

Labor's 'Enron' Scandal

Ullico Stock Deals Enrich Union Leaders at Workers' Expense

By Ken Boehm

Summary: Last year, labor leaders like John Sweeney of the AFL-CIO seized on the opportunity to denounce scandals at Enron, WorldCom and other corporations to help drum up support for Democrats in the 2002 elections and shift political power to labor unions. But then it was discovered that several directors of Ullico, a financial company serving union employees' pension funds, allegedly collected large sums of money in a stock-investment scheme. Sweeney and other labor leaders on the Ullico board were soon caught up in their own scandal, accused of practices similar to those that brought down their corporate counterparts. Now they are the subjects of at least four federal investigations.

“The darkest hour of any man's life is when he sits down to plan how to get money without earning it.” — Horace Greeley

The ex-corporate chieftains of Enron, WorldCom and other once-dominant companies are painfully aware of the conse-



During his 26 years as president of the AFL-CIO Building Construction Trades Department from 1974-2000, Robert Georgine (left) had a friendly relationship with then-Illinois Governor James Thompson (second to left). Now chairman of Ullico and under fire for questionable stock transactions, Georgine turned to Thompson to lead an internal investigation.

quences of greed and irrational exuberance. But the lust for riches is not limited to corporate America. The House of Labor, too, has been lured into the money game, and the repercussions are rapidly mounting.

In December, AFL-CIO head John Sweeney announced his resignation from the board of Ullico, a union-focused financial company formerly known as Union Labor Life Insurance Co. The board reads like a who's who of American labor: it in-

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Ken Boehm of the National Legal and Policy Center explains how union leaders on the board of Ullico, a financial company owned primarily by pension funds for union members, bought and sold shares of Ullico stock in a scheme that enriched many of them.

cludes about 30 leaders of the nation's top labor unions, ranging from Morton Bahr of the Communications Workers of America to Marty Maddaloni of the plumbers union and Douglas McCarron of the carpenters union.

Current and past members of the board are under investigation by a federal grand jury, the Labor Department, the Justice Department and reportedly the Securities and Exchange Commission over millions of dollars that members of the Ullico board made in a series of questionable stock transactions in 1999 and 2000. McCarron is so worried about the allegations that he has pledged to return the \$276,000 profit he made from the transactions. Not all board members took part in the insider stock-trading scheme, but it is not clear what, if anything, Sweeney and others did to stop it.

In addition to federal investigations of the affair, the Ullico board conducted its own investigation, hiring former Illinois governor James R. Thompson for the task. Thompson is a former prosecutor and a Republican, but he has longstanding ties to Ullico chairman and CEO Robert

Georgine, who benefited most from the stock deals.

Thompson completed his report in November, but it is still being kept confidential. Sources indicate the report is highly critical of the Ullico board. It describes possible improprieties, calls for changes in the board's structure, and urges board members to return their profits.

Sweeney, who apparently did not participate in any of the stock trades, is playing the innocent. He is urging that the Thompson report be released publicly to minimize his own embarrassment over his

The Global Crossing Siren Song

The mischief began after Ullico became a beneficiary of the skyrocketing stock market of the late 1990s. Ullico board members authorized themselves to buy stock shares before they revalued the company's share price. So they knew in advance which way Ullico shares would move, allowing them to buy or sell shares and guarantee a profit. It was the equivalent of investing in the stock market when you know for sure which way it is headed — without sharing the information with anyone else. The losers in the scheme?

According to proxy statements released by Ullico, the board members participating in the scheme made a total of \$6.5 million in profits. More recent reports indicate the total was as much as \$14 million.

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sharp criticisms of board-level stock deals at Enron and other corporations. Sweeney accused Enron's board of directors, charged with acting in the interests of investors and the public, of being "riddled with greed, self-dealing and plain selfishness."

Pitted against Sweeney is Georgine, former head of the AFL-CIO building trades department, who is fighting to keep the report secret especially from the federal entities investigating the affair. A bitter feud has developed between Sweeney and Georgine, with most of the board reportedly siding with Georgine and creating a "joint defense agreement" that excludes Sweeney and fellow critic Frank Hanley of the operating engineers union. In December, the two resigned from the Ullico board in protest along with AFL-CIO executive vice president Linda Chavez-Thompson, who also reportedly did not take part in the questionable stock transactions.

The situation has become so volatile that, according to *Business Week*, several union bosses may ally with Teamsters president James P. Hoffa to replace Sweeney as AFL-CIO president.

The owners of Ullico, mainly consisting of pension funds that look after the money of millions of union members and retirees.

According to information originally uncovered by *Business Week* and *The Wall Street Journal*, the stock-trading maneuverings began in late 1999 when the Ullico board decided it would allow each member to buy Ullico stock before it was scheduled to be revalued upward. The union pension funds apparently were not informed of the board's decision.

Ullico was an early investor in Global Crossing Ltd., in part because of Ullico directors' ties to Global Crossing chairman Gary Winnick. Ullico bought \$7.6 million worth of Global Crossing shares at the "founders price" of \$1 a share, which increased to \$64 a share two years later in 1999. The original \$7.6 million investment ballooned to more than \$2 billion, dramatically increasing the value of Ullico itself. But because Ullico is not a publicly traded company, its share price does not move with the market. It is set once a year. That enabled the directors to know in advance what the share price would be. Departing from its usual practice of giving Ullico stock a fixed value of \$25 a share, the

Ullico board decided to change the share price annually, based on a value recommended by its accounting firm, PricewaterhouseCoopers.

In the fall of 1999, Ullico sold part of its Global Crossing stake, earning \$127 million. To reflect its earnings, Ullico's board planned at the end of the year to reset Ullico's share price from \$54 to \$146. Just before that date, Georgine wrote a confidential memo to Ullico officers and directors offering them the opportunity to buy up to 4,000 Ullico shares at the \$54 price. It was a potential \$368,000 profit for anyone who took full advantage of the offer. Left out of the lucrative opportunity were the unions and their pension funds.

Shortly thereafter, the Ullico board allowed anyone holding fewer than 10,000 Ullico shares to sell their holdings back to the company at \$146 per share. This despite the interim decline of the value of Ullico's remaining stock in Global Crossing, bringing down Ullico's actual value to around \$75. The 10,000-share limit effectively barred pension funds from cashing in on the deal, while enabling officers and directors to do so.

A year later, officers and directors who had not taken advantage of the previous offer were allowed to sell at \$75. But by that time, the further slide of Global Crossing meant Ullico's real value was only \$44 per share.

According to proxy statements released by Ullico, the board members participating in the scheme made a total of \$6.5 million in profits. More recent reports indicate the total was as much as \$14 million.

Every dollar the directors got from the scheme meant one less dollar available for Ullico itself. In essence, the officers and directors enriched themselves with a disproportionate share of Global Crossing profits, rather than reinvesting those profits in the company or distributing them to the actual owners of the company.

Making matters worse, the scheme was carried out in secret. Knowing the future movement of a stock without telling anyone else or letting anyone else participate, and then reaping a profit, is usually considered insider trading.

The 29 Ullico board members and their principal business affiliation as of September 30, 2000. (Source: State of New York Insurance Department)

Morton Bahr, President, Communications Workers of America
John J. Barry, President Emeritus, Int'l Brotherhood of Electrical Workers
William G. Bernard, President, Int'l Assoc. of Heat and Frost, Insulators & Asbestos Workers
Morris Biller, President, American Postal Workers Union
Marvin J. Boede, Retired President, United Assoc. of Journeymen & Apprentices of the Plumbing & Pipefitting Industry of the U.S. & Canada
Kenneth J. Brown, Retired President, Graphic Communications Int'l Union
Bill Casstevens, Retired Secretary-Treasurer, United Automobile, Aerospace & Agricultural, Implement Workers of America Int'l Union
Arthur A. Coia, President Emeritus, Laborers' Int'l Union of North America
John E. Cullerton, Consultant, Hotel Employees & Restaurant Employees Int'l Union
John F. Gentleman, Retired President, Union Labor Life Insurance Co.
Robert A. Georgine, Chairman, President & CEO, Union Labor Life Insurance Co.
Frank Hanley, President, Int'l Unions of Operating Engineers
Frank D. Hurt, Int'l President, Bakery, Confectionery & Tobacco Workers, Int'l Union
John T. Joyce, Ret. President, Int'l Union of Bricklayers & Allied Craftworkers
Earl J. Kruse, President, United Union of Roofers, Waterproofers & Allied Workers
James La Sala, President, Amalgamated Transit Union
Martin J. Maddaloni, General President, United Assoc. of Journeymen & Apprentices of the Plumbing & Pipe Fitting Industry of the U.S. & Canada
Joseph F. Maloney, Retired Secretary-Treasurer, Building & Construction Trades Dept., AFL-CIO
Douglas J. McCarron, General President, United Brotherhood of Carpenters & Joiners of America
James F. McNulty, General Counsel, Union Labor Life Insurance Co.
Lenore Miller, Ret. President, Retail, Wholesale & Department Store Union
Terence M. O'Sullivan, General President, Laborers Int'l Union of North America
Vincent R. Sombrotto, President, National Assoc. of Letter Carriers
John J. Sweeney, President, AFL-CIO
Eugene Upshaw, President, Federation of Professional Athletes
Jacob F. West, General President Emeritus, International Assoc. of Bridge, Structural, & Ornamental Iron Workers
John W. Wilhelm, General President, Hotel Employees & Restaurant Employees Int'l Union
William H. Wynn (deceased), President Emeritus, United Food & Commercial Workers Int'l Union
Roy Wyse, Retired Secretary-Treasurer, United Automobile, Aerospace & Agricultural, Implement Workers of America Int'l

Breaches of Fiduciary Duty

The Ullico scandal has sparked investigations on several fronts. A federal grand jury is investigating whether Ullico broke any criminal laws by allowing the directors to benefit from the stock deals while disallowing the same for pension fund shareholders. Even if the grand jury finds no criminal wrongdoing, the board members are still subject to possible civil damages. The Department of Labor is investigating this aspect of the case. The Department of Justice and reportedly the Securities and Exchange Commission are looking into the case as well.

Union leaders have a fiduciary duty to serve the best interests of their members. This is underscored by federal labor law, which strictly forbids them to put their personal interests, especially financial interests, above that of union rank and file.

To thwart the old-fashioned sweetheart deals in which management bribed labor bosses to betray their union members, federal law strictly forbids a range of corrupt practices:

- Employers may not contribute to union elections.
- Employers may not give union officials money or anything of value.
- Union officials have a very strict and very broadly construed fiduciary duty to put their responsibility to their members above their own personal interests, especially their financial interests.

If the Ullico board members did violate a fiduciary duty, then the Labor Department can file suit in federal court under the Labor-Management Reporting and Disclosure Act of 1959 (commonly referred to as the Landrum-Griffin Act), seeking to remove and possibly fine any official who violated that duty.

Moreover, the Labor Department is investigating whether the Ullico stock schemes violated civil labor laws against conflict of interest. If there was a conflict of interest — and evidence of one is mounting — the result could be fines and the removal of offenders from union office.

Apparent conflicts of interest also extend to Global Crossing's dealings with the Ullico board. Ullico's board not only invested more than \$7 million in seed

Principal officers of Ullico (as of September 30, 2000):

Robert A. Georgine, Chairman, President & Chief Executive Officer
James W. Luce, Executive Vice President
John Kenneth Grelle, Senior Vice President & Chief Financial Officer
James F. McNulty, General Counsel
Grover L. McKean, Senior Vice President, Investments
Joseph A. Caraballo, Chief Legal Counsel

money with Global Crossing's Winnick, but the board also became involved in a number of other venture capital deals. The prospect of participating in a lucrative stock offer may have induced the Ullico board to pour union pension funds into Global Crossing, a non-union company.

The Ullico board entered into deals with Pacific Capital Group (PCG), an investment firm owned by Winnick. Through PCG, Ullico invested in the high-flying Internet company Value America, another non-union company that quickly slid into bankruptcy. And Ullico invested through PCG in Playa Vista, a troubled Los Angeles real estate deal plagued with environmental and regulatory problems. One of Ullico's top officials, former Democratic National Committee executive director Michael Steed, became a managing director of PCG and a board member of Value America.

Questionable Qualifications

The Ullico board of directors is charged with deciding on investment strategies for billions of dollars in pension funds. With responsibilities like this, it is natural that the board should consist of top-notch investment managers. But this is hardly the case at Ullico. During the time of the questionable transactions, only three board members reportedly had significant investment skills or experience in the financial services industry.

The shady past of many Ullico board members make them even less suited to be directors. A case in point is Jake West, former head of the ironworkers union and a Ullico director since 1990. West has been indicted on federal charges that he embezzled funds from his union and pleaded guilty to one count of embezzlement in

October. It was during the investigation of West that the Ullico case was uncovered. Meanwhile, between January 2000 and September 2001 West sold 5,250 shares of Ullico.

Arthur Coia, former Laborers' Union boss, became a Ullico director in 1993. A draft racketeering complaint by the Department of Justice in 1994 characterized Coia as being under the influence of organized crime. More succinctly, an internal memo by the head of the Justice Department's Organized Crime and Racketeering section referred to him as a "mob puppet." In January 2000, Coia pled guilty to fraud for evading Rhode Island taxes on the purchase of a \$1 million Ferrari.

Despite his guilty plea, Coia was allowed to stay on as a director of the Ullico board long after the guilty plea and continued to oversee the integrity of billions of dollars in union pension funds. He has refused to state publicly whether he profited from either the Global Crossing IPO stock deal or the insider Ullico stock deals.

Another interesting player is Marty Maddaloni, a Ullico director since 1998 and president of the United Association of Plumbers and Pipefitters union. He reportedly made \$184,000 in profits from the Ullico stock transactions.

Maddaloni is also head of the Plumbers and Pipefitters national pension fund, which was involved in one of the biggest real estate boondoggles in pension fund history, currently under Labor Department investigation. After purchasing the run-down Diplomat Hotel in Hollywood, Florida for \$40 million, renovation costs ballooned to \$400 million, then \$600 million and finally, when the hotel opened two years late, the final cost was in ex-

cess of \$800 million. According to the *Sun-Sentinel* newspaper, an independent appraiser valued the property at \$587 million — about \$213 million less than the pension fund paid for the project. The construction was so mismanaged that walls tilted, floors sloped and pipes leaked. Some of the contractors hired for the job had been banned from New York City construction because of bid rigging.

Maddaloni's suspicious behavior spilled over into his Ullico dealings. In April 2002, a *Wall Street Journal* article revealed that Maddaloni reaped a profit of \$184,000 selling Ullico shares back to the company at a fixed price, at a time when the actual value of the shares were far lower.

Morton Bahr, the longtime head of the Communications Workers of America (CWA) and a Ullico director since 1996, made \$27,000 from the Ullico stock-trading scheme according to *The Wall Street Journal*. The revelation came only a month after Bahr released a press statement blasting "corporate arrogance" and singling out the "secret dealings and employee abuses of Enron and Global Crossing." Bahr had shown only favor to Global Crossing during its relationship with Ullico. Using his authority as head of the CWA, Bahr supported Global Crossing's merger with Frontier Communications and opposed the bid for Frontier by Qwest — even though Global Crossing's workers are not unionized. He also wrote 14 state governors supporting a takeover of U.S. West by Global Crossing. Bahr's support for Ullico's initial major investment in Global Crossing was essential since CWA was one of the larger unions involved in Ullico.

Pension Fund Corruption

The Ullico scandal illustrates how union pension funds are increasingly the subject of questionable practices involving risky investment schemes. In addition to investigating the Diplomat Hotel scandal involving Marty Maddaloni, the Labor Department is suing Ullico and a subsidiary for imprudently investing \$10 million in assets of two Laborers International Union pension funds in a Las Vegas land deal. According to the Labor Department,

Ullico failed to properly investigate the large real estate project before committing funds. It did not even carry out an appraisal; had there been one, it would have indicated that the land was not worth the purchase price. Ullico ended up abandoning the project without selling any lots.

A March 2002 *BNA Daily Labor Report* interview with Labor Department Inspector General Gordon S. Heddell provides a good indication of the scope of the problem. Heddell notes that there were 357 pending labor racketeering investigations underway by the Inspector General in March. Of those, 39 percent involved organized crime and 44 percent involved pension and welfare plans.

The IG cited a number of cases in which pensions lost funds because of violations of fiduciary duties by plan trustees, the very issue in the Ullico case. The IG went on to state that investigations of this type affect plan assets of more than \$1 billion.

The corruption cases that involve union pension and benefit funds are all recent, large and widespread. As in the Ullico case, the problem often goes right to the top of the labor movement, and the amount of money disappearing from pension and benefit funds is staggering. Here are just a few examples:

- In an Oregon case, the Labor Department estimates that a large number of union funds lost more than \$100 million.
- In New York, an alleged member of the Genovese crime family was indicted last spring in connection with the embezzlement of more than \$1 million from benefit funds of two locals of the United Brotherhood of Carpenters.
- In 2000, the FBI uncovered plans to move \$300 million in union pension fund money into management firms run by the Lucchese crime family. Only quick action by law enforcement stopped the pension fund looting.

Sunshine is the Best Disinfectant

The public has a right to know what Ullico directors did to enrich themselves at the expense of the union members whose pension funds they managed. Congress should hold hearings, subpoena the Ullico board, and direct them to answer questions about their actions. Certainly,

hundreds of thousands of union members are entitled to an accounting.

Unfortunately, the laws governing pension funds are sweeping but contain serious loopholes.

- Independent public accountants should be required to report ERISA (Employee Retirement Income Security Act) violations to the Labor Department. That loophole has no policy justification.

- Union members also should be entitled to know the sources of income of top union officials. International union presidents receive large salaries and are expected to give their full time and attention to their duties. Had Ullico directors been required to disclose the insider stock profits, they may not have been so quick to enrich themselves.

- The annual financial disclosure form filed by unions with the DOL — the LM-2 form — should be amended to require union leaders to disclose all income by source and amount. A House hearing last year by two subcommittees of the Education and the Workforce Committee, co-chaired by Rep. Charlie Norwood (R-GA) and Rep. Sam Johnson (R-TX), featured extensive testimony calling for better disclosure of union financial information.

There have been some recent positive developments. The Labor Department under the current Bush administration has developed a website allowing the public to review unions' LM-2 and other disclosure forms (www.dol-union-reports.gov/olmsWeb/docs/formspg.html). And in December, the Labor Department proposed revising the LM-2 to include new categories of expenses and require itemized major expenses.

"Sunshine is the best disinfectant." That should be the maxim underlying government policy toward labor unions. Millions of honest, hardworking Americans have every right to expect that their pension funds will be properly administered. For those like Ullico's directors who fail to carry out their duties, there should be serious consequences.

Ken Boehm is Chairman of the National Legal and Policy Center and former Counsel to the Board of Directors of the Legal Services Corporation.

Labor Notes

D.C. Teachers Union Reveals Embezzlement, Faces Lawsuit

A Washington, D.C. public school teacher has filed suit in U.S. District Court against the **Washington Teachers' Union**, affiliated with the **American Federation of Teachers**. The suit follows revelations of an alleged \$2 million embezzlement scheme involving former union president Barbara Bullock, her assistant Gwendolyn Hemphill, and former union treasurer James Baxter. History teacher Nathan Saunders claims the union's 5,000 teachers were defrauded of their dues, in part because the union's executive board failed to conduct required audits. Federal prosecutors have retrieved expensive clothing, electronics and artwork allegedly purchased with union funds.

D.C. Mayor Faces Allegations of Improper Reporting of Teachers Union Contributions

Gwendolyn Hemphill, a former official of the **Washington Teachers' Union** who is accused of embezzling funds (see above), has alleged that last year **D.C. Mayor Anthony Williams'** office instructed her to pay a \$2,000 expense of Williams' reelection campaign. Hemphill co-chaired the Williams campaign but used union funds to pay the \$2,000 bill for t-shirts and other items. The campaign claims Hemphill misunderstood instructions. Meanwhile, the **D.C. Office of Campaign Finance** has opened an investigation into the Williams campaign's reporting of contributions. Questions include whether Hemphill's work as campaign co-chair and the campaign's use of teachers union telephone banks should have been reported as in-kind contributions from the union, which they were not.

National Strike May Be Just the Beginning for General Electric

General Electric workers staged a two-day walkout on January 14 and 15 to protest increases in employees' share of health care expenses that went into effect on January 1. About 17,000 members of the **International Union of Electronic Workers-Communication Workers of America**, 5.5 percent of GE's workforce, participated in the first national strike at the company since 1969. The walkout was intended to warn of a longer nationwide strike if GE asks workers to bear additional health care costs in June when GE's contract with the union expires. Rhetoric is already heated. "If we don't stand up to them [GE] now, they're going to think they're 'James Bond: licensed to kill' come June and they'll have more serious demands on the table," said IUEW-CWA president Edward Fire.

New York Transit Workers Defy Law, Threaten Strike

Last month's threats by New York City transit workers to strike — although illegal according to state law — paid off for the union. At a time when the **Metropolitan Transit Authority** faces a \$2.7 billion deficit over the next two years, the **Transport Workers Union** won a \$200 million a year increase in MTA's labor costs over the next three years, including a 28 percent increase in MTA's contributions to health care expenses. Experts now say that **NYC Mayor Michael Bloomberg** faces serious difficulty trying to convince municipal unions to agree to productivity concessions as a condition for pay increases. The **Public Employees Federation**, one of two unions representing New York State public workers, has also indicated that it will ask **New York Governor George Pataki** for pay increases similar to those won by the transit workers.

Expelled Teamsters Want to Socialize With Union Buddies

In 1989, the **Teamsters Union** agreed to establish an Independent Review Board to settle a federal lawsuit alleging Mafia control of the union. But now Teamsters who have been expelled for corruption — including former Teamster president **Ron Carey** and Chicago Local 714 president **William Hogan** — are complaining that the Review Board's ban on fraternization with current Teamsters is unfair and unconstitutional. Hogan, whose son now runs the local from which he was expelled, is asking a federal judge to rule that the threat of suspension or expulsion to any Teamster who has any contact with an expelled member is a violation of the First Amendment right to free association. About 300 former Teamsters are affected by the ban.