consist of auditors having formal education in accounting. However, the International Union audit staff consists of five individuals, only one of whom is a professionally trained accountant. Four of these five individuals (including the only accountant) are paid \$63,250 per year. The fifth auditor, who happens to be the relative of former General Secretary-Treasurer Leavitt, is paid \$12,500 more than the others and has no degree in accounting.

The auditors all operate from their private residences in different cities, none in Washington, D.C., where the International Union headquarters is located. Each is assigned a group of local unions to audit on about a one or two-year cycle. These audit procedures were described by officials and auditors as being very basic and badly in need of updating. The auditors see themselves as providing a service to the administrators of local unions, many of whom have very limited knowledge or experience in administrative matters. Copies of each audit report are furnished to the local union audited and to the General Secretary-Treasurer's office in Washington, D.C., but the reports rarely address anything of a controversial or critical nature. Problems are usually addressed only by orally bringing them to the attention of local union officials and/or local union employees.

The auditors make a special effort to maintain a favorable relationship with the local unions. Each auditor establishes his own schedule and rarely visits International Union headquarters in Washington, D.C. Each auditor has a great deal of autonomy in deciding whether to bring an issue to the attention of the International Union headquarters and, when he or she decides to do so, it is normally discussed only with their point of contact, the Administrative Assistant to the General Secretary-Treasurer. The resolution of issues then depends upon the internal politics of the International Union.

One example of handling internal audit findings was the matter of excessive spending and delinquency of per capita taxes in Local 1, Chicago, Illinois, the former General President's home local union. Although problems were not addressed in writing, they were orally called to the attention of the Administrative Assistant to the General Secretary-Treasurer. The General Secretary-Treasurer had discussions with the General President and was told not to worry about it because the General President would resolve the matter. In essence, the issue was quashed and Local 1 became ever further in debt. The seriousness of this issue is illustrated by the fact that Local 1's net worth deteriorated from \$87,000 in 1990 to negative \$951,000 in 1996 (a decrease of 1,200 percent).

In my view, many of the problems on the local union level can be addressed, and indeed, deterred by a competent audit program. The auditors must review car leases, credit card use, proper authorization for expenditures by the Executive Board and the General Membership. Auditors must assure that the local obeys its bylaws. There is no systematic process for audit coverage of the activities most susceptible to fraud, waste, and abuse.

On May 29, 1998, then General Secretary-Treasurer John Wilhelm, wrote to me following a discussion we had about the need to establish an effective audit program. Mr. Wilhelm and I are in general agreement, and I appreciate his invitation to work with him and his staff on this matter.

Recommendation:

The audit staff should be trained on current auditing techniques to detect fraud and waste in local unions and an auditor should be assigned full-time to audit the operations of the International Union.

H. Organized Crime Information

The HEREIU acknowledged in the Consent Decree in this proceeding that subordinate bodies, such as local unions, have historically suffered from an externally induced corruption problem. In an appendix to this report, I list the individuals subject to disciplinary action by the Office of the Monitor, and the reasons for the discipline imposed. Some are barred from further participation in the HEREIU for organized crime association. For that reason, the HEREIU needs to stay informed on organized crime activity in the labor movement.

In order to emphasize the importance of avoiding associations with members or associates or organized crime groups to persons holding positions of trust in the HEREIU, the International Union should require all International Union officers, HERE local officers and other persons in a position of trust to certify annually that they have not knowingly associated with members or associates of any organized crime group.

On April 1992, Judge Frederick B. Lacey, Independent Administrator of the International Brotherhood of Teamsters (IBT), issued a Summary Report to the court supervising the IBT Consent Decree. He made many recommendations, including steps to guard against organized crime problems in the future. He stated:

It should be the duty of, at least, one International employee to stay abreast of all publicly available information concerning organized crime activity in the labor movement. This individual would stay abreast of federal and state public hearings on the matter. He would obtain all legislative reports on organized crime as well as the annual reports on the matter of applicable state crime commissions. He would stay abreast of academic and other studies. Regular databank searches of press accounts of mentions of teamsters and organized crime would be conducted. Indictments and trials would be followed and recorded.

By now, the IBT has barred about 50 officials for organized crime association. The Laborers International Union of North America is currently in the process of investigating corruption in its ranks and officials have, in fact, been barred for organized crime association. It is essential that the HEREIU stay informed of all developments in this area, and I suggest this responsibility be placed in the Research Department at headquarters in Washington, D.C. At a minimum, a list of all people barred from any union needs to be maintained and shared with all local unions.

The International Union also needs to adopt a policy requiring the International Union, HERE local officers and other persons in a position of trust to disclose whenever they are arrested or indicted on criminal felony charges. This should assist the International Union in determining whether disciplinary action should be taken against individuals, pursuant to the HEREIU Constitution, in the future. For example, a President and Vice-President of a HERE local were indicted on felony charges. The individuals were convicted and imprisoned for a period of approximately four months while remaining in their positions as officers of the local. Former General President Edward T. Hanley testified during his deposition that he never knew about their convictions, or continued service as union officials while being incarcerated. In another instance, a HERE local president was charged with a felony. He ran for reelections as President of the local while under indictment. Few at the local, and no one at the International Union, knew about the charges pending against him.

Recommendation:

1. The Research Department should maintain a database of all individuals barred from the union movement, as well as public source information covering organized crime activity as it relates to labor unions.
2. General Executive Board members, International Union officers, HERE local officers, and other individuals holding positions of trust should be required to certify annually that they have not knowingly associated with members or associates of any organized crime group.
3. General Executive Board members, International Union officers, HERE local officers, and other individuals holding positions of trust should be required to disclose to the International Union's president when they are arrested or indicted on criminal felony charges. It should be understood that a failure to disclose an arrest or indictment on criminal felony charges is grounds for disciplinary action, including dismissal.

I. Regional Offices and Condominium

In addition to the headquarters in Washington, D.C., the International Union has leased office space in Chicago, Illinois and in Palm Springs, California. It also owns a luxury condominium apartment in Washington, D.C. Full-time International Union employees have been assigned to the offices in Chicago, Illinois and Palm Springs, California. All seemed to have personal relationships with the General President and, when interviewed, none could offer a plausible justification for either the existence of the offices or for their own full-time salaries and fringe benefits, including, in some cases, leased vehicles.

An Administrative Assistant to the former General President assigned to the "Midwestern Regional Office" in Chicago, Illinois said that the office was maintained "as an accommodation to the [General President]". However, she and others interviewed confirmed that the General President rarely visited that office. In fact, several people interviewed could not recall ever seeing the General President at the "Midwestern Regional Office", and it was confirmed that he has rented space in Chicago, Illinois hotels, on occasions, when coming to the downtown area to conduct business.

The Administrative Assistant assigned to the International Union's office in Palm Springs, California is the former General President's mother-in-law. When interviewed, she acknowledged that she was in the office to answer the telephone and greet visitors if there are any. She also said she would like to be productive, and asked for an expansion of her duties. There really was no logical reason to have a regional office in Palm Springs, California. If needed at all, such an office should be located in Los Angeles, California or Las Vegas, Nevada, cities where substantial union activities are underway. The Palm Springs, California office existed only for the personal convenience of the former General President. I have been informed that that office was closed on June 30, 1998, and will not reopen.

The condominium owned by the International Union has been maintained essentially for the exclusive use of the former General President and his personally approved guests. This was confirmed through interviews of personnel at the luxury high-rise building in the Georgetown area of Washington, D.C., where the condominium apartment is located, as well as through inquires and document reviews at the International Union headquarters.

Mr. Hanley's personal clothing hangs in a closet and photos of his grandchildren are displayed in the master bedroom. The apartment is fashionably decorated and expensively furnished with luxury items such as an elaborate stereo system, a "home theater" large screen television set and a fully stocked 24-bottle wine rack. An employee of the International Union headquarters is assigned the collateral duty of looking after the apartment.

Mr. Hanley's personal use of the luxury apartment has obviously been minimal since he never spent more than 25 days per year in Washington, D.C. Reviews of logs, calendars and other records, as well as comments from persons interviewed, established that the condominium apartment is rarely used by guests. Despite the fact that the apartment is usually vacant, officials and employees routinely obtain accommodations at local hotels at the International Union's expense when they travel to Washington, D.C., on business.

Given the limited use of the International Union's luxury apartment, the cost of acquiring, renovating, and maintaining it does not appear to be in the best interests of the International Union's general membership.

Recommendations:

1. Consider abolishing the Midwestern Regional Office in Chicago, Illinois. Since the Western Regional Office in Palm Springs, California has been closed, the need for another Western Regional office should be examined. Review the need for employees at those locations and either reassign or release employees as deemed to be in the best interest of the general membership.
2. Dispose of the Washington, D.C. luxury condominium apartment.

J. Organizers

A fundamental function of every labor union is to conduct organizing activities. Organizing can have several meanings within an individual union, but the most basic meaning is to recruit, or organize, new members. The theme of the most recent International Union convention held in Chicago, Illinois during July, 1996, was organizing and its importance to the future of this union, which has suffered a decades long decline in membership. Attendees were told that, as a guide, local unions should spend approximately one-third of their annual income on organizing activities.

The HEREIU has over 100 employees which the International Union pays as "Organizers". These Organizers are of two kinds by title - International Organizers and State Organizers. Both kinds of Organizers are virtually indistinguishable with respect to their function. Consequently, for the purpose of this report, both "International" and "State" Organizers will be referred to as "Organizers". In 1995, the International Union paid salaries to a total of 105 Organizers. Of this number, 65 had the title of "International" and 40 had the title of "State". Of the 65 International Organizers, nine were also International Vice-Presidents. The 40 State Organizers should not be confused with local Organizers who are employees and/or officers of local unions, and who are paid as such by their local union.

My review began with an examination of the structure and functions of the International Union's Department of Organization. Interviews were conducted of the department's staff, former members of the department, and other International Union departments that interact frequently with the Department of Organization. A total of 41 individual International Organizers were interviewed.

Questions concerning International Organizers were addressed in the depositions of former General President Edward Hanley, former Director of Organization Thomas Hanley, and retired General Secretary-Treasurer Herman Leavitt. Similar questions were addressed in interviews of then General Executive Vice-President Ronald Richardson, as well as in the interviews of several International Vice-Presidents who are also International Organizers. Lastly, numerous individual "Organizer's Weekly Reports" were reviewed to reconcile the activities documented thereon with per diem reports and expense reimbursements.

Organizing activity in the International Union is generally of two kinds - organizing the unorganized and "servicing". Servicing, also known as "representational work", is the activity associated with responding to the workers' needs after a collective bargaining agreement has been signed and approved by the workers. The most important and time-consuming aspect of servicing is the handling of workers' grievances.

International Organizers are administered by the International Union's Department of Organization. The department currently has a Director, Assistant Director, and a supporting staff of five people. The primary function of the support staff is to receive and process the information necessary to see that the Organizers are paid.

All Organizers are required to fill out an Organizer's Weekly Report. This report documents their specific organizing activities and serves as the basis for their being paid. The report requests specific information about the Organizer's activities and requires that the activities be listed by type, i.e., organizing or servicing. The report also requires the Organizer to list the percentage of his or her time spent organizing or servicing, but does not ask for the amount of time the Organizer expends. Failure to submit a report every week can, and occasionally does, result in a suspension of pay.

Organizers are reimbursed for expenses incurred in connection with their organizing activities after they submit appropriate receipts to the International Union headquarters. Administration of all Organizers' travel and expense reimbursements is supervised by one of the five Department of Organization's staff members, who is also an Administrative Aide to the Director of Organization. International Organizers are required to get permission before they engage in airline travel.

The International Union has two national contracts with the food service industry. They are the Sky Chef and CA ONE Master National Agreements. Both Sky Chef and CA ONE are companies whose primary business is preparing food at airports. The contracts with both companies have basic provisions that apply to all of their facilities nationwide. The International Union's bargaining agent for both contracts is the International Union itself. Consequently, grievance procedures are processed through the International Union rather than through local unions as with other contracts.

Usually, servicing has not been considered to be a part of organizing. Indeed, in local unions the functions are usually separate, with local organizing projects being handled by salaried Organizers and servicing being handled by business agents. Administration of the Sky Chef and CA ONE contracts is handled by the Department of Organization because Vincent Sirabella, former Director of Organization, was the International Union official who negotiated the original Sky Chef contract in 1969. Administration of the contract stayed in his department because he was there, and it has remained there since.

The U.S. Senate held hearings concerning the International Union in 1984. Its findings are contained in a report dated August, 1984 that was published by the Permanent Subcommittee on Investigations of the Committee on Governmental Affairs. The number of International Organizers in the International Union is addressed at page 32, paragraph "C", entitled "Increase in HEREIU personnel".

The report states: "Another characteristic of Hanley's presidency is found in the Union's payroll, particularly in the area of organizers. When Hanley's predecessor, Ed Miller, retired, HEREIU employed approximately 20 International Organizers. Within two years this figure (including "state" organizers) exceeded 100. HEREIU's payroll for organizers went from approximately \$500,000 in Miller's last year to over \$2 million in Hanley's second year, in addition to other non-salary expenditures for organizing..."

The Permanent Subcommittee's review suggests that a significant number of the "organizers" were hired on the basis of criteria other than proven ability. The Subcommittee learned that many of the new organizers had no experience and a number had criminal records. Several were identified as associates of known criminal figures. Still others were friends or relatives of high-ranking HEREIU officers. Some had full-time jobs in addition to their HEREIU duties, including jobs with other unions.

What the Senate found in 1984 is still true of the International Union today. The total number of Organizers has remained consistently at 100 or more, while the membership and revenues have consistently declined. As of the most recent LM-2, covering the year ending April 1997, the International Union had 113 Organizers, including 16 who are International Vice-Presidents. The combined annual salaries of the International Organizers has grown from \$2 million in 1974 to the present-day total of \$3,556,186.

Herman Leavitt, retired International Union General Secretary-Treasurer, echoed the Senate findings when interviewed by investigators from my office. He stated that "years ago" when he was starting out in the International Union it was a "real honor" to be an International Organizer, and appointments were reserved for "only the most qualified". In those days there were only seven International Organizers in the whole International Union.

A modern comparison with the International Brotherhood of Teamsters is useful to highlight the inflated number of International Union Organizers. The Teamsters' International Organizers have the same function as their counterparts in the International Union. In 1995 (the year of the most recent Teamsters' LM-2 available to the Monitor), the Teamsters had a membership of 1,437,000 served by 35 International Organizers. In a comparable period, 1994-1995, the International Union had a membership of 243,467 served by 105 International Organizers. Thus the International Union, with a membership of only 17 percent of that of the Teamsters, had three times as many Organizers. The fact is that most of the International Organizers are not engaged in organizing activities.

No person interviewed could, with confidence, articulate a difference between "International" and "State" Organizers. The most frequent response to the question was that International Organizers are paid more. That does appear to be true, on average. However, the absence of written job descriptions and pay scales makes it impossible to draw a formal distinction between the two. Herman Leavitt spoke with the most confidence when he said that a International Organizer is a "higher level position" requiring a proposition to hire or fire, whereas State Organizers could be hired or fired without a proposition. However, our audit found that both kinds were hired and fired by proposition in the identical manner.

An example of how the terms "International" and "State" can be confusing is the use of the terms for Organizers who have been involved in the International Union's "riverboats" campaign, which has taken place from approximately 1991 to the present in Illinois, Indiana and Missouri. The number of Organizers involved in this campaign at any one time has varied from four or five to a high of 11. Four of the Organizers were International Organizers and seven were identified as State Organizers. All worked the same campaigns full-time and had equal status, and there appears to be no rhyme or reason for the designation of "International" or "State" for these organizers.

Thomas Hanley was the Director of Organization and, by title, he should have been directing or coordinating the International Union's major organizing activities. In fact, the most significant increase in membership for the International Union in decades has come from organizing drives in Las Vegas, Nevada, directed by John Wilhelm. While Mr. Wilhelm's activities could be characterized as those of a local union, their size and scope argue that they be considered in a national context.

Neither the International Union nor the Department of Organization have anything written that pertains to the hiring, firing, evaluation, management, or supervision of Organizers. An exception is a memorandum dated February 28, 1994, which provides guidance concerning expense reimbursements and apparently was written in response to an earlier U.S. Department of Labor audit which questioned Department of Organization reimbursement procedures.

There is no description of the Organizer position and there are no qualifications for the Organizer position. There is no system of performance evaluation. There are no pay scales. There are no procedures for the hiring and firing of Organizers other than there must be approval by the General Executive Board. There is no system for correlating an Organizer's background and ability with the needs of a particular assignment. There is no Department of Organization budget and no administrative system by which expenses can be tracked and monitored. Department of Organization personnel were unable to answer the most fundamental questions such as "how many Organizers are there, how much do they cost in salaries, what are the department's operating expenses in a year, and how much has the riverboats campaign cost"? The sole vehicle for following an Organizer's activities is the Organizer's Weekly Report. But these reports are not computerized and must be searched by hand and read individually.

When International Organizers have been asked to identify their supervisor, almost without exception their reply was "Tom Hanley". However, Thomas Hanley was clearly unable to supervise the daily activities of more than 100 Organizers. There were no identifiable intermediate supervisors between Thomas Hanley and the Organizers. Most Organizers are virtually unsupervised. The culture of senior Organizers is that they need to be independent, and shouldn't require direction from the International Union. While this may be a laudable ideal, Organizers should be accountable to someone who can reasonably monitor their activities.

Examples were found in the riverboats campaign where individual Organizers picked their own organizing target and, without asking for or receiving approval, simply showed up at the riverboat to work. In one instance an Organizer actually moved to a different city without permission in order to work on a different target. On-site supervision is in the form of coordination of Organizers' activities, rather than accountability for actions.

Those involved in the riverboats campaign expressed confusion as to individual assignments and the identity of "lead" Organizer. Two International Organizers thought they were both lead organizers at one time, and another stated that Tom Hanley hired them, but he told them only that they were to "work the riverboats". Each "asked around" Local 1 in order to find out where the riverboats were and which boats were being organized. Each had the same experience of showing up at a riverboat with other Organizers who didn't know who they were and didn't know they were coming. Organizers who were interviewed about their work relating to the Hollywood Casino riverboat provided the names of three different people they believed was the lead organizer.

Lisa Cosby, Secretary to Tom Hanley at the International Union's headquarters in Washington, D.C., stated that Thomas Hanley did not personally supervise the activities of the International Organizers, with the possible exception of the riverboat Organizers. While Thomas Hanley arguably managed the riverboats campaign and provided directional oversight, he clearly did not supervise the individual Organizers. Yet the riverboat Organizers identified him as their only supervisor.

My investigation found that International Organizers are scattered throughout the International Union doing a variety of things, few of which actually involve organizing. Fifteen of the International Vice-Presidents listed on the most recent LM-2 (1996-1997) are International Organizers. Several Vice-Presidents stated that the International Organizer salary is a means to pay the Vice-Presidents, who otherwise don't get paid for the extra responsibility. That is a reasonable argument, as is the argument that Vice-Presidents, by virtue of their position, are always involved in organizing for the International Union in one way or another. However, these individuals are not supervised by the Director of Organization, even though their weekly reports are processed through the Department of Organization.

In some instances, the assignment of an International Organizer to a local union is viewed as a contribution to the local union from the International Union. Ron Richardson, current General Vice-President of the International Union, was interviewed about an International Organizer assigned to his local union when he was Secretary-Treasurer of Local 25 in Washington, D.C. He explained that the International Organizer was college educated and a valuable asset to the union. The local union was unable to pay a salary large enough to reasonably expect to keep this person in the union. Mr. Richardson telephoned General President Hanley and asked that the employee's salary "be supplemented" by making him an International Organizer.

The most significant factor impacting on the absence of clearly defined responsibility for the International Organizers is the fact that many were appointed by former General President Hanley, usually for reasons known only to him. Apparently, he did not consult with anyone before hiring or firing an Organizer. Many International Organizers reported only to General President Hanley, and only he knew what they did for the International Union. That structure makes the Department of Organization irrelevant, except for the fact that the Department of Organization processes the weekly reports for payment.

During my term, seven International Organizers were investigated because of questions about what they did for the International Union. Of the seven, one was terminated and five were the subjects of charges by me, resulting in their dismissal.

Recommendations:

1. Establish a written definition of the International Organizer position based on specific organizing activities. The definition should include specific duties and responsibilities. Differences between "International" and "State" Organizers should be strictly defined.
2. Coordinate and oversee all major International Union organizing activities should be directed by the Director of Organization or other General Officers and Senior Officials, as determined by the General President.
3. Establish the written rules, policies, and procedures necessary to efficiently supervise and/or monitor the activities of the International Organizers.
4. Require the Director of Organization to reside in Washington, D.C., in order to work full time in the Department of Organization. Establish a clearly defined, written procedure to delegate the Director of Organization's authority to a subordinate in the event of the Director's prolonged absence from the International Union.
5. Review the activities of all International Organizers and remove or reassign any who are determined not to be fully employed in meaningful activity on behalf of the International Union.

K. Consultants

The International Union uses personal service contracts to retain lobbyists, legislative experts, legal counsel, and public relations specialists as consultants. This allows the International Union to obtain expertise from outside specialists or retired International Union officials. This method has also been used to soften the transition for International Union officials when they move from the active ranks into retirement. Several consultants have been given leased cars, including one former movie actor, who was paid \$25,000 per year, plus expenses.

Approval for retention of consultants is obtained by General Executive Board propositions, usually with insufficient detail to form a basis for decision. Furthermore, there is no method of tracking the work of the consultants and holding them responsible for their work. Co-General Counsel Robert Rotatori advised in a letter dated December 27, 1995, that the work of consultants is generally documented only by oral reports to the General President or to meetings. Mr. Rotatori's response listed only six consultants, although there were at least 18 formal agreements with consultants on record with the International Union's Accounting Department at the time. The accounting supervisor had no definition of what a consultant is, saying if "they" say he's a consultant, then he's a consultant.

The majority of the consultants were hired by former General President Hanley, with the approval of the General Executive Board. Most of them were hired in the State of Illinois. It is simply impossible to evaluate if the membership of the HEREIU received the kind of services they contracted for since there are no activity reports filed by any consultants.

Jack Lavin, Director of Public Relations of the HEREIU located in the Midwestern Regional office in Chicago, Illinois, has been a consultant to the HEREIU since May, 1983. He is currently paid \$82,000 a year and is provided with a leased Cadillac Fleetwood. He is required "to perform such services and duties as are requested by the General President".

Mr. Lavin does not file any reports describing his activities. He does, however, give oral reports at some General Executive Board meetings.

Robert E. Juliano, Legislative Representative for the HEREIU who came to Washington, D.C. from Chicago, Illinois was an employee from 1973 to January 1981. Since then, Mr. Juliano has been a consultant to the HEREIU. He is paid in excess of \$250,000 per year and is provided with a 1996 Cadillac Seville. In addition, he receives \$10,000, plus expenses, as Legislative Counsel to the HEREIU Trust Fund. In June 1996, General President Hanley recommended, and the General Executive Board approved, a five year extension to his contract. Included in the approval is a \$10,000 annual increase. Mr. Juliano does not file activity reports and he represents other clients. He does give oral briefings at some General Executive Board meetings. It should be noted that the HEREIU considers Mr. Juliano one of the most effective labor lobbyists in Washington, D.C.

Harry Anselmo, a lobbyist in Illinois, was paid \$40,000 per year and drove a HEREIU leased Cadillac Seville. His contract was terminated on January 31, 1997. During his tenure, Mr. Anselmo earned \$263,423.

Paul Burke, a retired actor and neighbor of Mr. Hanley's in Palm Springs, California, has been a consultant since 1980. He was paid \$25,000 per year, received health insurance and a union leased Cadillac Seville. Mr. Burke's job was to provide a "celebrity presence" to the International Union's General Executive Board and fund meetings. His contract was terminated in February, 1997 after an inquiry by my office. He now receives a \$600 monthly pension from the union. There are no reports of Mr. Burke's activities.

Gateway Associates of Chicago, Illinois received \$267,488 for the period October 1988 through November 1996 for consulting on state and federal matters. The principal person in that company is Patrick Levar, a Chicago, Illinois alderman. There are no reports.

Robert L. Hickman, Sr., was hired as a Business Agent for Local 1 in Chicago, Illinois. Mr. Hickman held high positions in the Illinois state government. In February 1991, he became Executive Director of the Illinois State Toll Highway Authority. In June 1991, Thomas Hanley was appointed to the Illinois State Toll Highway Authority at a salary of \$21,000 per year. In March 1994, Mr. Hickman resigned his position following allegations that he steered no-bid highway engineering contracts to a firm his son, Robert Hickman, Jr., worked for. On February 15, 1995, he was indicted for theft and official misconduct in the DuPage County, Illinois, courts. Mr. Hickman served as a consultant for Local 1 from October 1994 until the day he was indicted. Again, there are no reports of his activities.

Robert L. Hickman, Jr., a consultant from Springfield, Illinois, was paid \$122,000 during the period March 1991 through September 1995. When asked about his duties, Mr. Hickman described them as "various things as needed". There are no activity reports.

Danross Associates, Dan Rostenkowski, President, was retained on June 29, 1995, to assist in obtaining a Neutrality Agreement between the Universal Studios Theme Park in Florida and the HEREIU. Mr. Rostenkowski was hired as a consultant because of his alleged "knowledge on issues of vital importance to both HEREIU and Seagrams Companies d/b/a Universal Studio Theme Park". He received \$50,000 when retained, with \$100,000 due if and when the Neutrality Agreement was obtained. Mr. Rostenkowski wrote one memorandum to Mr. Hanley reporting that he was trying to arrange a meeting between Mr. Hanley and the Chief Executive Officer of Seagrams. No meeting ever took place, no Neutrality Agreement was signed and the consultancy agreement was canceled when Mr. Rostenkowski pled guilty to fraud charges in Federal Court. The \$100,000 was never paid. This consultancy was terminated at my direction.

Cady Gibbons of Chicago, Illinois was hired as a consultant and received \$19,000 during the period April 10, 1996, to April 30, 1997. Her employment was described as a handshake deal with Thomas Hanley, President of Local 1. She wrote no activity reports and submitted no bills or statements. When asked by my office what her consulting duties were, she described them as "maximizing the presence, visibility and impact of Local 1 at the Democratic National Convention".

The Leadership Council of Illinois was retained as a consultant for \$25,000, plus expenses, for the years 1994 through 1996. Ted Lechowicz, a former Illinois State Senator, is the principal person in that group. There are no reports.

Pat Marcy, Jr., of Burr Ridge, Illinois was retained as a public relations consultant for the period June 1985 through April 1993. His contract called for payments of \$2,500 per month, plus expenses. He received a total of \$213,700. Our review did not disclose any bills, monthly statements, or any work product from Mr. Marcy.

The International Union also retained attorneys. Carl Walsh, a private practitioner in Chicago, Illinois, received a total of \$105,832 since 1985. Mr. Walsh receives \$833 each month. A review of the records failed to locate any bills or work product from Mr. Walsh.

Jayne Carr Thompson, a Chicago, Illinois attorney, received a total of \$97,500 between November 1989 and December 1991. Again, review of the records did not locate any bills, statements, or work products from Ms. Thompson.

Edward J. Calihan, Jr., another Chicago attorney, received \$213,333 for the period April 1985 through December 1996. His monthly payment is \$1,666, and continues today. There are no bills or statements from Mr. Calihan.

Samuel V. P. Banks is the attorney for Local 1 in Chicago, Illinois, and is also retained by the HEREIU at \$30,000 per year. Since June 1989, Mr. Banks has received over \$250,000. There are no statements or billings from Mr. Banks applied to that retainer.

The HEREIU also retains four consultants at about \$50,000 per year to serve as union trustees on the Welfare and Pension funds. It is the International's position that these consultants serve an important role in improving both the operation and image of these funds. My oversight responsibility did not include the operations of the funds. Consequently, I am not in a position to make a judgment about that. One of the consultants, a practicing attorney in Chicago, receives \$50,000, a HEREIU leased luxury automobile, and health insurance. Consistent with recommendations elsewhere in this report, I recommend that the lease not be renewed and the health care coverage be discontinued.

The above examples, and there are others, clearly show that the hiring of consultants has to be controlled. There is no question that consultants are valuable in bringing a special expertise to special problems. In the HEREIU, the special problems seem to be all in Chicago or Springfield, Illinois. As stated earlier, I do not know what these consultants did for their money, and neither does anyone else, with the possible exception of former General President Hanley.

Recommendations:

- A. Contracts with consultants need to be more precise in describing the duties of the consultant.
- B. Consultant contracts should require periodic reports of the consultants activities.
- C. The HEREIU should cease the practice of leasing automobiles, which includes the upkeep and insurance, for any consultant.
- D. The HEREIU should cease providing health insurance, or any other benefits, to consultants.
- E. The HEREIU Director of Public Relations should be based at the International Union headquarters in Washington, D.C.
- F. The HEREIU should cease hiring attorneys on retainer, other than the General Counsel now serving.

L. General Executive Board

An important objective of the Consent Decree, as well as the HEREIU Ethical Practices Code adopted at the 42nd General Convention in July, 1996, is to promote democratic participation of all International Union members in union affairs. As far as the affairs of the International Union are concerned, members of the General Executive Board must assure that objective is realized. In my judgment, the General Executive Board needs to do more to meet its responsibility to the membership At-Large.

The General Executive Board of the International Union is composed of the International Union's General Officers, i.e., the General President, General Secretary-Treasurer, General Vice-President, Director of Organization, the District Vice-Presidents, and the Vice-Presidents At-Large. There are currently 14 District Vice-Presidents and 12 Vice-Presidents At-Large, and one Executive Vice-President.

The General Officers are elected each five years at the Convention of the International Union and serve until 30 days after the election of new General Officers at the next Convention. Any delegate to the Convention can place a name in nomination for a General Officer position. The successful candidate is then chosen by a majority roll call vote if more than one candidate is running for the office. The convention delegates themselves represent the various local unions in the International Union. They are elected by secret ballot within the three-year period preceding the International Union's convention.

The International Union's Constitution provides that the General Executive Board "shall act as Trustees for, shall have all authority of the International Union, and shall exercise general supervision over the International Union, its property and all its subordinate bodies and members between Conventions". Article IV, Section 2. The General Executive Board is called into session at the Conventions, of course, but their other meetings between Conventions are infrequent. Consequently, the majority of the General Executive Board's actions are taken when the Board is not in session.

The International Union's Constitution provides that "In all matters requiring action by the General Executive Board when such Board is not in session, the Board may, upon request of the General President, act by telegram, letter, or long distance telephone; such action to have the same legal effect as when the Board acts in formal session". In practice, the General Executive Board does most of its business in this way, and the majority of the actions of the Board are accomplished through propositions which are mailed to the members for their votes.

I reviewed the General Executive Board votes on propositions for a defined period to determine whether the Board acts independently in an informed manner, as required under their fiduciary duty to their union member constituency. Prior the study, we observed that there seemed to be little, if any, dissent when the Board votes on the propositions, and there seemed to be little information provided to the members who voted on the propositions. Furthermore, it appeared that the Board was approving many actions subsequent to their implementation.

The study involved a physical review of all 837 propositions approved by the General Executive Board from September 5, 1995, through December 31, 1996. This time period was selected because it coincided with the initiation of my term as Monitor. This would give International Union officials the benefit of the doubt, since they knew that their actions were under special scrutiny following September 5, 1995. The physical review included all propositions with associated supporting documents, such as tally sheets and ballots. We also examined available letters and memoranda recommending that a proposition be prepared.

Through the study we determined that 833 of the 837, i.e., 99.5 percent of the propositions voted on during this period of 15 months, were approved by unanimous votes. It is noteworthy that only six "no" votes were cast in voting for four propositions during this period. General Executive Board members were more likely to abstain from voting on a particular proposition than voting "no". Only 23 abstentions were declared in the voting for 21 propositions. The number of abstentions is even more telling when it is pointed out that most of the abstentions involved Board members refraining from voting on propositions involving their own pay raises or promotions.

The study was also revealing in its examination of "effective dates" of the actions in that only 177 of the 837 propositions had "effective dates" associated with the actions for which approval was sought. The study found that 171 of these 177 propositions had effective dates that were earlier than the dates of final approval by the General Executive Board members. Most were considerably earlier. The majority of propositions with earlier effective dates were in areas related to personnel actions, such as salary increases (69), appointments (42), resignations (23), and terminations (19). In one case, Proposition #6584, involving a salary increase, the effective date was 166 days earlier than the date of approval. Six of the propositions with effective dates related to property leases. However, in one of these cases, the proposition was approved prior to the effective date of the lease agreement. In the other five propositions, Board approval was obtained subsequent to the effective date of the lease or lease extension.

General Executive Board members are provided with very little information on which to base their votes on the propositions. The propositions are commonly only a few paragraphs stating the proposed action. For example, a proposition recommending a salary increase for an International Union employee usually contains only the name, job title, and amount of salary increase. Typically, the Board member is not provided with any written justification for the increase, the previous salary level, or details as to where the employee serves. Other important General Executive Board actions are proposed with a similar lack of information. For example, the imposition and extension of local union trusteeships are critical actions taken by the General Executive Board. Propositions relating to this important area also lack critical information as to the justification for the action proposed and past related actions.

The lack of supporting information for the propositions would not be so disturbing if the International Union were a small organization where General Executive Board members were in close touch with one another and where information flowed freely between the members and the International Union headquarters. That is not the case here. The International Union is a very large organization that is widely spread geographically. Communication between the International Union headquarters, the General Officers, and the International Union's constituent entities are irregular and often unreliable. Common sense leads to the conclusion that General Executive Board members have no practical way to keep informed on the many issues that arise and require action through propositions. For example, a General Executive Board member in Hawaii could not be expected to have a functional knowledge of the merits of a charitable organization in Illinois or the quality of work produced by an employee working in Connecticut.

Another aggravating factor relating to this issue is the fact that the International Union has few written policies or guidelines when it comes to spending union funds. The overall authority is entrusted to the General Executive Board, but there are few guidelines to help the Board members exercise this authority responsibly. As stated earlier, the International Union does not have salary schedules for their employees and officers. Starting salaries are set out in propositions, but they may or may not fall in line with other starting salaries for others who have held similar positions. Salary increases do not come from a coherent schedule upon which employees can depend. Rather, they are proposed when the General President or some other senior officer determines that it is time to do so.

Interviews with General Executive Board members confirm the conclusions of the study in this area. During interviews, Board members admit that they did not know the details of various propositions when they voted for approval. When hard pressed, some said they discussed some of the propositions with other General Officers if they did not have enough information on which to form an opinion. This, however, was the exception. Most explained that it was impossible for them to know all details of all propositions, so they relied on the integrity and good intentions of the General President on whose authority most of the propositions were submitted. At least one said that the General President would not recommend approval of a proposition if it were not necessary, proper, and in the best interest of the International Union. In fact, the General President has almost unfettered authority to run the International Union as he wishes.

The Consent Decree states, in paragraph 4, that "All officers ... have a heightened fiduciary duty to the membership in insuring the independence and the integrity of the union free from corruption and the influence of criminal groups as well as promoting democratic participation of union members in union affairs as guaranteed by the Labor-Management Reporting and Disclosure Act". The General Executive Board members need to do more to live up to this important responsibility.

The General President's ability to control the General Executive Board may also be a structural problem. The remuneration of the General President, General Vice-President, General Secretary-Treasurer, and Director of Organization is established by the HEREIU's Constitution. The remuneration of all other General Executive Board members -- as General Organizer -- is established by the General President, with the approval of the General Executive Board. The HEREIU's LM-2 indicates that the amount of compensation for the General Organizer members of the General Executive Board varies widely. The salaries range from \$35,000 to \$87,000. It is difficult to conceive of General Organizer members of the General Executive Board mounting significant political opposition to the General President when he controls the amount of their compensation.

Under former General President Hanley, the number of Vice-Presidents At-Large was increased, the last time at the 1996 International Union's Convention. While the purpose of increasing the size of the General Executive Board may have been to broaden participation in union affairs, it also increased General President Hanley's control over the Board since he made the appointments to fill these positions and establish their compensation as General Organizers. Prior to the next General Convention, the HEREIU should consider ways to restructure the General Executive Board, including the compensation of Board members, to ensure greater independence from the General President.

Recommendation:

Require that all propositions contain or be accompanied by adequate information to allow the General Executive Board members to make an informed decision.

M. Trusteeship

At the beginning of my term, 26 local unions, or approximately 19.5 percent, were in trusteeship and under the oversight of International Trustee's who reported directly to the General President. This percentage is high compared to other large international unions.

My investigators reviewed selected trusteeship files at the International Union to determine the reasons for the trusteeships. The U.S. Department of Labor also provided information from their files regarding the reasons for local unions being placed in trusteeship.

The reasons varied; however a high percentage of the charges cited "financial instability" (5 locals), "the local union has incurred a significant indebtedness to the International Union" (3 locals), "financial mismanagement" (1 local), and "failure to pay per-capita taxes" (1 local) as reasons for the imposition of the trusteeship. However, there is no consistency in the treatment of local unions in this matter. Local 264 in Omaha, Nebraska, for example, a local union of 37 members, was placed in trusteeship September 1, 1994, for incurring significant indebtedness to the International Union. An audit of Local 122, Milwaukee, Wisconsin showed that this local union was approximately \$100,000 delinquent in the payment of per capita taxes to the International Union with no action taken by the International. An Audit of Local 1 in Chicago, Illinois, which was run by Thomas Hanley and, previously, Edward T. Hanley's cousin John O'Gara (who was later elevated to General Vice-President), is indebted to the International Union in the amount of \$1,300,300 and had a previous indebtedness in excess of \$604,000 forgiven by the International Union. In addition to delinquent per capita tax payments, Local 1 has been consistently behind in pension fund payments for periods up to 22 months. No action was ever taken or trusteeship ever imposed on Local 1. Former International Union Secretary-Treasurer Herman Leavitt had on several occasions brought the indebtedness of Local 1 to the attention of General President Hanley who simply commented "don't worry about it, I'll take care of it".

At the end of the trusteeship, in some cases, the trustees or individuals appointed by the trustees to oversee the day-to-day operations of the local union were elected to the top management position of the local union in spite of the fact that these individuals were not previously members of the local union. In one case, the new bylaws shortened eligibility membership tenure allowing chosen individuals to run. Many of these bylaw changes stimulated a flurry of "Hotline" complaints to my office. Inquiries at the International Union received reasonable explanations, however, strong perceptions continued to persist among the membership that the International Union had given an unfair advantage to selected candidates. Although I did not dispute the election results, I strongly believe that the practice of allowing appointed trustees or trustee-appointed administrators to run for elected office creates a strong distrust by the local union's membership, and should be carefully reviewed.

In the case of the trusteeship imposed on Local 814, Los Angeles, California, there was a significant outcry of distrust from the membership. A review by the U.S. Department of Labor determined that, although the reasons for imposing a trusteeship on Local 814 were technically valid, they were also marginal and could have been handled with guidance from the International Union as opposed to the imposition of a trusteeship. Following my inquiry, Local 814 held elections and was removed from trusteeship.

The International Union Constitution, in compliance with U.S. Department of Labor regulations, limits the term of a trusteeship to 18 months. Extensions beyond 18 months must be approved by the General Executive Board. At the time of review in February, 1996, 24 of the 26 local unions in trusteeship had exceeded the 18-month limit.

Local 611, St. Croix, Virgin Islands, had been in trusteeship since July 1, 1988. International Union officials told me that due to several storms, hotels and other organized establishments had been destroyed, which had led to unemployment and instability in the union. Therefore, no elections had been held. Local union members in St. Croix, Virgin Islands receive little more than the minimum wage, and this leads to questions as to what the International Union is doing for the dues paying membership in this local union.

Local 77, Rhinelander Wisconsin, was opened as a newly chartered local union on December 1, 1991, and placed under the oversight of International Trustee Jerry Pitts of Land O' Lakes, Wisconsin. Mr. Pitts was a social friend of former General President Hanley, inexperienced in labor matters, and provided personal services for Mr. Hanley. Mr. Pitts was hired at a salary of \$30,000 per year. He subsequently received a 60 percent salary increase which brought his

salary to \$48,250 per year. Interviewees advised us that a \$48,250 per year salary would put Mr. Pitts in the top 5 to 10 percent salary range for local residents. Jerry Pitts ranked 10th in salary out of 100 International and State Organizers, in spite of the fact that he had a union of less than 20 members, which itself is in violation of the International Constitution which requires a minimum membership of 25. The majority of these members were bar and restaurant owners who, under the International Constitution, only qualified as passive (non-voting) members. The membership never increased in the five years of Local 77's existence.

Local 77 was abruptly closed by General President Hanley shortly after the initiation of an investigation by my office. It is noteworthy that former General President Hanley, former General Vice-President O'Gara, and former Director of Organization Thomas Hanley, as well as other International Union employees own vacation homes in the Land O'Lakes, Wisconsin area.

Following my initial inquiry on trusteeships, several elections were scheduled. By September 1996, six months after my first inquiry, five elections had been scheduled and Local 77 had been closed. Of the initial 26 trustee local unions, only 15 remain in trusteeship.

Five local unions have been placed in trusteeship at my request. These trusteeships were imposed in order to restore democracy to the local unions following charges being filed against the officers for violations, such as association with organized crime figures, embezzlement, and filing false reports with the U.S. Department of Labor, etc. The local unions trustee are as follows:

Local 122, Milwaukee, Wisconsin

Local 69, Secaucus, New Jersey

Local 4, Buffalo, New York

AFL-CIO Nursing Home Council, Buffalo, New York

Local 57, Pittsburgh, Pennsylvania

The trusteeship of the AFL-CIO Nursing Home Council was imposed by agreement between HEREIU and the Service Employees International Union.

I am happy to report that Local 122 and Local 69 have held elections and the trusteeships have been removed.

The imposition of trusteeships is necessary where small local unions have no members willing to run for office or where they are financially unable to operate without assistance from the International Union. However, a disparity exists in the treatment of the local unions by the International Union. There is also a definite lack of continuing oversight of these local unions, and trusteeships continue far longer than necessary. This is highlighted by General President Hanley's testimony that the propositions recommending renewal of trusteeships are "boilerplate" and handled by the clerical staff at the International Union.

It is evident, as in other areas of survey, that decisions with regard to trusteeships are totally at the discretion of the General President, and these decisions appear to be arbitrary and capricious as evidenced by the disparity in their imposition noted above.

There also appears to be a significant lack of communication between the International Union and the local union members during trusteeship proceedings which creates an aura of distrust among the members.

Recommendations:

1. Institute a written procedure for the imposition and monitoring of trustee local unions.
2. Assign responsibility for the oversight of trustee local unions and policy to an individual at the International Union Headquarters, preferably a competent International Union officer who will ensure fairness and continuity in the application of policy.
3. Ensure that trustee local unions are removed from trusteeship at the earliest possible date and that democracy is restored to the local unions without unnecessary delay. Provisions should be implemented to ensure that a local union not remain in trusteeship longer than 18 months, except in extreme cases.
4. Review the practice of allowing the International Trustee, or a Trustee-appointed administrator, from subsequently running for office in the trustee local union. Strong consideration should be given to limiting this practice and requiring General Executive Board approval for exceptions.

N. International Union Airplane

The International Union has owned and operated private aircraft for executive travel since prior to the election of Edward T. Hanley as General President in 1973. In 1987, the International Union sold its prop jet aircraft and purchased a 1980 Sabreliner, Model 65 jet aircraft, FAA# N500 WD. This aircraft is operated by a crew of three and is configured for six passengers. It is based at the Baltimore-Washington International Airport located near Baltimore, Maryland. It was purchased for \$2.5 million in 1987. During 1994, the aircraft was offered for sale as a cost-cutting measure, but the offer was withdrawn in 1996 because of a depressed aircraft market. The \$2 million aircraft acquisition loan was repaid by the International Union in October, 1997, and the aircraft has a current market value of \$3 million.

A review of the uses of the International Union aircraft was conducted for the purpose of determining whether there were any improprieties concerning travel destinations or the type of passengers being transported. This review also attempted to assess the reasonableness of aircraft operational costs which amounted to \$442,755 during the 1995 and 1996 LM-2 reporting periods. Our inquiry included interviews; reviews of flight and passenger records; analysis of aircraft expense records; and examination of the results of the U.S. Department of Labor's I-CAP audit covering the period of 1989 operations of the International Union and its affiliated local unions.

Our review of records of passengers traveling on the International Union's aircraft during 1996 and 1997 did not identify any travel by organized crime figures or by individuals barred or removed from the International Union by the Consent Decree. We were unable to identify passengers prior to 1996 because of absence of such data in the flight records maintained by the pilot. Flight destinations for the same period seemed to be consistent with locations where union business or union-sponsored events were conducted and locations proximate to General President Hanley's residences, i.e., Wadsworth, Illinois; Land O'Lakes, Wisconsin; and Palm Springs, California.

It was not possible to address the overall cost effectiveness of the use of a union aircraft versus commercial aviation because Mr. Hanley -- the primary user -- did not maintain an advance planning calendar and traveled spontaneously or with minimal advance notice.

General President Hanley maintains his primary residence in Wadsworth, Illinois, and used Chicago, Illinois as his base of operations located approximately 500 miles from the International Union headquarters at Washington, D.C., and the aircraft base near Baltimore, Maryland. This has resulted in 14 unoccupied flights from Baltimore-Washington International Airport to Chicago, Illinois to pickup General President Hanley. The expenditures of aircraft operating costs could have been avoided or minimized if General President Hanley resided in the Washington, D.C. headquarters area. President Hanley's relocation to Palm Springs, California for a period of time each year has also had a negative impact on aircraft costs. He tried to minimize non-passenger flights between Washington, D.C. and Palm Springs, California while there by often keeping the aircraft at Palm Springs, California for a week or more at a time for his use in activities localized in the Western Region, which involved significant per diem costs for the crew, including the \$150 per day fee for the co-pilot. Aircraft operating costs for 1996 also included two flights to transport Mrs. Hanley from Chicago, Illinois to Palm Springs, California, and again from Palm Springs, California to Chicago, Illinois. Mrs. Hanley was the only passenger on each of these flights which were apparently authorized by President Hanley. Each of these flights required approximately five hours, including the unoccupied aircraft travel from or to the aircraft base. Each of these flights cost approximately \$4,750 (five hours @ \$950 per flight hour) and lacked a direct relationship to union business. Rather, they involve basic relocation transportation between residences for the convenience of Mr. and Mrs. Hanley. These flights by Mrs. Hanley are particularly troublesome, considering the questionable justification and significant costs when readily available commercial air transportation could have been arranged at a cost of no more than \$1,000 each way and paid from the Hanley's personal funds.

We also found that the International Union is not in compliance with instructions and guidance relative to aircraft record keeping and disclosure of non-business use of the International Union's aircraft provided by the Department of Labor in 1991 during the I-CAP audit of the International Union and its local union operations during 1989. The Department of Labor considered the International Union's record keeping to be inadequate and in violation of Section 206 of the Labor Management Reporting and Disclosure Act (LMRDA) of 1959, as amended. They instructed that permanent records be maintained which would explain the specific business purpose of each flight and identify all passengers. They also advised the International Union that non-business/personal travel in the International Union's aircraft must be disclosed by and recorded by identified travelers on the annual LM-2 Report(s). The extensive number of flights without passengers between Washington, D.C. and Chicago, Illinois to pickup and/or deliver President Hanley during the 1989 operation period were also identified by the Department of Labor as significant. They advised the International Union that General President Hanley's official International Union residence should be Washington, D.C., for Labor Management Reporting and Disclosure Act purposes and that the costs of these non-passenger flights by General President Hanley (calculated by the Department of Labor at 30 in 1989) were personal benefits chargeable to him. The International Union, through letters from its General Counsel, Jack Reynolds, objected and challenged the Department of Labor opinions about the requirement to identify each passenger on flights and its decision concerning location of Mr. Hanley's official residence. The Department of Labor's legal staff rejected the International Union's objections, but they agreed to further consider any additional arguments presented by the International Union on the two issues. The Department of Labor noted that these two issues remained unresolved beyond conclusion of the Department of Labor I-CAP audit and the six-month audit follow-up -- concluding on February 26, 1992 -- which technically ended the audit.

Recommendations:

1. Establish, in writing, a policy explaining authorized use of the International Union's aircraft, including authorized users. This policy statement should address the propriety of use of the aircraft by individuals, including International Union personnel traveling on a business flight for personal benefit unrelated to union business such as traveling on vacation or to a primary residence away from Washington, D.C. This policy should be submitted to the General Executive Board for approval and dissemination to the International Union membership through the local unions.
2. Conduct a needs and cost analysis of the union's continued use of the union aircraft which involves the annual expenditure of at least \$225,000, excluding costs of the pilot and attendant.

The above recommendations have been taken over by events. I have been informed that the union aircraft was sold and delivered to the buyer on July 31, 1998, the last day of Mr. Hanley's presidency. The sale price was \$3,050,000.

IV. DISCIPLINARY PROCEEDINGS

The Consent Decree gives the Monitor the right and power to remove, suspend, expel, fine, or forfeit the benefits (except certain vested employee retirement benefits) of any officer, representative, agent, employee, or person holding a position of trust in the International Union and its constituent entities. The Monitor may exercise these disciplinary powers when it is found that any of the above persons engages or has engaged in actions or inactions which: (i) violate the injunctive prohibitions of the Consent Decree, (ii) violate any criminal law involving the operation of a labor organization or employee benefit plan, or (iii) further the direct or indirect influence of any organized crime group or the threat of such influence now or in the future. If a union member is found to have engaged in any of these actions or inactions, the Monitor has the right and power to impose discipline up to and including expulsion from union membership.

In order to discharge his disciplinary duties under the Consent Decree, the Monitor has the same rights and authority as the International Union General President, the General Executive Board, and any other officer, agent, employee, or representative of the International Union, as well as the full authority derived from any and all provisions of law.

The individual charged with disciplinary action by the Monitor is provided with written notice of the charge(s) and afforded an opportunity to be heard. The charged party has 20 days to answer the charges and may be represented by counsel at any hearing conducted by the Monitor. The Monitor conducts the hearing, renders a final decision, and imposes the particular discipline. Hearings are conducted under the rules and procedures generally applicable in labor arbitration proceedings, and decisions are made using a "just cause" standard.

Discipline imposed by the Monitor is final and binding, but subject to review by the Court. Written appeals must be filed by the person disciplined within 30 days of the Monitor's decision. The International Union or the United States may seek the Court's review of the Monitor's decision not to impose discipline.

As I indicated earlier in this report, I received many allegations of wrongdoing by officers or members from a variety of sources. I am happy to report that most of the allegations did not result in adverse action; however, the following disciplinary actions were taken:

1. Barred permanently from participating in union affairs:

Local 1, Chicago, Illinois

Robert Babowice, International Organizer

Kurt Calabrese, Business Agent

Michael Romanelli, International Organizer

Samuel P. Louis, International Organizer

Local 10, Cleveland, Ohio

Dennis Francis, President

Robert Tate, Vice-President

Local 57, Pittsburgh, Pennsylvania

Louis Sanfilippo, President

Louis Masco, Member

Local 69, Secaucus, New Jersey

John N. Agathos, Sr., President

John R. Agathos, Jr., Administrator

Fred Paone, Secretary-Treasurer

Michael Santoli, Vice-President

Local 77, Rhinelander, Wisconsin

Jerry Pitts, International Trustee

Local 122, Milwaukee, Wisconsin

Vincent P. Gallo, III, President

Local 450, Forest Park, Illinois

Joseph Spano, President/International Vice-President

Frank Riggio, Secretary-Treasurer

Joseph Marino, Business Agent

2. Barred for 13 years by operation of law:

Daniel Rostenkowski, Consultant

Robert L. Hickman, Sr., Consultant / Business Agent, Local 1

In addition, two officials from Local 57, Nancy Ross, Secretary-Treasurer and International Vice-President, and Vince Fera, Executive Board member, entered agreements barring them from holding a position of trust for a period of three years beginning April 23, 1998.

Over the course of my Monitorship, we also investigated allegations concerning several past and present General Officers of the HEREIU, including former General President Hanley, Director of Organization Thomas Hanley, former General Vice-President John O'Gara, and former General Secretary-Treasurer Herman Leavitt.

As it related to former HEREIU General President Edward T. Hanley, Sr., my inquiry focused principally on Mr. Hanley's role in the charter and operation of Local 77 in Rhineland, Wisconsin; Mr. Hanley's use of the HEREIU airplane, his use of HEREIU-leased automobiles; his purchases of previously leased HEREIU automobiles; and Mr. Hanley's receipt of salary and pension contributions from Local 1 in Chicago, Illinois. My office also investigated allegations of present associations between Mr. Hanley and known or alleged members of organized crime.

On February 19, 1998, the Office of the Monitor entered into an agreement with

Mr. Hanley which provided that if Mr. Hanley announced his retirement no later than May 30, 1998, and actually retired by July 31, 1998, my office would cease its inquiry into the above matters. The agreement requires that Mr. Hanley: (1) pay the HEREIU \$13,944 relating to his purchase of certain HEREIU leased vehicles, and (2) assume responsibility after July 31, 1998, for paying premiums on a life insurance policy purchased for him by the HEREIU. The agreement does not constitute an admission by Mr. Hanley that any of his activities were improper. Because the agreement was reached prior to resolution of the inquiry, I reached no formal conclusions regarding the improprieties by Mr. Hanley, if any.

Mr. Hanley requested, and I agreed, that the agreement be sealed by the Court until such time as he announced his retirement. He requested the temporary sealing to ensure that an orderly transition of leadership would occur. Mr. Hanley announced his retirement in a meeting of the HEREIU's General Executive Board in Chicago, Illinois on May 18, 1998. The agreement was unsealed by the Court on the following day, and is now part of the public record in this proceeding.

Mr. John O'Gara, General Vice-President, was informed that the Investigations Officer proposed to file charges against him relating to his use of HEREIU-leased vehicles and purchase of previously leased HEREIU vehicles, as well as charging expenses to the HEREIU which were not necessary for the conduct of union affairs. Mr. O'Gara decided to retire on

July 31, 1998. He has had serious health problems over the past two years. The charges against him remain pending.

Mr. Herman Leavitt, General Secretary-Treasurer, retired in July 1996. His potential charges related to the purchase of leased automobiles at a below market price at the end of the lease period. Mr. Leavitt paid the HEREIU \$15,000 to settle this matter.

The charges against Thomas W. Hanley allege that he breached his fiduciary duty to Local 1 and the HEREIU by authorizing payments of \$31,000 per year to Edward T. Hanley as a part-time employee of Local 1 when Edward T. Hanley performed no meaningful service for Local 1. Also, Thomas Hanley caused the payment of a salary to John F. Duff, Jr., when, in fact, John F. Duff, Jr., performed no meaningful service for the HEREIU for a substantial period of his employment. In addition, the charges allege that Thomas Hanley converted funds of the HEREIU by charging expenses not necessary for the conduct of HEREIU business.

Mr. Thomas Hanley signed an agreement to resolve these charges. Again, the agreement does not constitute an admission of the charges. He agreed to relinquish his position as Director of Organization of the HEREIU. This is a General Officer position. He further agreed to relinquish his position as President of Local 1 and as a member of the Chicago Joint Executive Board. Also, Thomas Hanley agreed not to be employed by the HEREIU or any HEREIU entity for one year beginning August 31, 1998, and to reimburse the HEREIU \$25,000. After the suspension period, Thomas Hanley will be eligible for employment by the HEREIU, if he so desires.

Charges against seven other individuals need to be concluded. A chart reflecting all charges and their status is attached to this report.

V. CONCLUSION

Paragraph 3 of the Consent Decree in this action, U.S. v. HEREIU, Civil Action No.95-4596 (GEB), sets out the remedial objective:

3. The remedial objective of this Consent Decree is that the HEREIU and its constituent entities be free from the direct or indirect influence of any organized crime group or the threat of such influence now and in the future.

This same objective is repeated in the HEREIU Ethical Practices Code, which calls for: prevention of corruption, discrimination, anti-democratic procedures, and the association of any official of the HEREIU or its subordinate bodies with organized crime figures or anyone that would bring disrepute to the union.

It is fair to say that the history of the HEREIU has included numerous allegations of organized crime association, including during the term of General President Hanley, which began in 1973. As indicated earlier in this report, the August 27, 1984, report by the United States Senate Permanent Subcommittee on Investigations outlines this history in great detail. That Committee was frustrated in its inquiry because Mr. Hanley and other senior union officers, with the exception of former General Secretary-Treasurer Leavitt, refused to speak to committee investigators or invoked their Fifth Amendment privilege when subpoenaed to testify. The exercise of his Fifth Amendment privilege, clearly anyone's right, did not help the perception by many that this is an organized crime influenced labor union. An internal U.S. Department of Justice report prepared in 1977 cited the HEREIU as one of four major international unions influenced by organized crime groups.

In Section IV of this report, I listed the officials disciplined by my office. Seventeen of those individuals have been barred for life from participating in HEREIU affairs because of alleged organized crime association or their failure to cooperate with my office. All, except one who appealed my decision to the Court, signed agreements with me to leave the union. It should be noted that the agreement is not an admission of guilt of any kind, however, the end result is the same, namely, barred for life. Two of the individuals disciplined were members of the General Executive Board. Another two were local officials who had been members of the General Executive Board but resigned their membership prior to the signing of the Consent Decree. None of the four General Officers serving at the beginning of my monitorship have been charged with organized crime association. There has never been an allegation of organized crime association against General President Wilhelm.

In closing, I feel compelled to add that the thousands of hard working men and women members of this union deserve better leadership. Even assuming that democracy ever existed in the first place, I believe our efforts make an important contribution to achieve that goal. The totality of this report shows that Mr. Edward T. Hanley was a strong and persuasive leader who was never challenged by anyone, certainly not by the General Executive Board of the HEREIU. Mr. Hanley served as General President for more than 25 years. The HEREIU Constitution provides that a member may be required to stand trial when charged with "Activities which tend to bring the local or the International into disrepute". Numerous allegations of possible association with organized crime groups were known over the years, yet no investigations were ever conducted by the HEREIU to ascertain the facts. Mr. Hanley rewarded family members and friends, especially from the Chicago, Illinois area, with positions with the International Union without evaluating the needs of the union. All these appointments were approved by the General Executive Board without questions or challenges. The previously discussed never-ending infusion of International Union funds for the benefit of Local 1 is staggering. This local should have been placed in trusteeship ten years ago.

Mr. Hanley's leadership of the HEREIU was not democratic and not fair to the members throughout the United States and Canada. Democracy has to be encouraged at the local union level; that is not happening. To make sure the funds of this union are spent on those activities which are necessary for union business, as the law requires, necessitate that General Executive Board members demand more data on the propositions they are expected to approve and then have the courage to challenge those propositions they disagree with.

Hopefully, the new leadership of the HEREIU will take steps to assure that the HEREIU becomes a truly democratic organization. Failing that, the Public Review Board will have to take the lead in this important responsibility. Recent communications from General President Wilhelm are encouraging. He understands the problem areas and again, hopefully, so does the General Executive Board. Let me add one more comment. In my judgment the salaries and emoluments of the General Officers are excessive and the lifetime contract guaranteeing full salaries and emoluments to Mr. Hanley and former General Officers Kenneally, Gibson, and Leavitt are irresponsible. "Union funds are to be held in sacred trust for the benefit of the membership", so states the HEREIU's Ethical Practice Code, and each person holding a position of trust in the HEREIU must follow that mandate.

The purpose of this report is to inform the Court and the parties to the Consent Decree of my activities. My responsibility under that decree was to investigate and review allegations of wrongdoing. My office, over the last two and a half years, has done just that and the results are in this report. The HEREIU is a large organization. It is composed of thousands of men and women who work very hard in the hospitality industry in this country and Canada, and they are proud to be members of this union. There are literally hundreds of elected local union officials, business agents, organizers, shop stewards and many others who have dedicated their lives to the labor movement. It would be a mistake to draw general, sweeping conclusions about the integrity of these thousands of people based on the problems raised in this report, and it would be unfair. My report is part of the file in this proceeding and, consequently, will be a public document. I hope it is read and judged with this observation in mind.

I respectfully submit that the actions taken by my office have brought the HEREIU closer to the remedial objective of the Consent Decree. The ongoing supervision by this Honorable Court, coupled with the disciplinary supervision by the Public Review Board and a diligent and more informed membership, will continue the process of keeping the HEREIU free from the influence of organized crime groups and, hopefully, promote greater democracy.

RESPECTFULLY SUBMITTED,

Kurt W. Muellenberg

Court-Appointed Monitor

DATED: August 26, 1998