

**STATE OF NEW JERSEY
COMMISSION OF INVESTIGATION
18TH ANNUAL REPORT**

and

REPORT AND RECOMMENDATIONS

on

**ORGANIZED CRIME-AFFILIATED
SUBCONTRACTORS**

at

**CASINO and PUBLIC
CONSTRUCTION SITES**

**STATE OF NEW JERSEY
COMMISSION OF INVESTIGATION**

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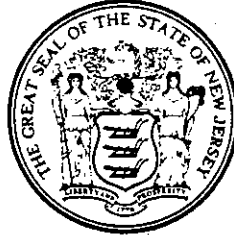
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**TO: Governor and the Members of the Senate and
the General Assembly of the State of New Jersey**

The New Jersey State Commission of Investigation is pleased to submit for the year 1986 its eighteenth annual report, and its report on organized crime-affiliated subcontractors at casino and public construction sites, pursuant to N.J.S.A. 52:9M-10, the Act establishing the Commission.

Respectfully submitted,
Henry S. Patterson, II, Chairman
William S. Greenberg
James R. Zazzali
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THE COMMISSION

Origin and Scope

The New Jersey State Commission of Investigation (S.C.I.) was an outgrowth of extensive research and public hearings conducted in 1968 by the Joint Legislative Committee to Study Crime and the System of Criminal Justice in New Jersey. That Committee was under direction from the Legislature to find ways to correct what was a serious and intensifying crime problem. Its final report, which confirmed that a crisis in crime control did exist in New Jersey, attributed the expanding activities of organized crime to "failure to some considerable degree in the system itself, official corruption, or both." Sweeping recommendations for improving various areas of the criminal justice system were proposed.

The two most significant recommendations were for a new State Criminal Justice unit in the executive branch and an independent State Commission of Investigation. The Committee envisioned the proposed Criminal Justice unit and the Commission of Investigation as complementary agencies in the fight against crime and corruption. The Criminal Justice unit was to be a large organization with extensive manpower and authority to coordinate and conduct criminal investigations and prosecutions throughout the state. The Commission of Investigation was to be a relatively small but expert body which would conduct fact-finding investigations, bring the facts to the public's attention, and make recommendations to the Governor and the Legislature for improvements in laws and the operations of government.

The Committee's recommendations prompted immediate supportive legislative and executive action. New Jersey now has a Criminal Justice Division in the Department of Law and Public Safety and an Independent State Commission of Investigation which is structured as a commission

of the Legislature. The new laws were designed to prevent conflict between the functions of the Commission and the prosecutorial authorities of the state. The latter have the responsibility of pressing indictments and other charges of violations of law and bringing the wrongdoers to punishment. The Commission has the responsibility of publicly exposing evil by fact-finding investigations and recommending new laws and other remedies to protect the integrity of the political process.

Legislation creating the New Jersey State Commission of Investigation was introduced on April 29, 1968, in the Senate. Legislative approval of that measure was completed on September 4, 1968. The bill created the Commission for an initial term beginning January 1, 1969, and ending December 31, 1974. The Legislature on three subsequent occasions extended the term of the S.C.I. for five-year periods—in 1973 for a term expiring December 31, 1979; in 1979 for a term expiring December 31, 1984, and in 1984 for a term expiring December 31, 1989.

The complementary role of the S.C.I. was noted in two comprehensive, impartial analyses of the Commission's record and performance, in 1975 by the Governor's Committee to Evaluate the S.C.I. and in 1983 by the State Commission of Investigation Review Committee. Both of these reports stated that the S.C.I. performs a valuable function and that there is a continuing need for the Commission's work. The 1983 review panel said its advocacy of the Commission was reinforced by the views of top law enforcement officials in the State that the S.C.I. "continues to serve as an important adjunct to New Jersey's criminal justice system."

To eliminate any appearance of political influence in the Commission's operations, no more than two of the four Commissioners may be of the

same political party. Two Commissioners are appointed by the Governor and one each by the President of the Senate and the Speaker of the Assembly. It thus may be said the Commission by law is bipartisan and by concern and action is nonpartisan.

The paramount statutory responsibilities vested in the Commission are set forth in Section 2 of its statute. This section provides:

The Commission shall have the duty and power to conduct investigations in connection with:

- (a) The faithful execution and effective enforcement of the laws of the state, with particular reference but not limited to organized crime and racketeering;*
- (b) The conduct of public officers and public employees, and of officers and employees of public corporations and authorities;*
- (c) Any matter concerning the public peace, public safety and public justice.*

The statute provides further that the Commission shall conduct investigations by direction of the Governor, by concurrent resolution of the Legislature, and of any state department or agency at the request of the head of a department or agency.

The statute assigns to the Commission a wide range of responsibilities and powers. It may compel testimony and the production of other evidence by subpoena and has authority to grant immunity to witnesses. Although the Commission does not have prosecutorial functions, it is required to refer information of possible criminality to prosecutorial authorities.

One of the Commission's responsibilities, when it uncovers irregularities, improprieties, misconduct or corruption, is to bring the facts to the attention of the public. The objective is to promote corrective actions. The format for public actions by the S.C.I. is based on the complexity of the subject and the clarity, accuracy and thoroughness with which the facts can be presented. The Commission may proceed by way of a public hearing or a public report, or both.

The Commission in its proceedings adheres to the New Jersey Code of Fair Procedure, the requirements for which were incorporated in the Commission's enabling law in 1979. These provisions satisfy the protections which the Legislature by statute and the Judiciary by interpretation have provided for witnesses called at private and public hearings and for individuals mentioned in the Commission's public proceedings. Such procedural obligations include a requirement that any individual who feels adversely affected by the testimony or other evidence presented in a public action by the Commission shall be afforded an opportunity to make a statement under oath relevant to the testimony or other evidence complained of. The statements, subject to determination of relevancy, are incorporated in the records of the Commission's public proceedings. Before undertaking a public action, the Commission evaluates investigative data in private in keeping with its obligation to avoid unnecessary stigma and embarrassment to individuals.

The Commission emphasizes that indictments and convictions which may result from referral of criminal matters to other agencies are not the only test of the efficacy of its public actions. Even more important are the corrective statutory and regulatory actions spurred by arousing public and legislative interest. The Commission takes particular pride in all such actions which have resulted in improved governmental operations and laws.

Members of the Commission

The Commission's activities have been under the leadership of Henry S. Patterson, II, since March, 1985, when he was designated as Chairman by Governor Thomas H. Kean. The other Commissioners are William S. Greenberg, James R. Zazzali and Paul Alongi.

Mr. Patterson, of Princeton, is president and a director of Elizabethtown Corp. and vice president and a director of its subsidiary, Elizabethtown Water Co. He also is a director of Mount Holly Water Co. and of United Jersey Banks and three of its subsidiaries. He is a former mayor of Princeton Borough. He was graduated from Princeton University. He served during World War II in the

U.S. Army and received his discharge as a first lieutenant in 1946. He was first appointed to the Commission in February, 1979, and was reappointed by Governor Kean.

Mr. Greenberg, of Princeton, a partner in the Princeton law firm of Greenberg and Prior, was first appointed to the Commission in 1982 by then-Speaker Alan J. Karcher of the General Assembly. A graduate of Johns Hopkins University and Rutgers Law School, he is admitted to the bar in New Jersey, the District of Columbia and New York. He served as Assistant Counsel to former Governor Richard J. Hughes (1969-1970) and as Special Counsel to the New Jersey Chancellor of Higher Education (1968-1969). He is a certified civil trial attorney and is President of the New Jersey affiliate of the Association of Trial Lawyers of America. He is a lieutenant colonel in the New Jersey Army National Guard. Mr. Greenberg resigned from the Commission upon the conclusion of his second term in February, 1987.

Mr. Zazzali, of Rumson, former Attorney General of New Jersey, was appointed to the Commission in 1984 by Governor Kean. He served as State Attorney General in 1981-82, after prior public service as General Counsel to the New Jersey Sports and Exposition Authority (1974-1981) and as assistant Essex County prosecutor (1965-68). A graduate of Georgetown College and Georgetown Law Center, he is a partner in the law firm of Zazzali, Zazzali and Kroll in Newark. He is an associate editor of the New Jersey Law Journal. He is serving as a court-appointed mas-

ter responsible for investigating and evaluating overcrowding and other conditions at the Essex County, Monmouth County and City of Newark jail systems. During 1986 he was reappointed by Chief Justice Robert N. Wilentz to the Disciplinary Review Board which hears and determines appeals of cases involving attorneys accused of unethical conduct. Also during 1986 he was named by Joel R. Jacobson, the court-appointed trustee of teamsters Local 560 of Union City, as special counsel to the trusteeship. In 1981-82 he chaired a national study of remedies for victims of toxic wastes at the request of the U.S. Congress.

Mr. Alongi, of Bloomfield, an attorney, is a sole practitioner in Bloomfield. He is a graduate of Newark Rutgers University and Seton Hall Law School. A former president of the Bloomfield Board of Education, he has been and is active in civic affairs, including four years as chairman of the Bloomfield Drug Abuse Commission, eight years as attorney for the Patrolmen's Benevolent Association and 20 years as attorney for the Community Mental Health Services of Bloomfield, Belleville and Nutley. He is a member of the executive board of UNICO, the nation's largest Italian-American service organization, of which he was president in 1975-76. He has been a member of UNICO's Bloomfield chapter for more than 25 years. He is a director of both the National Italian-American Foundation and the National Italian-American Coordinating Association. Mr. Alongi was appointed to the S.C.I. in 1985 by then Senate-president Carmen A. Orechio.

ORGANIZED CRIME

Mob-Affiliated Subcontractors At Casino and Public Construction Sites*

Continuing its program of confronting organized crime groups, and issues, the Commission in 1986 authorized an investigation of the pervasive role of mob-controlled contractors in the construction of gambling casinos and of publicly funded projects. This particular inquiry was conducted under the following general statement of the Commission's efforts to determine:

Whether, and to what extent, political and economic activities in New Jersey have been infiltrated, perverted and adversely affected by various individuals, groups and entities engaged in organized criminal activity and racketeering; and whether, and to what extent, profits from unlawful activities conducted by various individuals, groups and entities engaged in organized criminal activity and racketeering have been invested in certain businesses in, or operating within, New Jersey and have resulted in distortion of the free enterprise system.

Introduction

While hustling hundreds of thousands of dollars worth of casino contracts, certain construction subcontractors controlled by the Atlantic City-based Scarfo mob have also amassed more than \$1.4 million in receipts from at least a dozen publicly funded projects—including a nuclear power plant and a prison. These are among the findings

*Copies of this report, as well as other previously published reports of the S.C.I., are available upon request at the Commission's office in Trenton.

of an S.C.I. inquiry into apparent statutory and regulatory deficiencies that permit known organized crime figures to be employed as subcontractors on certain construction projects in contravention of legislative intent and political promise that there would be no organized crime presence at such job sites. The S.C.I. at the outset concentrated on the Atlantic City region and the notoriously corruptive activities of several companies dominated by the organized crime family once headed by the murdered Angelo Bruno of Philadelphia. The S.C.I.'s probe data provides not only a graphic, even if partial, project-by-project revenue picture of the Scarfo gang's decade-old role as subcontractors on casino and public projects but—perhaps more significantly—also of its ongoing nature. These findings will be referred, of course, to the state and federal prosecutorial authorities who have obtained racketeering and conspiracy indictments against Bruno's successor as crime family boss, Nicodemo (Little Nicky) Scarfo; the mob's underboss (and Scarfo nephew), Philip (Crazy Phil) Leonetti, and other New Jersey and Philadelphia mob members and associates. The indictments include allegations of loansharking, extortion, bookmaking, criminal usury and other felonies.

The State indictment also names Scarfo's and Leonetti's concrete company, Scarf, Inc., one of the mob-controlled corporations under S.C.I. scrutiny. However, the indictment did not name another company reviewed by the S.C.I., Nat-Nat, Inc., a concrete reinforcement, or "rebar," operation owned by former Scarfo underboss Salvatore J. (Chuckie) Merlino, and operated by his younger brother Lawrence (Yogi), a Scarfo soldier. The S.C.I.'s inquiry indicates that Nat-Nat gained an increasingly substantial share of casino and public project subcontracting work through the 1980s. This activity included rebar jobs which it began diverting in recent years to its alter ego, Bayshore Rebar, Inc., headed by Lawrence

Merlino's 20-year-old son, Joseph N. (The State Division of Gaming Enforcement recently lodged a complaint against Bayshore with the Casino Control Commission. The complaint, which was temporarily rejected, sought Bayshore's exclusion from casino work as an entity controlled by a "career offender and member of a career offender cartel").

S.C.I. Objectives

This report reflects a decision by the S.C.I. to delineate as fully as possible the unwarranted financial rewards that have accrued to a specialized corporate group of mob-owned predators and—because of the extent of such profiteering from public construction projects funded by federal and state tax dollars—to disclose those particulars forthwith in order to expedite corrective reforms. The S.C.I.'s investigative efforts were productive despite the unavailability of much of Scarf's financial records, the refusal of certain underworld entrepreneurs to testify at the S.C.I. and the evasiveness of some legitimate contractors (and associates and employees) who have testified about their contractual dealings with mob figures.

Because of its continuing cooperation with the state and federal prosecutorial drive against the mob, the S.C.I. has made certain that its overall inquiry will serve an important public purpose without adverse impact on the criminal probes. Such circumspection, the Commission has decided, permits the pursuit of a basic objective: to generate as swiftly as possible more stringent civil

restraints than presently exist against organized crime-controlled construction subcontracting, even as criminal prosecution of these same or related entities proceeds apace. Expeditious enactment of the corrective steps recommended at the conclusion of this report is essential in view of the proven capability of organized crime groups—no matter what their ethnic origins—to resume their depredations even after the most vigorous of prosecutorial attacks.

Mob Revenues Charted

The charts below are designed merely to suggest at this point the duration, extent and profitability of organized crime subcontracting in areas that are supposed to be off limits to organized crime. The statistics and related background material will be followed by an accounting of various questionable bid maneuvers, strong-arm tactics and other evils that coincide with the assignment of such subcontracts to mobsters. Overall the report will demonstrate how contrasting elements fuel these machinations—threats of labor disruption on the one hand and fear and indifference on the other. More specifically, it will be shown how organized crime, with the cooperation of a few subservient unions, interrelates with profit-hungry, weak-willed or otherwise acquiescent legitimate contractors. The specialized nature of the subcontracting tasks so rewarding to the mob—chiefly concrete pouring and finishing and concrete reinforcement construction—also will be explained, particularly relative to "high rise" steel construction on the island terrain of Atlantic City.

**NAT NAT REVENUE (including Bayshore)
(as of October, 1986)
FROM PUBLIC PROJECTS**

<u>PROJECT</u>	<u>DATE</u>	<u>CONTRACT AMOUNT</u>
Batsto State Park	1981	\$ 747
Stockton College	1981-82	17,139
Stockton College	1985	2,100
Camden Medical/Dental	1982	63,839
AC Library	1982	9,024
AC Justice Facility	1983-84	220,627
Passaic Valley		
Pollution Control	1983	494,264
Parts/Personnel Facility	1983	34,455
Port Authority Transit Corp.	1983-84	55,934
Cape May Waste Transfer	1984	19,067
McKinley Apts.	1984	32,977
Bader Field	1984	2,481
Oyster Creek	1984-85	17,147
Metro Plaza Housing	1985	37,871
Wanaque/Monksville Dam	1985-86	306,306
Total Public Project Revenue		\$1,313,978

FROM CASINO CONSTRUCTION

Golden Nugget	1979-81	\$ 387,508
Golden Nugget	1982	1,542
Caesars	1982-83	10,595
Caesars	1982	1,995
Harrah's	1982	6,959
Harrah's	1984	15,312
Tropicana	1983-84	29,284
Tropicana	1983	3,120
Hilton	1983	7,210
Showboat	1985	47,990
Bally	1986	12,862 (owed)
Resorts	1986	105,000
	1986	37,070 (owed)
	1986	5,000
	1986	13,865 (owed)
		<hr/>
Total Casino Revenue		\$ 685,312
*Grand Total		<u><u>\$1,999,290</u></u>

*Reflects rounding of all dollar sums.

**SCARF, INC. REVENUE
(as of October, 1986)
FROM PUBLIC PROJECTS**

<u>PROJECT</u>	<u>DATE</u>	<u>CONTRACT AMOUNT</u>
McKinley Apts.	1984-85	\$127,470
Total Public Project Revenue		\$127,470

FROM CASINO CONSTRUCTION

Bally	1979	\$ 2,736
Claridge	1981	30,361
Playboy	1981	45,156
Harrah's	1981	74,438
Total Casino Revenues		<hr/>
Grand Total		<u><u>\$280,161</u></u>

Mob Company Profiles

Following are profiles of the several mob-controlled companies that have profited at the expense of legitimate construction contractors on casino-related or public works projects. As noted, these underworld firms were able to obtain public construction subcontracts because eligibility laws and regulations that apply to contractors too often do not descend to their level and federal-state blacklisting procedures have not been aggressively enforced. Also Casino Control Act loopholes have permitted organized crime-owned subcontractors to work on casino construction projects. These statutory and regulatory inadequacies will be the subject of corrective proposals at the conclusion of this report.

Scarf, Inc.

Scarf, Inc., which was incorporated on December 30, 1977, as the casino construction boom began, is a subcontractor specializing in pouring and finishing concrete. Since these tasks generally must be undertaken without delay at certain junctures of high rise steel construction, they enable an organized crime-owned company combined with a few mob-influenced labor unions to apply extortion and other criminal pressures to force a general contractor to utilize the mob's services.

Scarf records indicate it has done at least \$2 million in general construction work since 1978.

Gang boss Scarfo is the unlisted beneficiary of this company's operations and of all other companies controlled or influenced by his minions. That Scarfo was not particularly concerned with being linked to Scarf, Inc., is indicated by its corporate name. However, there is no identification of the gang boss in the company's business records, including incorporation papers and periodic reports that are required to be filed with government agencies.

When Scarf was incorporated, the late Vincent F. Bancheri was its president and Philip M. Leonetti of Margate City, now the mob's underboss and Scarf president, was its secretary-treasurer. The company is located at 28 North Georgia Avenue, Atlantic City, in a building owned

by Scarfo's mother, Catherine (nee Piccolo) Scarfo. This office also is the headquarters for Scarfo's mob, and numerous gang meetings there have come under law enforcement surveillance. (One of Scarfo's prized possessions in his company headquarters is a picture of Al Capone, the gangster who ruled Chicago during the Prohibition era). One of the more notorious visitors has been Thomas A. DelGiorno, once a powerful Scarfo capo in Philadelphia but yet another key member of the mob to become a government informant. DelGiorno, who pleaded guilty in federal court last January to five gang murders, is cooperating in the Scarfo mob probes.

Scarf's books show apparently annual, although small, dues disbursements to the concrete workers Local 33. In 1985 the payout of \$228 was listed as being for the "local cement union." These payments, however, were on behalf of corporate president Leonetti only; other Scarf employees were non-union.

Scarf, Inc., as noted, was a concrete subcontractor on at least four casino hotel construction sites—those of Bally's Park Place, Harrah's Marina, Atlantis (formerly the Playboy), and the Claridge. Despite Scarf's notoriety, it only recently (September, 1985) was put on New Jersey's list of companies forbidden to work on state-funded projects. The Division of Building and Construction in the State Treasury Department maintains this list of "suspensions, debarments and disqualifications of firms and individuals." Additional details on Scarf's activities will be noted later as appropriate.

Much biographical data has been published about Scarfo since he became the old Bruno gang's boss, after Philip C. Testa's murder in 1981. Therefore, only a few details relating to his connection with Scarf and other mob companies will be noted here. The most recent State Grand Jury indictment against the Scarfo mob was not the first to involve his Scarf, Inc. In August, 1985, both the corporation and its listed president Leonetti were indicted as a result of an investigation concerning a New Jersey Housing and Mortgage Finance Agency (HMFA) project on which Scarf, Inc., was a subcontractor. This inquiry produced allegations of theft by deception, corporate misconduct, false swearing and tampering.

A key element in this case was a written denial, on an eligibility certification form required by HMFA, that any principal of the corporation or any of its records were under investigation. At the time the certification form was submitted on behalf of Scarf, Leonetti was under investigation in the federal corruption probe that ultimately sent former Atlantic City Mayor Michael Matthews to jail.

Available corporate records also reveal transactions with certain companies that suggest Scarfo's influence over these entities. Finally, Scarf, Inc., papers reveal that some of its deals were of a personal rather than business nature, involving the purchase and sale of residential property that had no apparent corporate purpose.

Nat-Nat, Inc.

This subcontractor also performs a vital construction task and the success of projects on which it works also depends on the compliance of general contractors or project sponsors with its dictates. Nat-Nat specializes in the placement of steel rods around which concrete is poured to produce reinforced concrete. The rods utilized by so-called rod setters to reinforce the concrete are referred to as "rebar," hence the use of the word in the names of other contractors specializing in this field.

Nat-Nat was incorporated in 1979, as with Scarf, Inc., in time to attempt to cash in on casino construction. Its president is Salvatore J. Merlino, who had been Scarfo's underboss until superseded by Scarfo's nephew Leonetti early in 1986. The demotion was imposed about the time Merlino began serving a jail sentence for attempting to bribe a police officer who had arrested him for drunk driving. Although Merlino's crime family status has diminished because of his chilled relationship with boss Scarfo, his brother Lawrence, a Scarfo soldier, and Nat-Nat's vice president, has continued to operate the company with unusual success considering its organized crime subjugation. Until early 1986, Nat-Nat shared office space with Scarf, Inc., in Atlantic City. It is currently headquartered at 15 North Decatur Avenue, Margate City, the residence of Lawrence Merlino's estranged wife and their children. A son, Joseph N., is listed as president of Nat-Nat's corporate

clone, Bayshore Rebar, Inc., which was formed to undertake subcontract work that might escape Nat-Nat because of its underworld disrepute. Despite such deserved discredit, however, Nat-Nat handled rebar work on several casinos, including Caesar's, Harrah's, Golden Nugget, Tropicana, Showboat, and Hilton (now Trump's Castle). The S.C.I. believes Nat-Nat—or another subcontractor under its control—also completed rebar work on Resorts International's new Taj Mahal.

An audit of corporate records indicates that the now defunct Toro Construction Co., Inc., subcontracted more than \$1.8 million worth of rebar projects to Nat-Nat between 1981 and 1984. Toro has been identified by law enforcement as a Scarfo mob-dominated corporation.

Nat-Nat's subcontracting work has not been confined to the Atlantic City area. A curious set of events occurred in 1982-83 when it was the rebar subcontractor for the construction of a sewage disposal plant operated by the Passaic Valley Sewerage Commission in Newark. This job site was the scene of strange visitations by Scarfo mob people in early 1983, including twice by the late Salvatore A. Testa. These incidents raised questions in law enforcement circles since these visitors were not connected with Nat-Nat, rebar work or any facet of the project. The only connecting thread was their organized crime association with the rebar subcontractor Lawrence Merlino.

Lawrence Merlino was most recently indicted in July, 1985, for allegedly disposing of the body of a murdered gang member. The State Grand Jury charged him and a Joseph Ligambi with conspiracy and hindering prosecution. The trial is pending.

An Expert's Overview

In many of its public actions, the S.C.I. utilizes expert witnesses with relevant law enforcement background to set the stage for its investigative findings and to provide a transition from one issue to another. For this review, authoritative testimony came from Ronald C. Chance, a special agent assigned to the Organized Crime and Racketeer-

ing Section of the U.S. Labor Department's Inspector General Office. Chance's commentary was particularly helpful because the sum of his experiences at both the federal and state levels had a direct relationship to the Commission's probe—a background encompassing not only six years with the Labor Department but also 15 years with the New Jersey State Police, including four years with the State Police Intelligence Bureau. Chance also has testified before U.S. Senate committees, the President's Commission on Organized Crime (of which the S.C.I.'s Intelligence Chief Justin J. Dintino was a member) and, most recently, the Governor's Council on Organized Crime in Tampa, Fla.

"You Can Control the Whole City"

At the outset Chance's testimony noted not only the truism of organized crime's presence in Atlantic City and elsewhere in New Jersey but also its relationship "specifically to casino construction and publicly funded projects." He recalled how Leonetti's Scarf, Inc., and the Merlino brothers' Nat-Nat, Inc., poured concrete or produced steel-reinforced concrete for most of the original casino construction projects, and how the mob, even into 1987, was working on Resorts International's newest casino. Chance also related how Scarf and Nat-Nat profited from their special influence over a few key labor unions—specifically Concrete Workers Local 33 and Ironworkers Local 350. As Chance told the S.C.I.:

You have two primary sources through which construction contracts can be awarded in Atlantic City, and that's through the influence of [Local 33] or through the influence of [Local 350] . . . I don't believe it's just a coincidence that Nicky Scarfo created the companies, one being a concrete company and one being a steel company.

Atlantic City, being an island, requires reinforced concrete and steel for all construction for commercial building, and if you can have some influence over either of these two unions or over either of these two phases of construction, then you can control the whole city.

Mob's Union Control Pivotal

Chance testified that, in addition to the Scarfo mob's connections with the roofers and the bartenders union locals in Atlantic City, there was no question but that certain officials of the concrete workers and the ironworkers locals in Atlantic City "have a relationship with people who own companies who are organized crime-oriented people." He conceded that it was difficult to relate labor unions to organized crime effectively because normal contacts between union leaders and contractors, or their agents, on legitimate matters serve to cloak possibly sinister discussions. Although the health and welfare of rank-and-file union workers often are at stake, he continued, they "have no idea what's going on." Nonetheless, Chance added, there are relationships between the construction trade unions and key mob figures "which go beyond [what] one would expect to exist between a union official and a principal in a construction business." Responding to questions by S.C.I. Executive Director James J. Morley, Chance declared that:

Organized crime is in business to make money, and they are going to go wherever the money is, and right now the money is in government building, government contracts, the money is in union health and welfare pension and benefit plans, and the money is in casino construction. There is an enormous amount of money that's available and being spent for these purposes, and just like vultures flying over, [organized crime is] just sitting there waiting to take a share of it.

Further, Chance pointed out, organized crime's perversion of the legitimate concerns of labor unions, in connection with certain mob-controlled union locals, creates a "monster" that can elude law enforcement:

That's why it's so dangerous to have a group of criminals running a union because they can do things that would never be able to be done anywhere else, and they are aware of this and that's why they seek unions, because . . . not only do they extort from the public, but once they get large unions and they create all of these . . . scams [and] it's just a never ending source of money for themselves. . .

Greed Blinds Contractors

According to Chance, when a mobster can tell certain contractors whether a job is or is not to be a union job:

You have taken the free market and closed the market and you have a group of individuals dictating that this is the way it's going to be or it's not going to happen, and that happens regularly in Atlantic City because of the influence of organized crime in the construction industry.

Q. *Do you think it's any secret to contractors that Scarfo exerts such influence?*

A. I know that it is not, but if you were to get 20 of them in this room and ask them the same question, they would all tell you they don't know anything about it. The reason for this is that everybody is happy, everybody is making money. And if Scarfo is making you money and the unions can employ their members and they make money and they are happy, and the general contractors are making money, and the casino construction, especially because there is such a rush to open these places up and the amount of money that they are going to make is so great that they are willing to pay any price to get opened and they have set themselves up as perfect extortion victims. And everyone knows that to get along you're going to have to do certain things, you're going to have to hire this company to do this and hire that company to do that, and that's an accepted method of doing business in Atlantic City. . .

Not only do organized crime people control the distribution of labor, but in some areas they also control the distribution of resources, concrete, and other types of material, building materials necessary to put these projects together.

When they can do that, then they can dictate who the people are that are going to be the suppliers of steel and the suppliers of concrete and the people who are going to be erecting the pipe and the steel, your time-keepers, [and] the people who are going to be the shop stewards.

According to Chance, organized crime can circumvent almost any statutory protection for the citizenry: "criminals will find a way," he declared, "to use it to their own advantage." This was illustrated, he said, by the Scarfo mob's perversion of the law requiring that 20 percent of all construction contracts—not only for casinos but also for highway, sewer, water storage, housing and other public works in New Jersey—had to be awarded to companies headed or controlled (at least on paper) by such minorities as blacks, Hispanics or women. Such companies, he said, are easily created by mobsters or mob associates, who utilize their wives or other willing minority contacts as corporate figure heads while they control the operations—and the finances. When S.C.I. Commissioner Paul Alongi pressed Chance for more specifics on the Scarfo mob's corruption of New Jersey's governmental efforts to promote minority participation in both public works and casino construction, the witness confirmed the S.C.I.'s investigative findings in this area:

My experience has been that the organized crime people who are already in this business of doing concrete and steel and other types of construction activities saw this as another opportunity to legitimize the illegal things they were already doing.

Now, rather than say this individual subcontractor will get the concrete subcontract or else, they now say this individual subcontractor is a minority and you can solve your minority hiring problem by giving this contract to this individual minority contractor, and so this individual minority contractor gets the contract, and it's the same organized crime guy doing the work who used to be the guy saying you must give this contract to this individual. It's just an excuse that's been created.

Chance questioned whether Scarf and Nat-Nat could be characterized as bona fide union companies. In Scarf's case, union dues were paid for the company's president, Leonetti, and a few of Leonetti's relatives, but "everyone else was non-union. . ." As for Local 33's reaction, Chance declared that Leonetti "is going to do what he wants to do and the union is not going to do anything about it." Indeed, he added, although Nat-Nat uses union labor on its rebar jobs, it apparently

is permitted to renege on such obligations as welfare and pension contributions, thus threatening the future health and retirement security of its workers, without their knowledge, in order to gain a bidding advantage over other contractors for lucrative contracts. Observed Chance:

If Nat-Nat can come in and legitimately bid on a job knowing that it's not going to pay the health and pension plans and it's not going to be forced to—this one thing gives Nat-Nat an advantage over every other competitor and every other bidder.

Specific examples will be cited later of construction projects on which these mob-controlled companies reneged on union benefits, and other contractual provisions for their workers, by book-keeping ruses or simply by controlling the time-keepers and shop stewards who are responsible for job performance records. At this point, however, clarifying details on how such scams against the welfare of workers on mob construction project's are perpetrated should be provided. Chance testified about the specifics:

Q. *When Nat-Nat goes in on a sealed bid situation and underbids by 12½ percent, I would assume that Nat-Nat at that point knows that it is not going to make those benefit payments to the union or to the [pension] fund entity. Is that safe to assume?*

A. Sure.

Q. *And is it your opinion that Nat-Nat feels secure in making that assumption because Nat-Nat knows that because of its connections in the union it's not going to be pressed for those payments?*

A. Well, just as in the case of Scarf, Inc., where they have one of their own people operating as a timekeeper and foreman, Nat-Nat had the same situation. They had an individual who . . . cooperated with me and explained to me how these systems work. This individual became an employee of Nat-Nat and he was Nat-Nat's timekeeper. His obligation as a shop steward in Local 350 was to report to Local 350 who all the employees were, to check that each of these employees was a member of the ironworkers and that he collected the dues

and assessments that were due. His report that he filed at the end of each week was supposed to be compared with the contributions reports that Nat-Nat made to the district council of the welfare fund, so there is a system of checks and balances, but this individual spent his time collecting loan shark debts and football pools and providing hookers at the lunch wagons for the people on the construction site. . . He was a criminal himself and he was a part of the scheme to defraud the union and the people that they are working for. And so Nat-Nat and Scarf, Inc., being companies controlled by criminals, have employees who are criminals and their employees are in influential positions with the union and can permit them to complete the circuit to operate scams.

Q. *And do those situations exist further up in the union hierarchy than the shop stewards?*

A. Yes, like a business manager.

Q. *Other than through holding back on the benefit contributions, are there any other union related mechanisms that companies like Scarf or Nat-Nat, especially Nat-Nat, can use to enable it to underbid other legitimate businesses?*

A. That can use all non-union employees and pay them \$5 an hour, or \$7 a hour, when the average ironworker can earn maybe \$18 an hour, and they can bring in a bunch of people—firemen, bus drivers, policemen—and pay them \$7 an hour.

Q. *Is that in fact done by Nat-Nat?*

A. Yes.

Q. *And is that done only because the union acquiesces in that?*

A. Yes.

Q. *And is it your opinion that but for the connections that Nat-Nat has in the union that they wouldn't get away with that?*

A. If they tried to do that in an area where legitimate unions were operating, that would not be permitted.

Q. *And would a legitimate contractor or non-organized crime connected contractor or sub-contractor be able to get away with the same kind of thing?*

A. No.

Who Are the Mob's Victims?

Chance recalled examples of union workers who had to abandon retirement plans when they learned that contractors over the years had short-changed their pension accounts. With such mob companies as Scarf and Nat-Nat, he testified, the unions they control are not going to monitor these accounts—"no union," he said, "is going to walk in on a Nat-Nat job and check to see how many hours people are working and complain about [the company] not making the payments." As a result, Chance continued,

Organized crime gains. They make a profit which is much greater from the job than I would make or you would make, and because they know in advance they are going to make this profit they have an unfair advantage over you and me when they bid to get the job in the first place, so they can bid on the job and get the job and prohibit you and I from getting the job because they know in advance that they are not going to be required at any point to make the [union] payments.

Chance also stressed that, as an agent of the federal government, he is obligated to see that union workers are not being "defrauded" of their rightful benefits. Even when a contractor on publicly funded projects utilizes non-union labor he must pay the prevailing wage rates, or union scale, and also the same benefits that would accrue to a union member. The range of individual victims of organized crime's machinations at construction projects was wide—even extending to the thousands of shareholders who own the casinos that spent hundreds of millions of dollars on their gaming palaces, generally with borrowed funds requiring costly amortization. He cited Bally's casino hotel as one example of stockholders being victimized by the extortive costs of dealing with mob contractors:

Bally was built in 1979 and 1980. Well, the prime interest rate changed from the time the casinos opened from around six percent in 1975 to 21 percent. It has a great deal to do with the profitability of my corporation and the value of those shares if I have an overhead of 100 million dollars or 200 million dollars. And if the price that is extorted from me for construction is 100 million dollars more than what it should have been, then my shareholders are going to pay, over whatever period of time that they borrowed this money, interest on that money so their shares of stock are worth 100 million dollars less. So, everyone who owns shares of stock in those corporations who have been extorted by organized crime are victims because their shares are worth less than they should have been, their equity is less.

Similarly, with state-funded public works, whatever added cost must be paid because of mob extortion and other frauds becomes an unnecessary and excessive burden on all taxpayers. Chance's testimony continued:

With a state-owned project, the State sells bonds for highway construction, for housing, and [for] whatever other things it is building, and the State is paying interest on these bonds, and if it is being defrauded by unscrupulous or organized crime contractors—it happens either way—the State is being victimized because it is paying more money than it should. . .

Mob Savvy About Fiscal Flim-Flams

Organized crime entrepreneurs are no strangers to the most sophisticated of corporate ploys and can wheel and deal as artfully as any unscrupulous penny stock promoter. They can re-assign their own subcontracts, perhaps to companies they can milk secretly, they can be the silent partners in joint ventures with phony minority companies, or with companies that sign the payroll checks while the mobsters "supervise" a hand-picked labor force on the job site, or they can connive with subcontractors who can obtain the liability coverage or bonding for which they

themselves cannot qualify. S.C.I. Counsel Morley asked Chance:

Q. *General contractors tell us that one of the advantages of using rebar subcontractors is that you not only get the labor, you avoid putting them on the payroll, writing the checks, plus the rebar subcontractor provides supervision. That's just another way of saying that they are providing union foremen, isn't it?*

A. Yes. Most of the contracts that I have seen, particularly with Nat-Nat, the service that Nat-Nat is actually providing is supervision of labor, not provision of labor, it's the supervision of labor, and Nat-Nat merely is being paid for being there. They are being paid for having somebody there that is in charge of the people who are working for the casino—or for the general contractor.

They are actually—again, they do relieve the general contractor of the responsibility of making the reports. The general contractor doesn't have to make any report to the union involved for whichever trade it is and he doesn't have to keep all these payroll records, he doesn't have to keep unemployment compensation records, and all the other things necessary for payroll. And so the subcontractor will [tell] him on Friday afternoon or on Thursday afternoon what [he needs], whatever his weekly payroll is, and they wire transfer the money to the subcontractor's account and the next day the subcontractor writes the checks, and all he really is doing is providing the payroll service. He is not providing any expertise or labor that this individual could not have done himself, he is providing a relationship with the local people and he is providing a payroll service.

Mob Presence Flaunted at Job Sites

Whether the construction jobs are for casinos or publicly funded projects, an organized crime presence is commonplace at job sites, Chance testified. He recently observed Scarfo soldier Merlino and his son Joseph at Showboat and Resorts International building projects; in fact, the scenario demonstrated that Nat-Nat "was running both operations at the same time."

Chance's testimony was based on surveillances at both casino and non-casino projects in Atlantic City:

Q. *Other than sites where you would logically expect Lawrence Merlino to be as a result of the fact that Nat-Nat has an open involvement in the construction, have you seen him or Scarfo or Leonetti at any other construction sites?*

A. I saw Larry Merlino at the construction of a Seven Eleven on Brigantine Boulevard, in Brigantine. I saw Larry Merlino and Phillip Leonetti together at the Metropolitan Plaza housing project that was being financed by the State. As a matter of fact, on numerous occasions while Nat-Nat was working, they were working at Resorts International and at the Metropolitan Plaza and Joey Merlino, the son of Larry, was running back and forth all day long. He would go to work on Resorts for a couple of hours and then return to Metropolitan Plaza and work there for a couple of hours. He was working for Resorts at one place and at the state project at the same time.

Q. *How about Nicky Scarfo? Have you seen him at any job sites?*

A. He was in a car when I saw Merlino and Leonetti at the Metro Plaza, the State housing project. He doesn't work. I've never seen him working.

Scarfo's president, Leonetti, apparently knew the business agent of ironworkers Local 350—Thomas Kepner—well enough to be asked by Kepner to intervene in a union problem that the labor boss couldn't himself resolve. In addition, Chance testified, "we have been told that Kepner refers work, that Nat-Nat is one of the companies Kepner refers work to."

Frequent contacts between certain labor union officers and mobsters are essential to organized crime's control of a construction site—not only to squeeze profits from the funds with which the project is being financed but also to grab additional revenue from bookmaking, loansharking, prostitution and other illegal diversions. Chance's testimony provided a graphic portrayal of such mob-influenced on-site corruption:

When you take construction workers and put them—put two or three thousand of these people in an enclosed area with a fence around, and these are the kinds of people who play football pools and bet on horses and borrow money when they need money to pay their bills for a week or two weeks and people who drink and probably abuse drugs, or whatever, and people who are looking for sexual favors, and things of this kind, and you put a bunch of these people in an enclosed area and have it controlled by an organized crime group and every desire and urge that these people have are going to be supplied by organized crime, and they can dictate who the people are going to be that collect loan shark debts, make loan shark loans, collect gambling, and operate gambling and loansharking and prostitution activities on construction sites, that is a regular occurrence on large construction sites. . .

Fiscal Flim-Flam At Nat-Nat

Accounting practices that defy explanation are commonplace at organized crime-controlled corporations whose principals know that a paper trail can lead to prison. Conjunctively, mob entrepreneurs realize that a prerequisite for artfully muddled paper work is a bookkeeper whose subservience is a more important employment qualification than balance sheet savvy.

S.C.I. accountants confirmed that these conditions were exemplified at mob-owned Nat-Nat. At least during the period between August, 1983, and July, 1986, the records were the handiwork of one Joseph (Joe Beatles) Gollotto, of Northfield, near Atlantic City, whose varied background included the operation of three Philadelphia clothing stores between 1973 and 1983 and a stint as a state-licensed janitorial supervisor at the Tropicana casino just prior to his employment as an "accountant" by Nat-Nat's day-to-day operator, mob soldier Lawrence Merlino. Gollotto's immunized testimony at the S.C.I. indicated that his friendship with mob boss Scarfo, the Merlino brothers and other mob subalterns matured during the years when they patronized his Philadelphia stores. Although Gollotto's testimony was

marked by a contrasting mixture of forgetfulness about organized crime matters and almost total recall of less perilous topics, he left no doubt that he enjoyed—by the time he became Nat-Nat's bookkeeper—a trusted status in the Scarfo mob's inner sanctum. For example, he admitted that he had acquired his Northfield home from one Louis Russo, a Nat-Nat ironworker, and assumed Russo's remaining \$92,000 mortgage in a transfer transaction that was sealed—where he could not remember—without a written contract and at a cost of only \$1, a deal similar to the transfer to Scarfo underboss Leonetti by the same Russo of a \$127,000 Longport condominium, also at a cost of only \$1. The frequency with which mob figures visited his home also testified to their faith in him, particularly Lawrence Merlino who, Gollotto admitted, dropped in with assorted girlfriends in tow. Additionally, he was a fellow traveler with gang bigwigs, not only to Florida but also to tourist havens in Italy, another sign that he was no mere hanger-on in mob circles.

Relative to his work with Nat-Nat, Gollotto conceded his background as an accountant was limited to keeping his own books and records as a clothing store operator:

- Q. *Did you have any training or experience in bookkeeping, prior to the time that you went to work for Nat-Nat?*
- A. Yes.
- Q. *Any formal training, any courses, any programs in bookkeeping?*
- A. Well, I graduated [from] high school.
- Q. *Did you take accounting or bookkeeping while in high school?*
- A. I don't recall.
- Q. *Did you have any prior experience in bookkeeping?*
- A. Yeah, sure, in the clothing store.
- Q. *Other than in your own businesses, other than on-the-job training in your own businesses?*
- A. Basically, that's where I learned bookkeeping, in my own businesses.

Q. *Have you ever done any work of any sort, whether compensated or not, for Nicodemo Scarfo?*

A. No, sir.

Q. *Do you know of any reason why Mr. Scarfo would describe you as "my accountant"?*

A. No, sir.

Whatever "accounting" work he may have done for Scarfo, his bookkeeping activities for Nat-Nat were indelibly evident in that corporation's papers. He not only wrote most of the company's checks, including his own, but he distributed pay checks to laborers at various job sites, discussed prospective bids with other contractors and handled telephone calls. When Merlino invested over \$50,000 in a new video store in Atlantic City, Gollotto wrote those checks and handled the store's records.

Another large check processed by Gollotto was a \$25,000 payment to Leonetti that was identified in the checkbook as a "consulting fee." As usual, Gollotto's recollection of this out-of-the-ordinary payment—on July 11, 1984—was scanty despite its singularity:

Q. *Prior to just now, were you aware that Mr. Leonetti had gotten \$25,000 from Nat-Nat on that date?*

A. I remember the fee, but I don't remember, you know, when it was, what date it was.

Q. *You remember the fee?*

A. Yeah.

Q. *Do you know what services Mr. Leonetti performed for Nat-Nat that generated that fee?*

A. No, I don't.

Gollotto's Check-Juggling Splurge

A peculiar splurge of check writing for purposes he could not remember highlighted Gollotto's bookkeeping career at Nat-Nat during 1984. In addition to the pay-off to Scarfo mob underboss Leonetti in the form of a \$25,000 "consulting" fee, Gollotto wrote a series of checks totalling \$17,500

as loans to himself, for largely unexplained reasons. He then received a \$35,000 bonus check out of which he repaid the loans. Gollotto's fragile memory of these monetary manipulations was initially tested by Counsel Morley's attempt to trace the loans that the bookkeeper made to himself by means of Nat-Nat checks during the first half of 1984:

Q. *It appears that each one of those checks was written by the same person. Did you make out those checks? Did you fill in the name of the payee and the amount of money and the date and so on on those checks?*

A. Yes, I believe so.

Q. *Let me ask you this, the first item, the \$1500 loan in January of 1984, what did you use the proceeds of that loan for?*

A. I don't recall.

Q. *Did you approach Lawrence Merlino in order to get that loan?*

A. I must have, because he would have approved it.

Q. *Did you give him a reason as to why you needed a \$1500 loan?*

A. I must have needed it for bills, to pay bills.

Q. *In January of 1984, did you have a checking account?*

A. I must have.

Q. *Do you recall whether you deposited this check, Exhibit 8, in that checking account?*

A. Is it on the check?

Q. *Well, there is no account number on the check and it appears that that check was cashed at the bank, upon which it was drawn. . . Do you have any recollection as to whether you deposited this check in an account or whether you simply cashed it?*

A. I don't remember.

Q. *How about Exhibit C-9? Again, there is no account number under your endorsement. Do you have any recollection as to whether you*

deposited that check into an account or whether you took the \$5,000 in cash?

A. I don't remember.

Q. *Do you recall for what purpose that loan was taken?*

A. No, I don't.

Q. *Is it common for you to walk around with \$5,000 cash in your pocket?*

A. No.

Q. *But you don't recall whether you simply cashed that check out and put the \$5,000 in your pocket or whether you deposited it?*

A. I don't recall.

Q. *Let me show you Exhibit C-10, the \$10,000 check in May of 1984. Again, it appears that the check was negotiated at the bank on which it was drawn and didn't go through any other bank or any clearing bank. Do you recall for what purpose the \$10,000 loan was taken?*

A. In order to pay bills.

Q. *Do you recall whether you deposited the proceeds of this check in an account or whether you took the cash and walked out of the bank with the cash in hand?*

A. I don't remember.

Q. *And given your answer to a previous question, I take it that you don't often walk around with \$10,000 cash in your pocket?*

A. Well, it's a good feeling to walk around with \$10,000 in your pocket.

Q. *When was the last time that you had \$10,000 cash in your pocket?*

A. I don't know if I had \$10,000. I don't remember when it was, actually.

Q. *Have you often had \$10,000 cash in your pocket?*

A. Yeah, when I was in the clothing business, sure.

Q. *That was prior to your working for Nat-Nat?*

A. Yes.

Q. *Other than the times when you worked in your clothing business or when you may have taken some money from the casinos in winnings, have you ever had \$10,000 cash in your pocket?*

A. Well, if I cashed that check and had not deposited it, then I guess I had it at that time.

Q. *The last item that we were talking about, Exhibit C-11, that's the \$1,000 check in June. Once again it appears that the check was negotiated at the bank on which it was drawn. Do you have any recollection as to what purpose that loan was for?*

A. I guess to pay bills.

Q. *And once again, do you have any recollection as to whether you deposited the proceeds of that check in an account or whether you walked out with the cash?*

A. No, I don't.

Bonus Day at Nat-Nat

July 11, 1984, the day on which Gollotto received his \$35,000 bonus, was a major check-writing day at Nat-Nat, since that also was the date of underboss Leonetti's \$25,000 "fee" as well as bonuses of \$35,000 to Joseph N. Merlino and \$10,000 to Joseph S. Merlino, Salvatore's son. Although Gollotto's bonus exceeded his annual income of \$31,000, his recollections remained vague:

Q. *Was there a reason why you received a bonus of that amount? How did it come about that you got that bonus?*

A. I guess it was from the work that I do.

Q. *How did you become aware that you were going to get a bonus?*

A. I don't recall.

Q. *Did somebody tell you that you were going to get a bonus or did somebody just walk up to you with a check for \$35,000 and say, "nice job, Joe?"*

A. I don't recall.

Q. *The records of Nat-Nat show that on July 11, 1984, you received a \$35,000 bonus and that on the same day you made a loan of the same amount to Nat-Nat? Do you have any recollection of that?*

A. No, I don't.

Q. *Did you ever have any conversations with Lawrence Merlino about the reasons for your receiving the \$35,000 bonus?*

A. I just thanked him for it.

Q. *Did he just come up to you and give you a check or did he mail you the check? Did he leave the check on your desk?*

A. I don't remember.

Q. *When was the last time, other than the time that you received the bonus, that somebody gave you \$35,000 unexpectedly—money that you didn't have to pay back, money that was yours, either as a gift or as a form of compensation, \$35,000 in one lump sum?*

A. That was the only time.

Q. *Do you recall where you were when you received the check from Mr. Merlino?*

A. No, I don't.

Q. *Do you recall what, if anything, he said to you about the bonus?*

A. Not really, no.

Q. *The handwriting on that check, not the endorsement, but the handwriting that fills in the payee and the date and the amount appears to be different from the handwriting on the other exhibits that we have talked about. Is it your handwriting?*

A. No, it's not.

Q. *Do you know whose handwriting it is?*

A. This might be our accountant's handwriting.

Q. *But it's not your handwriting?*

A. No. He wrote real neat like that.

Q. *Once again, on the back of the check there is an endorsement. Is that your endorsement?*

A. Yes.

Q. *Do you recall what you did with that check? Did you deposit it in an account? Did you cash it out at a bank?*

A. I recall repaying the money that I previously borrowed from Nat-Nat and then just going out and partying with the rest of it.

Q. *You don't recall, though, whether you simply endorsed this and returned it to somebody in the company to redeposit it in the company account?*

A. I may have redeposited that in the company account and then minused whatever I owed the company and took the balance out.

Loan "Repayments"

Despite the initial return of the bonus, Gollotto quickly recovered \$18,119.80 in the form of two subsequent Nat-Nat checks that he wrote to himself. However, while he vaguely assumed he used the cash to "pay bills" and for "partying," he could recall little else about the what-fors of the two transactions, as the testimony demonstrated:

Q. *There are two more checks. Exhibit C-13 is check dated July 30, 1984 and it's made payable to Joe Gollotto and it's for \$9,119.80. C-14 is a check [of] the same date, with the same payee and is for an even \$9,000. On C-13, are the writings on the face of that check in your handwriting?*

A. Yes.

Q. *If you turn it over and look at it, there is no endorsement on there, is there?*

A. No, no signature.

Q. *Do you recall what you did with that check when you received it?*

A. I remember paying a lot of bills and just having a good time, partying.

Q. *Before you got to partying, you had to turn that*

check into cash. Do you recall whether you deposited it or whether you took cash in hand?

A. To tell you the truth, I don't recall.

Q. *Do you know why there are no endorsements on it?*

A. I have no idea. Maybe I just deposited it and it went through my account.

Q. *Do you recall whether you gave any part of the proceeds to any other person, either as a loan or as a repayment of loans or for any other purpose?*

A. I gave my wife money, I gave my children money, I gave my mother money.

Q. *Other than your family?*

A. No.

Q. *Did you give Mr. Merlino any portion of the proceeds of that check?*

A. No.

Q. *On C-14, are the entries of the face of that check in your handwriting?*

A. Yes.

Q. *Is the endorsement yours?*

A. Yes.

Q. *Do you recall whether you deposited C-14 in an account or whether you took the \$9,000 in cash?*

A. I don't recall.

Q. *Do you recall what you did with the proceeds of that check?*

A. I probably paid a lot of bills.

Q. *Did you give any part of the proceeds of that check to any individual person?*

A. No, not that I recall.

Q. *Did you give any part of the proceeds of that check to Mr. Merlino?*

A. No.

Q. *Let me ask you this, the two checks that we just talked about, both of which are identified as repayments of loans from you to Nat-Nat, those checks are consecutively numbered out of the Nat-Nat checkbook and you have testified that you made out both of those checks.*

A. Yes.

Q. *Can you tell us why the two separate checks were made out instead of a single check?*

A. I think the way the bank works it, I know from being in business, if you make a check out for over \$10,000, I think you have to fill out a special form or something, so rather than go through the trouble with the bank, that's probably what I did. I always made it a practice in business.

Q. *So your purpose in making out two separate checks to an individual was [to avoid] the necessity of having to fill out those forms?*

A. Most likely.

Q. *Did you cash any of the checks that we have been talking about today that I showed you? Did you cash any of those checks at any casino or deposit them in a player's account at any casino?*

A. I don't recall, to be honest with you.

Nat-Nat's "Jobless Benefits"

Golotto was able to recall, in a groping way, how he got his head "banged" early in 1985 when a car driven by Lawrence Merlino, in which he was a passenger, was hit in the rear by an apparent drunk driver. As a result, he went off the Nat-Nat payroll from mid-February to mid-April. However, although he was receiving unemployment and accident insurance payments, he nonetheless was also the beneficiary of a series of weekly loans from Nat-Nat that generally matched the take-home pay he received when at work. Further, despite whatever the incapacities were that made him unemployed, he himself wrote all of the weekly loan checks to himself. His testimony indicated that the company check book was seldom more than a pen-stroke away during his period of "unemployment."

Golotto Got, and Forgot, Memory Lessons

The Nat-Nat bookkeeper's memory lapses became particularly pronounced when he was asked if he had discussed his subpoena to testify at the S.C.I. with anyone, including Lawrence Merlino. He insisted that he had but could not recollect the discussion, the nature of it or the subject matter. As he said, "I really don't have any idea, I don't remember." This prompted the following colloquy:

Q. *Do you consider yourself to be a person who has a good memory?*

A. No. I actually sent away for memory courses.

Q. *But you forgot where to send them?*

A. I got the course, but it doesn't work.

Mob Helps Build a Prison

Over a three-year period the mob-owned Nat-Nat company garnered more than \$300,000 in revenues for rebar work it subcontracted from Arthur Anderson, Inc., a general contractor from Vineland. Most of the money Nat-Nat earned as an Anderson subcontractor—\$220,627 of it—was realized from the construction between 1982 and 1984 of the \$15 million Atlantic County Justice Facility, which featured a dual complex of maximum security and minimum security prisons with sufficient cells, mostly single occupancy, for a total of 478 convicts. For contractor Anderson, Nat-Nat also did reinforcing concrete work on such other publicly funded projects as the Atlantic County Library in Mays Landing (in 1982, a \$9,024 contract), a solid waste transfer station for the Cape May Municipal Utilities Authority (in 1984, for \$19,066), and a Stockton State College dormitory project (in 1985, for \$2,100). Anderson, who began his career in the 1960s as a builder, primarily of county, municipal and other public works, professed a dismaying lack of concern during testimony at the S.C.I. about his employment of a widely known gangster for vital subcontracting work. Left unstated in his recollections was the probability that he knew how costly the consequences would be if he supplanted the mob subcontractor, even if a less incriminating replace-

ment could be located in a region notorious for its shortage of ironworkers. Anderson was asked by S.C.I. Counsel Morley about his knowledge of the violent organized crime background of Lawrence Merlino, who apparently was first utilized by the contractor for rebar work on the Atlantic County library:

Q. *At some [point] you became aware that Lawrence Merlino was affiliated with Nat-Nat?*

A. Yes. That was the time we were doing Atlantic County Library. I believe the Atlantic City Press had a big write-up about them.

Q. *Had you ever heard the name Lawrence Merlino prior to your engaging Nat-Nat to work on the Atlantic County Library?*

A. Just through the newspapers.

Q. *Do you recall what you had read about his being on trial?*

A. I think they were on trial for murdering somebody . . . at that time.

Q. *So prior to the time that you engaged Nat-Nat you had some knowledge of Lawrence Merlino but at the time you engaged Nat-Nat you didn't know that Merlino was Nat-Nat?*

A. That's correct.

Q. *But in the course of that Atlantic County Library project, you tied the two together, Merlino and Nat-Nat, because of a newspaper article?*

A. That's the first time that I had realized, when I had read the article, yes.

Q. *When you read that article, while the project was ongoing, did that cause you any concern about your using Nat-Nat?*

A. Not really. We didn't have any problem.

Q. *In any event, having read the article and whatever it was the article said, you had no qualms about continuing your relationship with him?*

A. No.

No Competition on Jail Job

In carrying out his \$8 million construction contract for the Atlantic County prison, Anderson had no second thoughts about going to a mob subcontractor for what would turn out to be an extensive rebar operation. Anderson testified that he gave the work to Merlino's company directly, without seeking a competitive bid, a tactic that might have cost him a cheaper subcontract but—as U.S. Labor Investigator Chance noted at length in his S.C.I. testimony—also protected him from far more costly mob-generated labor disputes or vandalism. Anderson was pressed particularly about the propriety of utilizing a known gangster on a jail project. All Anderson was concerned about, he contended, was that Merlino's company hired union labor. The testimony:

Q. I'm concerned about and my question to you is whether you had any concern, given his reputation, or what it said in the paper his reputation was, or what you had read in the newspaper about his having been on trial for murder, whether those facts in your mind created any concern about using him on a project for constructing a county jail?

A. No. They did a good job for us on the library and he has good people working for him so I hired him again.

Q. So your answer is that all those things didn't cause you any concern?

A. No.

No Notices On Mob Subcontractors

Although Anderson contended in his testimony that he had obeyed requirements for submission of the names of all subcontractors to the managers of the public projects on which he utilized Nat-Nat, there is no evidence in the files of the Atlantic County Facilities Management office that it was ever informed about the mob contractor's employment. Indeed, in connection with the jail project, it was only after Nat-Nat operators were espied on the job site, one month after work had begun in December, 1982, that the project's construction manager, Day & Zimmermann, Inc., of Philadelphia, notified Anderson he was in violation

of his contract for failure to give the required notice on subcontractors. Such a notice was sent to Day & Zimmermann on Jan. 10, 1983, but this correspondence apparently was never forwarded to the county's facilities management bureau. Even if it had been, as became evident during subsequent testimony, no action would have been taken to disqualify Nat-Nat since the office had no derogatory knowledge about Nat-Nat or its principals. This became clear when Joseph Picardi, the director of the Atlantic County Facilities Management Office, was questioned at the S.C.I.:

Q. Do you recognize the name of the firm Nat-Nat, Inc.?

A. I would not have at that time, I did not at the time of my meeting with your agent. I do now.

Q. You have learned something about the firm?

A. Well, the little I did know about the firm is that it allegedly is owned or operated by someone allegedly involved in organized crime.

Q. You have learned that since speaking with us?

A. Yes.

Q. ... Would you recognize the name Lawrence Merlino?

A. At that time I'm not sure. Today I do.

Q. Why do you recognize that name today?

A. From the media.

Q. In what context?

A. I know he's under investigation or has been indicted for certain crimes.

Q. How about the name Salvatore Merlino?

A. I think the same thing. At that time I don't think I would have recognized it.

Q. Do you associate either of those names with Nat-Nat, Inc.?

A. Today I do. I would not have in '83.

Q. Have you gotten any feedback from your superiors that you talked to about Nat-Nat and any procedural changes?

A. Only going back to 1983 and even just recently, we have, for instance, not seen a list from any agency that has Nat-Nat as a disqualified party. My understanding in speaking with your agent was that on January 10 of 1983 and prior to that Nat-Nat was not on any disqualified form. About two weeks ago I had occasion to look at a form with the purchasing agent on another party and on that list Nat-Nat was not on that list.

Q. Now, again, we're talking about a list of wage and hour violations?

A. That's the only list I've seen.

Similarly, the executive director of the New Jersey Educational Facilities Authority, Edward J. Bambach, testified that his agency was not notified of Nat-Nat's employment as a subcontractor on its 1985 Stockton College job. Such a notice is required of contractors at all authority projects, to be channeled through project architects. In fact, the space was empty on the subcontractor list under the topic, "reinforcing rods," a lapse that indicated the Anderson company itself intended to do the rebar work. However, Nat-Nat was at the time of the college dormitory project on a New Jersey Treasury Department list of companies and individuals "debarred" from contracting with the State. Bambach agreed that utilization of the Treasury Department's list in judging the qualifications of contractors or subcontractors for Educational Facilities Authority projects would be effective, according to his testimony:

Q. In terms of deciding an appropriate firm, would the state debarment, disqualification and suspension list be utilized when a name is submitted? I am talking about with respect to the subcontractor now.

A. We have not done that, no.

Q. Do you think that might be an idea?

A. Yes.

\$1 Million In Broken Windows

In an earlier job at Stockton College, where Nat-Nat was again a rebar subcontractor without the knowledge of Educational Facilities Authority,

another organized crime-influenced firm, Toro Construction Co., wound up as the defendant in a law suit alleging that its work caused leaking windows in college dormitories that it constructed. The suit seeks \$1.1 million in damages, according to EFA's director Bambach. On this project, in 1981-82, Nat-Nat was paid \$17,138 by Toro, which, although now defunct, had close ties to mob boss Scarfo, underboss Leonetti and soldier Merlino, to the extent even of posting bail for them when they were arrested for murder in 1979.

An organized crime connection does not of itself suggest a potential for inferior job performance. However, whatever the other reasons for poor work, mob-influenced depredations certainly would be the least surprising of any contributing factor. In the case of the Stockton College dormitory job, it remains a live issue at the Educational Facility Authority because, according to testimony at the S.C.I. by Director Bambach, the dormitory windows all leaked and the suit for the remedial work is still pending:

Q. Were there any problems in connection with that project?

A. Yes.

Q. What were they, generally?

A. The contractor was poorly organized to do business. It was late in delivering the buildings. We had 600 students descend on us who had been promised a bed and they didn't have one and when they finally got [into] the building, every window leaked and it caused us to try major repairs with the window units. They were not repairable. They had to replace every window in 11 buildings at our cost. We are now seeking to recover that cost against Toro and Toro's bonding company and the manufacturer, the architect and whoever else may have been involved.

Q. Do you have a figure for the remedial work?

A. \$1.1 million.

Q. \$1.1 million for the remedial work to correct the deficiencies that Toro left?

A. Yes.

Subcontractor, or Hauler?

A known mobster's company was utilized as a fill-hauling subcontractor on two interstate highway construction projects in 1985 and 1986. However, the Bureau of Contract Administration of New Jersey's Department of Transportation (DOT) contended that the company's involvement technically warranted exemption from its qualification controls over subcontractors. The company was A & R Trucking Co., Inc., owned by Albert (Reds) Pontani of Hamilton Township in Mercer County, who has long been recognized by law enforcement authorities as a member of the Scarfo organized crime family, and his son, Richard. The elder Pontani conceded in his S.C.I. testimony that A & R Trucking hauled dirt fill to various job sites during the construction of Interstate 295 between February and October of 1986, for which the general contractor paid \$47,661.50 to Pontani's company, and during the construction in 1985 of Interstate 95, for which the company was paid \$13,299.

Pontani Takes the Fifth

During his testimony at the S.C.I., the elder Pontani said he was president of A & R, which hauls dirt, blacktop and gravel. Nonetheless, he contended that he does not actively operate the company, that he could not remember working at all during the past 10 years and that he has never "taken any profits" out of A & R since it was formed almost two years prior to his appearance as a witness at the Commission's office on November 19, 1986. He valued the four trucks A & R owns at \$93,000 each, saying he purchased the first two vehicles with the help of a "multimillionaire" brother in Puerto Rico and other relatives and acquired the other two trucks on credit. Although he said he "stays around the office and around the yard," the business is run by Anthony Iannuzzio who, Pontani said, also is unpaid except for compensation for rental of the Division street site in Trenton at which A & R is headquartered.

Pontani refused to respond when he was asked if he knew or associated with such organized crime figures as Nicky Scarfo, Crazy Phil Leonetti, Lawrence and Salvatore Merlino, Thomas DelGiorno and others and if he was a member of "La Cosa Nostra," the "Mafia" or "any organized crime group."

Albert Pontani was arrested by the State Police in April, 1984, during a raid on a sports betting parlor and was indicted on a gambling charge later that year. He was found guilty and fined. In June, 1982, Iannuzzio was indicted on a fraud charge that involved an investment scheme relating to A & R and another company in which a Michigan resident lost \$82,000. This accusation is still pending.

DOT's Contractor Scrutiny Process

Both contractors involved in utilizing Pontani as a subcontractor were pre-qualified by New Jersey's DOT as responsible companies prior to the receipt of their bids. According to John A. Walz, the department's contract administration chief, all companies that seek DOT contracts in excess of \$200,000 must be pre-qualified. The questionnaires which contractors must answer require the listing of all corporate officers and stockholders with an interest of 10 percent or more, as well as general financial and performance background, references and an affidavit that all responses are truthful. Although the names of such subcontractors must be provided by the general contractor at the outset, many are not identified to DOT until the "active stage of construction." This "periodically" results in a subcontractor beginning work prior to being the subject of a notice to DOT but, Walz testified, such a sub, upon being found out, is forced to cease operating by an on-site engineer until cleared. Walz testified that DOT maintains its own list of debarred or suspended contractors while also utilizing, and contributing to, similar lists maintained by the New Jersey Treasury Department's Division of Building and Construction, the Federal Highway Administration and the American Association of State Highway Officials. DOT also uses information obtained from newspapers and television news programs and is guided by notices of indictments and other criminal actions from the Attorney General's Office. Walz also testified that the periods of debarment range up to five years or, in the case of certain suspensions, pending the outcome of an indictment or other formal criminal action against a contractor.

Walz addressed some hypothetical situations to provide background for S.C.I. review. He noted,

for example, that even if the Attorney General corroborated information that certain individuals were reputed to be involved in a criminal activity, DOT would need more reason than that to impose a debarment or a suspension, such as "an indictment or an actual conviction that would give us the right to act." In another setting, involving a disqualified company that utilized a "straw figure" in an attempt to qualify under another corporate name, Walz said the Attorney General's counsel would be sought and if he determined "it does constitute an 'affiliate circumstance,' that firm also will be debarred or suspended." On a final hypothetical topic, Walz conceded that no disciplinary action would be taken against a subcontractor who should have been disqualified during an ongoing project for which a contract was "signed and sealed" until after the completion of the project. He recalled that this situation had developed in the past "and those contractors were allowed to continue to completion."

The Pontani Technicality

A description of the role of Pontani's A & R Trucking Co. at the two interstate highway construction projects was provided to Walz, followed by this testimony:

Q. Would you have an explanation for us as to why you, I don't mean you personally, but why DOT would not have been notified about A & R Trucking on that project?

A. Well, to provide a scenario of how it could occur, being a hauler, they would, in essence, be providing a service to the prime contractor who, in essence, would be doing the work himself in regards to the placement operation of the fill. If they hire somebody to provide the service such as trucking, really that kind of falls in between our checkpoints, i.e., material supply, [or a] trucker who actually just hauls it. Unless it's an individual who owns the pit and is hauling and supplying also, they would not come or fall under the checkpoints that we have.

Q. Not to put words in your mouth, but in essence the hauling of fill would fall between the cracks on your checkpoints?

A. It could, yes.

Q. It's not something that you check for?

A. No. It's not because—there are a variety of services that a contractor could get involved in to accomplish a particular area of work. Our main concern is, primarily, are we getting material that is satisfactory, from that end of it, and are we dealing with a subcontractor who is going to be able to perform the actual work on site. We have not or we would not be that concerned about the hauling of the material itself.

Q. How the material gets from place A to place B?

A. Place A to place B, given that particular scenario, that's why I would say it could fall within the cracks, so to speak, of our checkpoints.

Q. You would not call trucking a sub?

A. I would not call trucking a sub.

Q. Would you be familiar with a name Albert (Reds) Pontani?

A. No.

Mob Ensures Labor Peace

As previously demonstrated, the reasons for keeping organized crime-controlled companies off publicly funded projects extend beyond a fundamental need to prevent public tax monies from being channeled into underworld bank accounts, only to be diverted later into the narcotics trade, loansharking and other illegal enterprises. For one, the admitted influence of mobsters over a few labor unions means that public tax dollars can be utilized to subvert the free and competitive labor market. Further, the very presence of mob entrepreneurs on any job sites threatens the integrity that every public project sponsor owes to the tax-paying citizenry. Additionally, the mob's capacity for extortive violence constantly threatens a stranglehold on the provision of materials and supplies that could drastically inflate project costs. Finally, for these and other reasons, a mob

presence at any construction site means that some legitimate contractor has been deprived of an opportunity to work and to put his employees to work. All of these conditions were reflected in the employment of Nat-Nat by Raymond International Builders, Inc., at a treatment plant project for the Passaic Valley Sewerage Commission in Newark in 1982-83, for which the mob-owned subcontractor was paid a total of \$528,718. (Raymond International paid Nat-Nat an additional amount of about \$220,000, including more than \$211,000 for work in 1982-83 on an Atlantic City boardwalk shopping mall project and \$7,210 for a rebar job in 1983 at the Hilton casino).

Raymond International had itself become a subcontractor on the Passaic Valley job, undertaking a major pile-driving assignment, for which the general contractor ultimately paid it over \$5.9 million, as well as an additional pile driving contract for a parts-and-personnel building, for which it was paid an additional \$365,000. The New Jersey Department of Environmental Protection approved the selection of the prime contractor for the overall Passaic Valley project but, following departmental practice, relied on the Passaic Valley Sewerage Commission as the recipient of public funds for the new structures to determine the acceptability of subcontractors chosen by the general contractor. The situation with respect to Nat-Nat's role in the project was obfuscated by the fact that it was the subcontractor of a more important subcontractor, Raymond International, at the job site.

"Union Harmony Was Considered"

Raymond International's northeastern division manager, Robert M. Winter, told the S.C.I. that Nat-Nat was employed to install reinforcing steel in pilings prior to concrete being poured into the pilings. Although he initially insisted that the choice of Nat-Nat was based on "the best price" of a number of competitive bids for the job, he later—hesitantly—conceded that another factor was his belief that with Nat-Nat on the job site "there would be no union problems." He had previously confirmed that he had become acquainted—by telephone—with Nat-Nat's vice president, Lawrence Merlino. He recalled that "we had Larry Merlino" as well as other potential subcontractors talk to the representatives of the iron-

workers and pile drivers union locals to resolve a jurisdictional dispute so there would be no labor disruptions. Counsel Morley, noting that Winter would not deny that he had told S.C.I. Special Agent Dennis McGuigan the use of Merlino's company would assure smooth labor relations, asked the witness if there was "something particular" about Nat-Nat or Merlino that would foster this belief on his part. Winter replied that he had had "information" that could "lead me to conclude he had certain connections." The testimony continued:

Q. *Now, you said that information . . . might lead you to the conclusion that Nat-Nat might be in a better position to ensure union peace?*

A. Well, I didn't say better position, I just said in a position.

Q. *What information were you talking about?*

A. Well, that he's linked to some organized crime and things of that nature. I mean, just newspaper talk, talk of, you know, just people.

Q. *Other than from the newspapers, have you gotten any information from any other source about these possible connections that Mr. Merlino has?*

A. Our superintendents that have worked on the job—you know, just rumors.

Q. *Where did the superintendents come upon these rumors, do you know?*

A. Other than their dealings with people working for them on the job site and various suppliers, that would be the extent of my knowledge of where they heard it.

Q. *Have you had discussions with anybody else in your company about the possible organized crime connections of Mr. Merlino?*

A. Yes. I definitely talked to my boss. I may have had some discussions with our in-house attorneys.

Q. *What did he say to you about these matters?*

A. Just joking comments that, you know "we better not use them" type of thing, that he was not—

Q. You say joking comments. Was he serious that you shouldn't use them or—

A. I don't recall him saying or directing me not to use them.

Q. Did you suggest in any way that you thought perhaps the company shouldn't use Nat-Nat anymore?

A. I don't recall actually discussing it, but I would not use them again and I believe just from my conversations with him we both assumed that each of us knew better than to use them again.

Mobsters Visited Job Site?

Mob soldier Merlino apparently visited the site of the Passaic Valley Sewerage Commission job, according to Winter, although he himself never met Merlino face-to-face until a Christmas party in South Jersey subsequent to the project. Winter also said mobster Salvatore Testa, who was shot to death in 1984, may have come to the Passaic Valley job site, according to his conversations with an assistant job superintendent. Law enforcement surveillances established that Testa visited the project at least twice.

Ironically, Winter did not meet face-to-face with Merlino until the Christmas party, which took place after both the Passaic Valley and Hilton casino projects had been completed. The party was sponsored by a concrete mix company that had close business relations with Nicky Scarfo's Scarf, Inc., until Scarf reneged on debts. Winter recalled the occasion:

Q. How many times have you been in the company of Mr. Merlino, Lawrence Merlino?

A. Once.

Q. Where did that take place?

A. In a restaurant in New Jersey, outside of Atlantic City. Buena Vista, I believe it was.

Q. Was it a large party?

A. Oh, yeah. There were a hundred or more people there.

Q. And did you speak with Mr. Merlino while you were there?

A. Yes.

Q. About how long of a conversation was it?

A. Maybe five minutes.

Q. Do you recall what you talked to him about?

A. Well, general pleasantries. It was nice to finally meet him. I believe he again wanted to know if there was any work that we had that he could do, and which we didn't, and I don't recall any—we talked about other items. I don't recall anything in particular. I think it was more just general conversation and how's business type of discussion.

Contractors Unchecked At Subcontract Level

George Goldy, who is chief of the Bureau of Construction and Grants Management in the New Jersey Department of Environmental Protection, testified at the S.C.I. that all prime contractors must be approved by his bureau prior to receiving a contract award. Under questioning by S.C.I. Counsel Charlotte K. Gaal, he said the review is done with the help of debarment lists obtained from the Treasury Department at Trenton as well as a federal list which the bureau receives periodically from Washington. But subcontractors—as is the case with procedures for scrutinizing casino vendors at the subcontractor level—are ignored, according to Goldy's testimony:

Q. Do you get involved with checking with the subcontractors?

A. No, we do not. All that we request and all that is requested of the successful contractor, whoever gets awarded the job, is that he supply a list of his subs to the grantee prior to beginning work. That's basically—

Q. In this case that would be the Passaic Valley Sewer Commission?

A. That's correct. They would be the grantee in this case.

Q. Is there any requirement that the grantee check the subs that are submitted?

- A. Not to my knowledge. I do not know exactly, but not to my knowledge.

CHAIRMAN PATTERSON: I guess the question stated a different way is that while you do check on the general contractor, the general contractor that wins the bid, you do not check on the subcontractors, you rely on the Passaic Valley Sewage to check on them?

THE WITNESS: That's correct.

CHAIRMAN PATTERSON: And I guess the question is has anybody thought that since it's desirable for you to check on the general contractor, it might also be desirable to check on the subcontractors? And the answer you've given is no, that hasn't been discussed.

THE WITNESS: That's correct.

- Q. *How feasible would it be to, say, provide a list such as this [Treasury Department debarment list] to the contractor who is getting that award, notifying him of those entities which cannot do business with the State of New Jersey up front before he selects his subcontractors, to put him on notice right away as to who would or wouldn't be acceptable? How about sending it out with the bid specs?*

- A. I guess it could be done, then.

CHAIRMAN PATTERSON: I guess that we're really saying is, from what we understand, this list, while it is a public list, it is not publicized very much, and what we're asking your opinion about is would it be a good idea to publicize it more?

THE WITNESS: It would certainly seem so. But, again, he should know it up front before bidding.

Mob At Nuclear Project Site

The following episode demonstrates the problems that have confronted major contractors in dealing with Ironworkers Local 350 in Atlantic City, problems that were particularly highlighted in the S.C.I. testimony of U.S. Labor Department Investigator Ronald C. Chance. At one point in his

testimony Chance specifically identified this Ironworkers local, and also cement workers Local 33, as troublemakers for all contractors coming into Atlantic City:

... I do know from informants and from other investigations that I have done that some union officials, including officials of Local 33 and Local 350, have instructed general contractors coming into the Atlantic City area from other parts of the country that they must hire specific subcontractors to do either concrete or structural steel or reinforcing steel in the Atlantic City area.

Initially, as will be detailed below, a major contractor attempted to construct a nuclear power plant, and failed after a disastrous dispute with Local 350, and again was disrupted when it went the "hiring hall" route at Local 350 in attempting a vital rebar project in the construction of the Tropicana casino in 1981. Not until it signed a "joint venture" agreement with Nat-Nat did it finally succeed in completing a contract, this time on a second nuclear plant project in 1984-85 at Oyster Creek. What follows is an outline of that corruptive evolution to a successful job completion only through of a partnership with the mob.

In 1977 the GPU Service Corp., an affiliate of Jersey Central Power & Light Co., launched the ill-fated construction of a nuclear power plant at Forked River in Ocean County. The prime contractor for this project utilized as a subcontractor for reinforced steel placement a nationally known corporation from Broomall, Pa., G & H Steel Services, Inc. G & H obtained ironworkers for its project from Local 350's business agent Thomas Kepner in Atlantic City, but labor difficulties soon disrupted the job site. In June and July, 1978, a work slowdown was followed by a three-week strike. At some point G & H employed the services of a self-styled labor consultant, Daniel J. Sullivan, currently serving a term at the federal prison in Fort Worth, Texas, for income tax evasion. In the late 1970s, Sullivan, a former Teamsters union official, was known as a close associate of Kenneth Shapiro, the financial deal maker for Nicky Scarfo and his fellow mobsters, and also as an associate of Roofers Local 30 boss John McCullough, who was murdered in 1980. Sullivan attended an international ironworkers labor con-

ciliation meeting in Washington, that appeared to have settled the 1978 dispute, and was paid at least \$15,000 for six months of effort. Yet, his association with G & H during this period of difficulty was recalled with obvious distaste by Donald Readler, former corporate secretary and controller of G & H. Indeed, Readler recollected the possibility that his company was the target of a labor union shakedown prior to the shutdown of the nuclear plant construction project. His testimony at the S.C.I. on Sullivan and Local 350 and its business agent, Kepner, follows:

Q. *Do you know what Mr. Sullivan's specific responsibilities were?*

A. My impression was that he was hired to create labor stability.

Q. *What do you mean by "labor stability"?*

A. At the time we were having a difficult time with Kepner as far as, you know, giving us good men.

CHAIRMAN PATTERSON: You described him as "labor consultant," why do you describe him that way?

THE WITNESS: That's what [was] on his letterhead.

CHAIRMAN PATTERSON: Are you inferring that you didn't think he was a legitimate consultant?

THE WITNESS: No, I didn't think he was.

Q. *What did you think he was?*

A. I thought he was a shyster myself, because I never saw him that much and I didn't see why we continued to pay him.

Q. *Were there problems that existed prior to Mr. Sullivan's engagement that were resolved after he had been engaged?*

A. I don't think they were ever resolved.

Q. *Problems continued?*

A. Until they stopped the job.

Q. *Was there any effort to downplay Mr. Sullivan's involvement at G & H?*

CHAIRMAN PATTERSON: Did they hide the fact that he was employed by you?

THE WITNESS: No, I don't think they went out openly and discussed it, but I don't think they actually hid it either.

Q. *Do you have any personal knowledge or knowledge through hearsay of any attempts that Thomas Kepner of Local 350 made to shakedown G & H on the Forked River project?*

A. I have a feeling it was done, but I have no way of proving it truthfully.

Q. *Did you ever have any discussions with anyone at G & H about that, or did anyone at G & H say anything to you about it?*

A. They probably didn't say anything, but at that time my office was next to where most of the meetings used to be, and I sort of remember overhearing something, but, again, it's so long ago.

Q. *And do you know whether if, in fact, there was a problem with Kepner regarding shakedowns, do you know whether that problem had any relationship to the engagement of Mr. Sullivan as a consultant?*

A. I can't prove it but I would assume it did.

Joint Venture With Mob Company

Having gone the hiring hall route at Local 350 for the Forked River nuclear plant project in 1977-78 and the Tropicana casino in 1981, with costly adverse results due to labor strife in both cases, G & H tried a different tactic in 1983-84 when it next undertook a job in Local 350's jurisdiction—a "joint venture" with the mob-run Nat-Nat company at yet another nuclear power plant project. The initial suggestion for this arrangement came from Anthony A. D'Ambra, then a G & H executive and brother-in-law of Lawrence Merlino.

This joint agreement followed the selection of G & H as the reinforcing steel subcontractor on a \$6.4 million radiation waste (radwaste) storage building at Oyster Creek under auspices of the GPU Nuclear Corp. and of Jersey Central Power

& Light Co. This was the first of a half-dozen joint venture agreements that G & H arranged with Nat-Nat but it was the only one that was written and signed. The particulars about the remaining unwritten agreements between G & H and Nat-Nat, as they relate to the objectives of this report, will be reviewed later.

G & H's nuclear radwaste deal represents one of several instances where Nat-Nat worked on projects that were funded through loans arranged and guaranteed by the New Jersey Economic Development Authority (EDA), but without any notice to EDA as required by that publicly funded agency.

Ironically, Nat-Nat had submitted a lower bid for the rebar work on the radiation waste storage building but had been rejected by the general contractor in favor of G & H's higher price. After a construction delay to complete processing of the power company's request for funding the project through the EDA (an agency which guarantees low cost bank loans to sponsors of construction and other projects that will generate jobs and other economic growth), that agency held a contractors' meeting to review legal and contractual requirements, including the submission of a "subcontractor's certificate." This session with EDA took place less than two months after G & H signed its joint venture pact with Nat-Nat on September 1, 1984, providing for a 50-50 split of profits. However, it was not until May 6, 1985, that G & H submitted the necessary subcontractors certificate to EDA, a form which required it to identify any relationship or affiliation with another company. G & H, despite the fact that Ernest C. Dana, G & H's vice president and stockholder, attended the discussion of contractual requirements, never disclosed on the subcontractor form its joint venture pact with Nat-Nat, nor did it inform the general contractor of this affiliation. G & H's Dana—who agreed to testify at the S.C.I. only in return for a grant of immunity—was asked about this lapse:

Q. *Let me show you Exhibit C-49, a document that's identified as the Economic Development Authority Subcontractors Certificate. Would you look at that and tell me if you're familiar with it?*

A. I filled this out.

Q. *Did you sign that, is your signature on the last page?*

A. Yes, that's my signature.

Q. *The second page [asks if] the subcontractor "is a subsidiary or affiliate of any other organization. If so, indicate name of related organization and relationship," and there's a handwritten "no" there.*

A. Yes, that's right.

Q. *Did you make that entry?*

A. Yes.

Q. *My question to you is whether it occurred to you—when you were filling out that form—whether it occurred to you that it might be necessary for purposes of that question to give some indication that Nat-Nat was a fifty-fifty partner with G & H?*

A. It didn't occur to me or I probably—if I thought it was necessary, I would have done it.

Q. *Did you discuss with anybody at G & H whether it was necessary for you to reveal the Nat-Nat involvement in that question?*

A. No.

Q. *At the time that you filled out that certificate, did you know who the principals of Nat-Nat were?*

A. Yes.

Q. *Whom did you understand them to be?*

A. Lawrence Merlino and—well, Lawrence Merlino was a principal and Joe Gollotto, as far as I knew, worked for him.

Q. *At the time that you filled out [the certificate], did you know anything about Lawrence Merlino's arrest record?*

A. I read the papers.

Q. *You were aware of it from what you had read in the papers?*

A. Yes.

Q. *Was your awareness of Mr. Merlino's arrest*

record at all a consideration on your part in not naming Nat-Nat on the certificate?

A. No.

Q. *I'd like to direct your attention to item number ten [on the certificate]. Item number ten says "I will require each of my subcontractors and lower tier subcontractors to complete and execute a subcontractor's certificate before entering into any contracts with the subcontractor." Do you see that there?*

A. Yes.

Q. *Did you comply with that provision?*

A. No.

Q. *Why not?*

A. Well, the contract was between G & H and [the general contractor], and I knew that, generally speaking, if you're going to—if a subcontractor is going to get somebody else involved, that the general contractor generally wants to know about it. There's a provision in the general contract that says you shall not be allowed to subcontract without prior approval or something like that. And I just felt this is going to complicate the matter . . . if they felt we were bringing somebody else into it, and so I just felt, well, let's just leave it, it doesn't make any difference to [the general contractor] what we're doing as long as he gets his work done, so I did not so advise them.

Q. *The question is whether you complied with your representation on the subcontractors certificate—*

A. No, I didn't.

Q. *The question is whether you complied with the representation which was made under oath that you would advise—that you would require any subcontractor to file a certificate with the EDA.*

A. Well, obviously, I didn't.

G & H Steel was paid \$173,240 for the "joint venture" rebar work on this State-assisted project during 1984-86. On the basis of its agreement with mobster Merlino, it split the net profit of \$34,298

with Nat-Nat. The S.C.I. turned next to the EDA to assess how it monitored the contractors and subcontractors on projects benefitting from State-guaranteed low-cost bank loans.

EDA's Construction Contract Scrutiny

John Hickman, EDA's affirmative action administrator, told the S.C.I. that in carrying out his duties he monitors a certification procedure to which all applicants are subjected, including contractors and subcontractors. He said they are qualified—or rejected—on the basis of the certification forms they must fill out and whether they have been disqualified by other state agencies or as the result of official investigations. If a vendor who should be disqualified penetrates the screening program the transaction can be voided and/or the vendor's payments can be blocked. EDA also requires, in the case of contractors and subcontractors, the submission of certified weekly payroll reports. He stressed that subcontractor forms required the identification of all persons or entities that have a partnership, association or other interest in a project as well as information as to any pending civil or criminal litigation against any individual involved in the subcontract. False declarations, he added, are referred to the Attorney General's office for prosecution.

Hickman's testimony pinpointed some technical problems with the agency's monitoring process relative to subcontractors allied in a joint venture agreement:

Q. *Now, if G & H Steel was involved in a joint venture on this project, should that have been revealed on this form or any other form?*

A. Not necessarily so.

Q. *Why not?*

A. Because whether they are a joint venture or not is irrelevant to their particular identity in this case. We would require the same certificate from all parties.

Q. *So the other part of the joint venture, if there was one—*

A. Would have to make the same declarations and [be] subject to the same scrutiny.

Q. Now, just so we are clear, the other entity in the joint venture should have also filed this subcontractor's certificate?

A. Correct. If they have not, then they have, in fact, violated our requirements.

Q. Was there any evidence that you are aware of, again as to G & H being involved in a joint venture with another company?

A. Not to my knowledge.

Q. Any evidence of a Nat-Nat, Inc.?

A. No, they are not in our system on this job.

Hickman said EDA records showed that Nat-Nat worked for 304 hours, with payroll earnings of \$4,624, at a machinery company project in 1982 and on another private project in 1983 for 1,802 hours on which payroll earnings amounted to \$24,420.

The S.C.I.'s counsel Gaal sought clarification from Hickman on the subcontractor joint venture issue:

Q. Now, if there was a joint venture between this subcontractor and another contractor on this particular project and it was not noted, it would be considered a violation?

A. Yes. It would be a failure to declare.

Q. What would the sanctions be or the remedies for such failure?

A. Well, we wouldn't approve and if we had previously approved the contractor to find out that they had everyone given for disclosure, we would investigate it further as to who the other company was. We would require that they, too, submit all of the necessary documentation and that they give us a legal certification to that effect so that we would have legal redress, if need be. Then we may or may not permit the first contractor to continue.

Other Nat-Nat Work Eluded EDA Scrutiny

Nat-Nat was paid more than \$272,000 during 1985-86 on a complex \$200 million project spon-

sored jointly by the North Jersey District Water Supply Commission and Hackensack Water Co., a project for which low cost funding was arranged through EDA. S. J. Groves & Sons, Inc., of Minneapolis, a general contractor for a \$14 million portion of the so-called Wanaque South project involving the construction of the Monksville Dam (and connecting road), employed Nat-Nat for rebar work through its Syracuse regional office. Michael J. Giblin, the project manager for S.J. Groves, contended he was not required by the joint sponsors of the project—Hackensack Water Co. and North Jersey Water Supply Commission—to submit the names of any subcontractors.

Nonetheless, EDA's Hickman insisted at the S.C.I. that S.J. Groves was obligated to identify Nat-Nat as a subcontractor on Wanaque South but did not:

Q. Now, they, [S.J. Groves], in accordance with what you said earlier, were obligated to notify you or the Authority of all the subcontractors that they intended to use and so forth?

A. That is correct.

Q. Did they at any time give the name Nat-Nat, Inc. as the firm to the Authority?

A. No.

Q. Would the EDA have reviewed the records of Groves?

A. Yes.

Q. Just so the record is clear, the EDA has never discovered, from any of these methods, that Nat-Nat worked on that project?

A. No.

Q. Would Groves have been obligated to disclose the use of all of their subs?

A. Yes.

Merlino on State Debarment List

During the period 1985-87, when Nat-Nat was the rebar contractor at Oyster Creek and at Wanaque South, both of which were EDA-as-

sisted, as noted, Nat-Nat's principals were on the Treasury Department's disqualification list. These principals were Salvatore Merlino, the president, who is in jail, and Lawrence Merlino, the chief operating officer.

Why Mob Joint Ventures?

As noted previously, G & H Steel Services was confronted with serious labor problems on the two occasions that it tried to obtain ironworkers directly through Local 350 and its business agent, Thomas Kepner. These labor disruptions occurred at the nuclear power plant project at Forked River in 1978-79, despite the employment of a so-called labor consultant, and again at the Tropicana casino job site in 1981. However, G & H ceased to have problems with Kepner and his ironworkers local when a project was joint ventured with Nat-Nat, whose operator, mob soldier Lawrence Merlino, was an apparent influential factor in the conduct of Local 350. Donald Readler, the one-time controller and secretary of G & H, gave his views on this subject during his S.C.I. testimony:

Q. Let me ask you this, Merlino's reputation aside, why did G & H need Nat-Nat?

A. The labor unions, the labor situation in Atlantic City is horrible. A fellow by the name of Kepner runs a tight ship, and if you're an outside contractor, he'll give you all the drones and the poor laborers or the poor ironworkers that you just go through—hire them one day and fire them the next day and they'll be back there the third day. It's a never-ending cycle.

Q. And, therefore, you needed Nat-Nat to do what?

A. Basically to smooth out the labor problems, get us good men.

Q. So, when you brought Nat-Nat in, you got better quality from the union?

A. Yeah.

The S.C.I. believes that other, probably sinister,

reasons further explain why G & H found it necessary to enter into joint ventures with a mob-owned company that had influence over labor union affairs in Atlantic City. This agency's investigative accountants, for example, have reviewed relevant documents that indicate G & H obtained contracts because it submitted unusually low bids keyed to the knowledge that, with Nat-Nat as its partner, it could employ non-union labor and it could withhold or underpay union pension and other benefit contributions required of other contractors by labor locals and district councils. Other factors than the Scarfo mob's labor influence in Atlantic City also must have fueled the joint venture pattern, the S.C.I. believes, because G & H shared a 50-50 profit split with Nat-Nat, as the joint venture deal mandated, on projects that were outside of Local 350's jurisdiction, including Trenton (Ironworkers Local 68) and Reading, Pa. (Local 420).

When G & H's retired vice president, Ernest Dana, testified at the S.C.I., under a grant of immunity, he denied that the company's controller, Readler, was fired because he objected to three \$10,000 checks being issued to Nat-Nat in 1986 at a time when G & H was facing bankruptcy. (G & H filed for Chapter XI bankruptcy protection in November, 1986). He conceded, however, that Readler was dismissed as an economy move because the company was having cash flow problems—at a time when profit distributions were nonetheless still being paid to Nat-Nat.

At the time Readler left in the spring of 1986, he said, G & H "owed Uncle Sam almost \$2½ million in withholding taxes." Readler testified as follows about G & H's declining finances as it continued sending checks to Nat-Nat:

Q. How about [G & H] contributions to union benefit funds?

A. They were in arrears to a lot of people, yes, everybody.

Q. Did G & H have trouble covering payroll?

A. Yes.

Q. Was it bouncing payroll checks?

A. Yes.

Q. *At the time all these things were happening, the arrearages were accumulating and payroll checks were bouncing, was G & H still writing profit distribution checks to Nat-Nat?*

A. Yes.

Q. *Did any of those checks ever bounce?*

A. I think there's a possibility that they did, I don't know specifics, but I think they possibly could have.

Q. *Did you ever have any discussions with Mr. Grant [John Grant, G & H president] or anybody else at G & H before continuing to pay profit distributions to Nat-Nat when the company was having trouble covering its other obligations?*

A. Yes, I did.

Q. *Was it with Mr. Grant?*

A. Yes.

Q. *Could you recount those conversations for us?*

A. I think I told him basically that he was very foolish . . . when we [couldn't] make payroll [to] . . . keep writing the checks.

Q. *Did Mr. Grant ever express to you a reason why he wanted to continue to pay Nat-Nat in the face of these problems?*

A. He didn't give me a reason. But I don't think he knew how to say no.

CHAIRMAN PATTERSON: Do you think he was afraid of Nat-Nat?

THE WITNESS: Off the record, I'd say he probably was.

CHAIRMAN PATTERSON: The checks [to Nat-Nat] amount in a little over a year, 14 months I think it is, to about \$142,000, is that what it comes to \$142,000?

MR. MORLEY: That's about it.

Q. *Do you have any reason to believe, as you suspect, that Mr. Grant may have been afraid of Nat-Nat?*

A. No, just I can put two and two together and I know what's going on in Atlantic City.

Q. *Was it common knowledge at G & H that Lawrence Merlino is reputed to be a member of organized crime?*

A. Yes. But, see, you have to remember that Lawrence Merlino worked for G & H 20 years ago or so. I mean, he started out as an ironworker. So there was, you know, some affiliation there.

Q. *But it was no secret at G & H that Mr. Merlino had a bad reputation in Atlantic City?*

A. No, the last two years the [Philadelphia Daily News] ran a big expose on Atlantic City's problems and Atlantic City papers ran a big expose within the last couple years or so and I know [Grant] had copies of those.

Q. *Did you ever have any knowledge of any conversations or discussions at G & H about whether it was provident or prudent to continue to do business with Mr. Merlino in light of his reputation?*

A. I just said I didn't think—it didn't make much sense that we're supposed to be the Cadillac of the industry, as far as steel service companies, why we would need Nat-Nat as a joint venturer or whatever.

The Atlantic City Airport Joint Venture

Only two of the certified G & H joint ventures with Nat-Nat involved publicly aided construction projects, the Oyster Creek radiation waste storage plant, previously reviewed, and an \$8,000 deal to build a fire/rescue station at Atlantic City's municipal airport, Bader Field.

Oddly, while G & H was awarded the subcontract for the airport job, it did not do any of the work. Nat-Nat did all of the project and the joint venture partners ultimately split a net profit of \$4,433. Dana testified about this peculiar deal:

Q. *Why did Nat-Nat do all the work?*

A. Because there was nothing else going on down there for G & H at the time. It was a job that required primarily no more than two

people, and it just seemed expedient to have them do this and handle it and make this arrangement.

Q. *Why did G & H bid on a contract that it had no interest in doing?*

A. Well, I don't say we had no interest in doing. If we can pick up a few dollars and get somebody else to do the work and it's a low risk situation, instead of us running—

Q. *So you bid the job and then asked Nat-Nat if Nat-Nat would like to pick it up?*

A. I asked them if they would do it for us and we would split the profits.

Q. *And you split the profits?*

A. Yes.

Q. *Do you know whether the City of Atlantic City was aware that Nat-Nat was doing the work on that job?*

A. I don't know.

Union Labor Requirement Ignored

This was a project on which the employment of union labor was a contractual requirement—except that it apparently could be ignored if Nat-Nat was a partner. Dana was asked about the union labor situation at the airport project:

Q. *I'm showing you C-53, the document that's headed "Contract Award Sheet." Is that an internal G & H document?*

A. Yes, that's my—that's how I work it up to price it.

Q. *Did you figure labor costs at union rates there?*

A. In this particular instance, I did, yes.

Q. *According to the [Ironworkers Local] 350 contract?*

A. Yes.

Q. *Do you know whether union labor was actually used?*

A. I don't specifically know what labor Nat-Nat provided on that job.

Q. *Are you aware that 61 percent of the hours worked on that job were worked by laborers who received no fringe benefits?*

A. I'm not aware of that.

Mob at Housing Projects

Both Scarf, Inc., and Nat-Nat, Inc., obtained revenues from work performed on publicly supported low and moderate income housing projects in Atlantic City in the period 1984-86. Although their performances were interrupted for various reasons, Scarf obtained \$127,470 for its work and Nat-Nat got \$70,848. Once again their activities demonstrated the difficulty of keeping mob-owned companies off the sites of projects in which taxpayer dollars have been invested.

The projects were the McKinley Avenue Apartments, a 177-unit garden apartment complex, and the 201-unit Metropolitan Plaza combination of low-rise and high-rise buildings. Both were sponsored by the New Jersey Housing and Mortgage Finance Agency (HMFA), which issues tax exempt bonds for the development of housing for low and moderate income families, for which federal resources are also available in the form of low-interest loans and rent subsidies. In each case the general contractor was the Berel Construction Co. of Glenside, Pa., a subsidiary of Altman Brothers, Inc., whose principals testified as a group at the S.C.I. about the employment of the mob subcontractors.

Problems at the McKinley Project

Working solely through Nicodemo Scarfo's son, Christopher, Berel contracted with Scarf, Inc., to undertake two McKinley project tasks, a fairly complicated reinforced concrete, grade beam construction atop the building's pilings and a simpler laying of sidewalks and curbs. The former task, worth \$362,625 to Scarf, had to be cancelled after the company did about \$21,500 worth of work because—according to the Berel company's

Fred Dubin—"Chris just couldn't perform as he said he would—he couldn't do the work."

Another Scarf, Inc., Hitch

A year later Berel was notified by the HMFA that Scarf could not complete the sidewalk job because the company was disqualified. After confirming Scarf, Inc.'s disqualification, what little was left of the sidewalk task was referred to another concrete subcontractor for completion.

In the meantime, Chris Scarfo suggested that Berel utilize another company he had created, called Egg Harbor, Inc. David Altman, president of Berel's parent company, and his son, Brett, testified about that proposition:

MR. MORLEY: Did you have discussions with Chris Scarfo about the possibility of involving Egg Harbor on McKinley?

DAVID ALTMAN: I believe that Chris came back at one time and said that he had a company of his own, and he could finish the job under his own company. And I said to him, "You got to clear everything through the state because I would like to get done at my [project cost], but I can't do a damn thing with you unless you are approved by the state to work and I'm not playing any games." And that was the end of that, to my recollection. I don't think we ever—I don't think he ever did another thing.

BRETT ALTMAN: I think we made an informal inquiry to the state and the state told us that we shouldn't use him and we better make our alternative arrangements and we did.

Ousted Scarf But Used Scarf Workers

The S.C.I.'s investigative accountants learned that after Scarf, Inc., was ousted from the McKinley project, the Berel company continued to funnel payments for work on the project to Chris and Nicky Scarfo, boss Scarfo's sons. This peculiar set of circumstances—which HMFA did not know about—took some explaining on the part of the Altmans. They recalled that in finishing the

grade beam work, Berel supplied the material but an entity known as United Carpenters of Pennsylvania, another Altman company, "handled the payroll." Finally the relevant details were put into the record:

MR. MORLEY: Do you know whether the people that did the work under the auspices of Berel were any of the same people that had been doing the job when Scarf was doing the work?

DAVID ALTMAN: From what I understand, Nat-Nat did the rod setting for Scarf, and when Scarf—when we took back the grade beams from Scarf, we retained Nat-Nat to set the rods under the same contractual obligation that he had with Scarf.

Q. *There were certain individuals who were working on the concrete doing the concrete labor when Scarf was on the job. When Scarf went off the job and Berel took it over, were the same individual laborers doing the concrete work?*

BRETT ALTMAN: I don't know, but I know how to get an answer and we can look at the certified payroll reports and see who Scarf certified on the job and who we certified on the job and that would tell you what was what.

Q. *Do you have any knowledge as to whether Chris Scarfo or Nick Scarfo—that's not the father but Nick Scarfo, Chris's brother—whether those two individuals performed any labor on the [grade beam] portion of the contract when Berel took it over?*

DAVID ALTMAN: That would have meant that they would have had to be on United's payroll. To my knowledge they were never on United's payroll. I would have to look and see.

Q. *Let me show you what has been marked as Exhibit C-67. C-67 is a photocopy of two W-2 statements for 1985, one to Chris P. Scarfo, one to Nick Scarfo, both from United Carpenters, Chris in the amount of \$8400 even, and Nick in the amount of \$1250 even.*

DAVID ALTMAN: Then they must have been

on the payroll. I guess they did concrete finishing.

Q. Now, Nat-Nat was also a sub on the McKinley Avenue project, we've gotten that on the record. Was this the first time that Berel did any business with Nat-Nat? This is the McKinley Avenue project.

BRETT ALTMAN: Yes.

DAVID ALTMAN: Yes.

Q. Do you recall whether Nat-Nat approached Berel or the other way around to get Nat-Nat to bid on the job?

BRETT ALTMAN: Nat-Nat was already on the job working for Scarf, so we assumed that agreement when we took over Scarf's contract.

Q. I see. So Nat-Nat was a sub of Scarf rather than being a sub of Berel?

BRETT ALTMAN: That's correct.

HMFA Testimony on McKinley Project

James L. Logue, HMFA executive director, led a delegation to the S.C.I. for questioning, including William F. Abele, his assistant, and Robert H. Lee, the agency's technical services director. They agreed that contractors are required to submit the names of all subcontractors, via an administrative questionnaire, for an agency review. In Scarf's case, this was done in July, 1984, after Scarf had already begun working for Berel. Further, according to the testimony, the agency's executives never knew that Nat-Nat had been working at the McKinley Avenue job site until about a week before they appeared at the S.C.I. on February 10, 1987. The testimony:

Q. Let's take McKinley. Do you recognize the name of the subcontractors Nat-Nat or Scarf as having been on that project?

MR. ABELE: It's my understanding that Nat-Nat was never submitted for approval on the McKinley project, that we, in fact, did not find out about Nat Nat's involvement on McKinley

until quite recently, in the last week when Berel, general contractor, submitted its certified cost submission which is prepared by a public accountant. In that cost submission it identified Nat Nat as a supplier to Berel and Berel identified itself . . . as doing a particular work and that Nat-Nat supplied material I guess to Berel. It was my understanding that that was our first knowledge that Nat-Nat was involved in the McKinley project.

Q. I just want to be certain that I heard you correctly. Did you say in the last week?

MR. ABELE: Yes.

Q. And that's the first time that you found out that Nat-Nat was involved?

MR. ABELE: On the McKinley project, that's correct.

Q. Just so we're clear, then, you did not get an administrative questionnaire for Nat-Nat on McKinley?

MR. ABELE: That's correct.

But Scarf's questionnaire was submitted for the McKinley project and approved, at least initially. The testimony:

Q. So Scarf or someone submitted an administrative questionnaire for Scarf, and [was] approved as a subcontractor?

MR. LEE: Yes.

Q. With respect to Nat-Nat, you're not certain—well, you know they did not submit an administrative questionnaire.

MR. LEE: I believe they did not and, as I said and Mr. Abele said before, the first time we were aware that Nat-Nat had anything to do with the McKinley project was on the basis of the contractor-submitted questionnaires which we received a week ago. We're now analyzing whether they should have been considered as a subcontractor or general contractor or whether they did work and delivered materials directly to the general contractor. . .

S.C.I. Counsel Charlotte K. Gaal asked the HMFA executives to summarize the final disqualification steps taken against Scarf and Nat-Nat at the Berel projects:

Q. *And when it came to your attention, what happened, what did you do?*

MR. LOGUE: Again, I will speak not from direct knowledge but from my discussions with people who were at the agency at the time and handling that particular aspect of it. My understanding was that the Attorney General's Office was contacted as to the particular involvement of Scarf. We went back and checked the administrative questionnaire that had been submitted by Scarf, and the administrative questionnaire was basically filled out in the negative, which meant there were no positive responses which would have elicited a situation where we would have investigated further into certain affirmative responses they would have made.

Q. *Do you recall what—generally, what you allege they should have put on the questionnaire.*

MR. LOGUE: Again, as I recall, the major area of concern was the fact that I think one of the questions is are you currently under investigation or have you been indicted or I'm just paraphrasing what the question is. And the answer that was given on the questionnaire was no, and apparently that did not turn out to be the case. And it was at that point the Attorney General's Office, I guess it was Attorney General's Office began reviewing that and it was determined that they, in fact, had falsely sworn on the certification and they should have indicated that they were under some investigation and they were aware of it.

Q. *And without getting into the specifics, the question of whether that questionnaire was falsified or not is presently pending in a criminal indictment, is that right?*

MR. LOGUE: That's my understanding.

MR. ABELE: To expound a little bit further, it's my recollection as well that the situation involving Scarf was first called to our attention

by local newspaper articles I believe around the second week in July in '85. On August 1st the agency staff presented a request to our governing body, our board, to take actions against Scarf and Nat-Nat and Lawrence Merlino and Salvatore Merlino and Atlantic Coast Rebar Corporation to suspend all of those outfits from doing business with the agency and to initiate debarment proceedings against all. So it's my recollection we learned of the situation from the press somewhere around mid July, and on August 1st we had our staff propose to the board those actions and our governing board approved those actions.

Q. *And were those individuals and entities debarred based upon your—*

MR. ABELE: Yes.

Q. *My question is going one step further. Beyond what was on the paper, did you or anyone else recognize anything about Scarf, Inc. that might cause you to question their—*

MR. LEE: Not to my attention. My staff, obviously, reviewed the criteria I suggested and did not reference a name relative to that. Even if we referenced a name, our process is our process and we are consistent in that even though the name may have suggested something. I don't know what we could have done about it, candidly.

Q. *I'm asking for two reasons. First of all, you're in the construction business and you may recognize different companies and, second of all, the name Scarfo itself has a certain notoriety attached to it, and Scarf, Inc. is very close, and I'm—*

MR. LEE: I'm only speaking on behalf of my staff. It was not brought to my attention, this is a name, what do you think about it. It was just approved as a normal process and apparently nobody on my staff thought about that or considered that aspect.

Q. *Just so we're clear, if the name isn't on the debarment list already when you are checking them out, so to speak, is there anything you could do?*

MR. LEE: Well, my opinion, speaking as an architect and not a lawyer, I don't see what there is that I could do.

Q. *Same question with respect to Nat-Nat. Did anyone recognize that name or know who Nat-Nat was or associated with?*

MR. LEE: The only time we recognized [that] was on the basis of the newspaper article. At that point, you know, it had a life of its own, it was in the Attorney General's Office, the agency was looking at it, reviewing the questionnaire, so we did not have a prior time to think about it, so the answer is really the same.

Nat-Nat at Metropolitan Plaza

The Berel company hired Nat-Nat in June, 1985, to handle rebar work at the Metropolitan Plaza housing project. The following month newspaper articles appeared about Nat-Nat's presence at the job site. At this point, HMFA discovered that no administrative questionnaire had been filed to identify the subcontractor. HMFA notified Berel on July 26, 1985, that no further payments were to be made to Nat-Nat until it had been certified as a qualified subcontractor. By this time Nat-Nat had earned about \$17,000 for its Metropolitan Plaza work. Berel's executives recalled this turn of events:

Q. *Did there come a time when Nat-Nat left the Metropolitan Plaza project?*

DAVID ALTMAN: Yes. Bob Lee, I believe it was, called me personally and told me that Nat-Nat had to be removed from the job because they were not approved by the Attorney General's Office. . .

Q. *Did they tell you why Nat-Nat was not approved?*

DAVID ALTMAN: I don't remember whether he told me why, but I asked him to please send it to me in writing so I would have it on record so I knew what the heck I was doing because I was under contract with Nat-Nat and I had to have something to show Nat-Nat as a reason for terminating them on the job site.

Q. *How was Nat-Nat informed that its involvement was going to be—*

DAVID ALTMAN: I think I told Joe and Larry Merlino [Joe's father], if my memory serves me correct.

Merlino Brothers Stay for Bonuses

Berel's David Altman testified that he personally followed up on the ouster of Nat-Nat from the Metropolitan Plaza job—by hiring the Merlino brothers, Joe and Nicholas, and others from Nat-Nat to continue working there. As he testified:

DAVID ALTMAN: I spoke to Joe Merlino who was working on the job who is a card-carrying rod setter, and I asked him whether he would stay on the job for me with, I think his brother and another guy on a part-time basis because I couldn't keep him 40 hours a week . . . and I would bonus [Joe Merlino] the difference between what it cost and the \$300 a ton [price under the Nat-Nat contract] in order to get the job completed. He said he would do that. I called the agency, asked them whether that was permissible under their rules. I was given an affirmative answer. I then put it all in writing and I wrote to the agency for their permission, and I got it, and that's how we finished the job.

Q. *When you informed the agency or when you proposed the new arrangement to the agency, did you disclose to the agency the identity of the persons who were going to be working?*

DAVID ALTMAN: I sure did, one hundred percent. I think their names are in the letter, aren't they?

Q. *Is this the letter by which you advised Lee of the new arrangement?*

DAVID ALTMAN: Yes, but it doesn't have the names. I thought it did. The names were definitely discussed.

The written confirmation of the deal was not made until some time after it was arranged and approved orally, before implementation, Altman said. He reviewed the "bonus" arrangement during the S.C.I. questioning:

Q. *Who initially proposed this arrangement, this so-called productivity bonus arrangement with Joe Merlino?*

DAVID ALTMAN: Me.

Q. *Was it entirely your idea?*

DAVID ALTMAN: All I wanted to do was nail my costs down. I was not going to go into the rod setting business. I was getting killed enough on the job.

Q. *Let me direct your attention to the third paragraph [of an interoffice memo]. That paragraph says, "As an incentive with the men and in keeping with industry practices, we negotiated," and then it proceeds to recite the terms of the arrangement.*

DAVID ALTMAN: It's an industry practice with me for years with any of my production guys, that if I'm looking to get so many square feet a day and it's not a union practice, I mean, you can't put this, but if I'm looking to get so many doors a day from a door hanger and that door hanger gives me more than what I'm looking for, I have no problems giving him a bonus for the added productivity, as long as I give it to him legitimately.

Q. *Was it hyperbole to say it was an industry practice?*

DAVID ALTMAN: I guess. I'm selling it because I want to get this thing rolling and I'm not looking to go out and get into the rod setting business.

COMMISSIONER ALONGI: How many men did you use from Nat-Nat?

DAVID ALTMAN: We used these three guys. I think they might have had one more when they were busy and two less, whatever they needed for setting rods to get the pours done on time. So I'll have to look and tell you how many rod setters were actually on the job, and I didn't call the union for any of them. I let Joe Merlino do it.

Q. *Why was the bonus paid out on a monthly basis?*

DAVID ALTMAN: Because that's the only way he would work with me, because he told me he wasn't going to the end and [find] that I wouldn't pay him.

Bonuses Became Mob Company's Profit

The S.C.I. believes that whatever the Berel Company's stated reasons for the peculiar financial deal it made with Lawrence Merlino's sons, Joe and Nicholas, after his firm was disqualified by HMFA, the bonuses ultimately represented Nat-Nat's profit on the job from which it had been disqualified. In all, the bonuses amounted to \$20,672. Further testimony on the bonus payments by Berel follows:

Q. *When you struck the agreement with Joe Merlino after Nat-Nat or Atlantic Coast or whomever left the job to pay as a bonus the difference between the hourly and the contract price, what was your understanding of the agreement? To whom were you going to pay that bonus?*

DAVID ALTMAN: To Joe. He was the guy I talked to and he was the guy I was supposed to pay it to. Him and his brother, as I remember.

Q. *Why just them and not any other workers?*

DAVID ALTMAN: They were the guys, they were the whips. They were the ones who hired and brought the other guys in or whatever their deal was with the other guys was okay with me. As long as everybody was getting the union wages and the benefits and there was no bull, that was okay.

Q. *Were the bonus payments submitted for certification to HFA?*

DAVID ALTMAN: This job has not been certified yet, but the knowledge of the bonus payments was made. The HMFA has been knowledgeable that it was done. The letter says it and they are knowledgeable of it.

Q. *And the bonus payments have, in fact, been paid?*

DAVID ALTMAN: Oh, yes. There's still, if I remember right, an open item between Joe Merlino and I as to the final tonnage on the job and he says I owe him money.

HMFA Testimony on Metropolitan Plaza Project

The reactions of the HMFA agency's executive staff to the events at Metropolitan Plaza should be helpful in considering reforms of the contractor monitoring process that the Scarfo mob penetrated so easily. They testified about Nat-Nat's ouster and the continued presence of the Nat-Nat people on the job through Berel's bonus arrangement:

Q. *Now, going on to the question of the Nat-Nat situation, where Nat-Nat was deemed to be unacceptable on the project and I think Mr. Abele just mentioned that Berel eventually suggested doing the work themselves, were other suggestions made prior to that suggestion, Mr. Abele?*

MR. ABELE: Yes. I think that our correspondence file shows that when Nat-Nat was deemed unacceptable, that Berel attempted to replace it with two other firms, Egg Harbor, Inc. [a Scarfo company], and I believe Atlantic Coast Rebar [a Merlino company], both of whom the agency also found unacceptable, and it was at that stage Berel suggested that it be allowed to hire on its own payroll Nat-Nat employees to do the work.

HMFA apparently believed that all employees of Nat-Nat were to share in the Berel bonus incentive plan, not just the two sons of Scarfo mob soldier Merlino, as this testimony indicated:

MR. LEE: My understanding, as we discussed yesterday in reviewing this particular letter with members of the agency staff, my understanding is that we would not pay in excess of what we would have paid Nat-Nat for the work to be done. We were not paying a bonus beyond what we normally would have costed for the project.

Q. *But the overhead and profit would be passed on to the employees, Nat-Nat's overhead and profit?*

MR. LEE: Yes.

Q. *Is it your understanding from this and from your discussions that that would be paid to all the union employees, all of Nat-Nat's employees put on the job?*

MR. LEE: That's my understanding.

Q. *It wouldn't be limited to specific ones?*

MR. LEE: No, I don't think.

The basic question, or problem, as Counsel Gaal stated it while questioning the HMFA officials, was how to keep the mob off publicly funded construction sites:

Q. *Have you given any thought to how we keep a Nat-Nat or a Scarf off HMFA projects?*

MR. LOGUE: We've discussed it somewhat. It's always been, you know, in reviewing this, and this is even before these things happen when we're talking about administrative questionnaires and types of things that you may or may not find out from them. I think we're all in agreement, and in our discussions with the Attorney General's Office, we've . . . exhausted the means . . . to ascertain the integrity or the appropriateness of any particular person or company dealing with the agency through the administrative questionnaires and the debarment list and what have you. It doesn't seem that anybody anywhere else in the state has a better handle or given us greater advice as to how we could get more information quickly or speed up the process.

If there was a centralized mechanism or entity that could either through some licensing mechanism or through some approval be able to provide that kind of preapproval so that we would have quick access to knowing whether somebody was approved or not approved, similar to debarment, but I think debarment is kind of after the fact. If there was some mechanism set up so that there was a possibility for

people to have prior approval on all these types of accounts, that would certainly be an advantage to us knowing who we're dealing with and who we shouldn't be dealing with. . .

- Q. *By the way, are those particular entities we mentioned today, Nat-Nat, Egg Harbor, Atlantic Coast Rebar, Scarf, they were not the subject of an additional police check, were they?*

MR. ABELE: I don't recall them ever—we acted to debar and suspend them. The need for a police check at that stage was not there.

- Q. *When you have a project and the subcontractor or the contractor doesn't submit the administrative questionnaire on behalf of the subcontractor, why can't you stop that earlier? Why can't you deal with that problem earlier rather than at the end of the line when you're looking at the final payments or when, you know, months down the line after you've asked for it? Is it personnel?*

MR. LOGUE: I think it's a combination of everything. Again, time plays a critical importance in this process. I guess we assume that everybody is cognizant of what their obligations are, and when you are, again, dealing with a major construction project, you might have 30 or 40 subcontractors and you may have subcontractors changing who were originally the ones that the contractor intended to utilize and for one reason or another the cost or ability to perform—I guess it's even possible they could change contractors. It's a very—from practical standpoint, it would probably add so much additional time to a project that from a cost benefit analysis, not talking about anything other than cost and completing the job within time and within cost, it is an impractical and very costly type of a proposition. That's my intuitive response and I think it's all the projects we do. We have an additional burden in that what we're trying to do is provide low and moderate income housing, and part of the way to do that is keep the cost low. When you start having time delays and cost overruns, our ability to achieve our primary mission can be affected by that cost and time parameter.

- Q. *What about the situation where the subcontractor subcontracts out? In other words, subs of subs, do you get down to that level in requiring administrative questionnaires?*

MR. LEE: To my knowledge, I believe the answer is no.

Nat-Nat's First Casino Job

Nat-Nat's first major project following its incorporation in May, 1979, was a casino—the Golden Nugget. The company was paid more than \$390,000 by the L. Feriozzi Concrete Co., which was steered to Nat-Nat's operator, mob soldier Lawrence Merlino, by an official of Scarfo's concrete company, Scarf, Inc. The Golden Nugget project, which kept Nat-Nat busy between October, 1979, and February, 1981, was preceded by only one trifling contract for \$1,700 with Robert T. Winzinger, Inc. However, Joseph Feriozzi of Margate, president and owner of the Feriozzi company, when he testified at the S.C.I., went to extreme lengths to defend his award of a huge reinforcing steel contract to a neophyte company whose only previous experience had been a simple two-week task. Indeed, another contractor who testified at the S.C.I., about a separate project, had a strong contrary opinion about what Feriozzi described as a relatively easy, "no-risk" ability to replace Nat-Nat if its performance had been below standard. This contractor, Brett Altman of Altman Brothers, Inc., stressed that "bringing in a replacement subcontractor becomes a very expensive practice," and that the adverse consequences include "a delay in time [and] the new subcontractor senses that you are in trouble on a dollar basis, on a time basis, so they're going to be less competitive in pricing. . . ." Law enforcement observers, in assessing the Feriozzi-Nat-Nat scenario, believe that their introduction by a mob associate, combined with Nat-Nat's underworld background, all but compelled Nat-Nat's employment as Feriozzi's rebar sub. According to the S.C.I.'s own organized crime intelligence chief, Justin J. Dintino, "it was no mere coincidence" that Vincent F. Bancheri (who died in 1982), met Feriozzi at a doughnut cafe and urged him to take on Nat-Nat as a rebar subcontractor under Feriozzi's \$4 million prime

subcontract for the Golden Nugget project. Bancheri, a cement finisher, had been employed by Feriozzi and had become Scarf's president when the concrete company was incorporated, in 1977, obviously to provide the operational know-how while Philip Leonetti learned the ropes as Scarf's secretary-treasurer. In those days Lawrence Merlino, newly arrived in Atlantic City from Philadelphia, resided at the rear of Scarfo's corporate headquarters at 28 South Georgia Avenue, where Nat-Nat also was headquartered after it was created in 1979. Under these circumstances, it would be natural for Merlino to persuade Bancheri to promote Nat-Nat with Bancheri's old boss Feriozzi, particularly since Bancheri had known Feriozzi well enough to cite him as a reference only a year earlier on the Scarf, Inc., application for a city construction contractor's license. But on the record at the S.C.I., Feriozzi evasively recalled the Bancheri contact as merely a coincidence:

Q. *How did you become aware of Nat-Nat?*

A. He was introduced to me—

Q. *He being whom?*

A. Mr. Larry Merlino was brought into Dunkin Donuts, where I have coffee every morning [at] seven o'clock, by Mr. Bancheri, who was a cement finisher of mine, and he introduced me to this Larry Merlino who I didn't know. And he said this fellow was an ironworker and he was looking to give me a price for the—we had already gotten the Golden Nugget job and he was looking to give me a price to install the rebar. And I said it's okay and I said come back in a couple days and give me your price and I'll think it over. And he came back a couple days later and he gave me a price and the price was good and I said I'd let him know because I didn't know this fellow. So I checked around and see who knew this fellow and I called up [Joseph] Rizzo of L & R, to see if he knew of Mr. Merlino. And he said yes, he worked for him and he's a good ironworker, and he produces and all that, and that's where I got to, then I decided I would give him a shot at the job.

No Bonding Despite Nat-Nat's Inexperience

The S.C.I.'s suspicion that Feriozzi may have felt compelled to utilize Nat-Nat was bolstered by Feriozzi's testimony on the actual selection of the Merlino company for the rebar work:

Q. *Did you know anything about Mr. Merlino's ability to conduct a business, to manage a team of workers, to get the labor, to supervise them and to deliver the service?*

A. Just on Bancheri's and Mr. Rizzo's recommendation, you know, that's all.

Q. *So is it fair to say that you were going with an untested entity on this job?*

A. That's right.

Q. *Did you have any concerns about putting yourself at risk in going with somebody who had—about whom you knew nothing except that he was a good worker?*

A. . . . No, because I could get rid of him tomorrow, next week. If he doesn't produce, we just fire him. We have no contract; we just went by the ton. If he doesn't produce, he's gone.

Q. *So as far as you were concerned, you weren't risking anything by going with this new, untested company?*

A. No, just a little bit of aggravation.

Q. *You testified that you checked Nat-Nat or at least you checked Merlino out with Rizzo after Bancheri had spoken to you about him.*

A. Yes.

Q. *And you testified you didn't seek out any opinions from any other person about Merlino.*

A. Right.

Q. *Did you require Nat-Nat to post any performance bond or provide any other form of financial protection on this job?*

A. None at all.

Re-Hired Merlino Despite Indictments

Feriozzi recalled how he tried to shun Merlino after the mobster was arrested and indicted for the murder in 1979 of concrete contractor Vincent Falcone. The trial of Merlino, Scarfo and Leonetti for that slaying took place in 1980 (all were acquitted) during the Golden Nugget project. Counsel Morley asked Feriozzi about his initial qualms about Merlino being at his job site:

Q. *Did you ever use Nat-Nat again, after the Golden Nugget job?*

A. Once more, the Tropicana garage.

Q. *There was some period of time between the Golden Nugget job and when you used Nat-Nat again?*

A. Right.

Q. *Merlino was indicted?*

A. Merlino was indicted. And when I heard about that, then I got worried about what I got myself into. And I couldn't do anything so I let him finish the job, and then I stayed away from him. I tried to stay as much as I can from giving him any more work.

Q. *But, nonetheless, you did receive bids from Nat-Nat?*

A. He came in and gave them to me, naturally. I would never refuse it.

Feriozzi finally relented and gave Merlino a rebar contract that produced revenues of more than \$29,000 for Nat-Nat—on the Tropicana casino parking garage in 1983-84:

Q. *Did there come a time when you did give Mr. Merlino's company some more business?*

A. Just the Tropicana.

Q. *How did that come about, in light of your desire to avoid doing business with him?*

A. Well, he kept coming to the office and giving his bids and he kept saying, "Joe, I want to do another job with you," and he needed the work. So when the Tropicana job came along

he put his number in, he was the low man, it was a matter of I think small tonnage, and just to pacify [him], I just gave him the job. And he was low man, but I just gave him the job. I don't know, it was about 40, 50 tons of steel, something like that.

Q. *I'm just trying to figure out what you thought giving him this small job would accomplish.*

A. I already said to get [him] off my back. I gave him a job and he wouldn't think that I was trying to push him out or something like that.

Feriozzi's Switch To Merlino's Son

Lawrence Merlino incorporated a company called Bayshore Rebar in Miami in 1984 but dissolved it in November, 1985. One month later, Merlino's son, Joseph N., incorporated Bayshore Rebar in Trenton—and almost immediately began getting casino jobs from Lawrence Merlino's onetime benefactor Feriozzi. Indeed, Feriozzi paid Bayshore Rebar, Inc., at least \$105,000 in 1986 for work on a Resorts International project and reportedly still owes Joseph Merlino \$37,000 for that work. Feriozzi also paid Bayshore Rebar \$5,000 in 1986 on another Resorts project and owed almost \$14,000 for that work as of October, 1986. Finally, Feriozzi also owed almost \$13,000 to Bayshore Rebar for 1986 rebar work on the Bally's casino tower as of October, 1986. In this manner Lawrence Merlino was able to continue to benefit from casino construction through his son's company.

Costly Subcontract Replacement

Contrary to Feriozzi's sworn testimony earlier that he had no fears about giving Nat-Nat its first major rebar job since it was formed in 1979, Feriozzi turned to Merlino's son's company, Bayshore, only after losing \$125,000 because of poor performance by C.G.S. Inc., the company he finally had to kick off the Resorts garage project. Ironically, Joseph Merlino and a Rocco (Rocky) Bunodono of Clementon, a Merlino family friend of some 20 years and a longtime Merlino job foreman, were working for the contractor Feriozzi had to replace, suggesting the utilization of an old time

mob ploy—sabotaging a job to swing the Resorts contract to young Merlino's Bayshore company. Ploy or not, Bayshore got the contract, according to Feriozzi's testimony:

Q. *As a result of removing C.G.S. from the job twice and being delayed with the second crew, have you lost any money on the job?*

A. I would say about—we had to go into, to catch up, we had to go into overtime, we just finished it, for two months, five ten-hour days and working Saturdays, which would cost me about \$125,000 in premium time.

Q. *Now, I believe you testified that once C.G.S. was off the second time, you went over to Bayshore?*

A. Yes. Bayshore, he was standing there on the deck—

Q. *Who is "he"?*

A. This is Rocky.

Q. *Bunodono?*

A. It could be, I don't know his last name. And Joey Merlino were there, and they knew the situation, they said Bayshore could do the job. And I said, you know, "I'm in trouble here now, I can't play around any more," and they said they guarantee they can do the job. I said, "Well, I'll give you a shot."

Q. *Why were Merlino and Rocky whoever he is, why were they there?*

A. They were working there for C.G.S. or somebody.

Q. *Did you know anything about their ability to run a business?*

A. Not to run a business; to run that job. I knew Rocky did the tower for us so I knew he could handle that part of it.

Q. *Did you know whether Joseph Merlino had any relationship to Lawrence Merlino?*

A. I heard he was his son.

Q. *From whom did you hear that?*

A. People on the job, you know.

Q. *Did you have any qualms about using Joe Merlino in light of the fact that you had tried to avoid Lawrence Merlino?*

A. No. To me, it's a different entity all together.

Q. *Did anybody speak to you to give a reference to Bayshore?*

A. No.

Q. *Did you seek out anybody?*

A. No. I knew Rocky and I knew what he could do and Joey Merlino said he could do it, I was at tight ends. I had to grab for a straw somewhere. Somebody had to do the job so I gave him a shot.

CHAIRMAN PATTERSON: Well, how did you know that Bayshore could get the labor?

THE WITNESS: Because they had them working there. The fellows I was talking to, that was two men right there.

CHAIRMAN PATTERSON: Do they go from one name to another name overnight?

THE WITNESS: I have no idea.

CHAIRMAN PATTERSON: That's the way it seems to me.

THE WITNESS: I know that they got the workers within four days. I had ten men.

CHAIRMAN PATTERSON: But did you know that in advance, that they would be able to do that?

THE WITNESS: That's what they said they would be able to do.

CHAIRMAN PATTERSON: And you took their word for it?

THE WITNESS: I have to trust somebody.

Q. *Do you know whether the same people who were working for C.G.S. on the job wound up working for Bayshore?*

A. I don't know. It's a possibility. I know Rocky was there and I seen Joe there.

Q. *But if you were having a problem with the C.G.S. crew being too slow, what would you accomplish if you changed company but wound up with the same labor force when you went to Bayshore?*

A. Well, I didn't know I was going to wind up with the same labor force. I was just talking about these two people.

Q. *You were relying on Bunodono and Joseph Merlino to move these people faster than the C.G.S. people had been able to?*

A. That's right.

Attorney General Moves Against Bayshore

In January, 1987, Attorney General W. Cary Edwards moved to eliminate Bayshore as a casino construction contractor. His Division of Gaming Enforcement (DGE) filed a complaint with the Casino Control Commission (CCC) seeking the revocation of Bayshore's registration with the CCC that enabled the company to undertake casino construction work. The DGE determined that Bayshore should be disqualified because of its association with Lawrence Merlino, who previously had been placed on the CCC's exclusion list because of his organized crime activities and connections. The DGE complaint noted that Merlino's son, Joseph, was Bayshore's president; his former wife was vice president, and his daughter, a Nat-Nat secretary, had been employed as Bayshore's secretary. Further, the complaint noted that Bayshore is headquartered rent-free at the Merlino residence at 15 North Decatur Avenue, Margate, which is owned by the elder Merlino, who pays all Bayshore telephone bills. The complaint also recounts the casino construction work that Bayshore had undertaken: "specifically, from August 1 through October 23, the company conducted \$160,467 in construction business on the site of the Resorts casino hotel parking garage project; from September 22 through October 23, the company conducted \$19,671 in construction business on the Resorts casino hotel low rise project and on September 24 they conducted \$12,862 in construction business on the Bally's casino hotel tower project." The Casino Control Commission denied DGE's application without prejudice but referred it to an administrative law judge for a full hearing.

Secret Mob Payoffs

G & H Steel Services, Inc., which, as noted, had an extensive joint venture (50-50 profit sharing) arrangement with Nat-Nat, attempted to hide its apparent utilization of Nat-Nat on two casino construction projects in 1985-86. The projects were the new Showboat casino and parking garage and the new Resorts Tower and garage. An obvious reason for G & H's deviousness on its Nat-Nat connection at this point was the increasing notoriety of its partner. By 1985 Nat-Nat's principals and Nat-Nat were on the State Treasury Department's debarment list and wide media attention was focusing on the Scarfo mob and its activities—highlighted by an Atlantic City Press disclosure in May, 1985, of Lawrence Merlino's presence at the Resorts project. An accompanying photograph showed him climbing a ladder as if at work on the project.

As a preface to this G & H episode involving Nat-Nat, the following should be noted in connection with the Showboat project. It was no secret that Nat-Nat was utilized at that job site by the Franki Foundation Co., which paid the Merlino company almost \$48,000 as its rebar subcontractor during the period of February-April, 1985. Unlike G & H witnesses at the SCI, Franki assistant regional director Dominic A. Cerasi gave a candid description of his company's dealings with Nat-Nat, including a \$1,995 rebar job at Caesar's in 1982 and a \$3,120 job at Tropicana in 1983. Cerasi's testimony, which demonstrated his growing uneasiness and ultimate disenchantment about his company's relationship with Merlino, is relevant to the objectives of this report since it describes why his company abandoned an effort to obtain a license that would enable it to deal directly with casinos on construction work. Cerasi testified that he ultimately determined that 1) his company didn't need a license to help construct casinos and 2) its association with Nat-Nat would disqualify it anyway:

Q. *Did Franki get the license it applied for?*

A. No, sir. I withdrew the application.

Q. *Why did you do that?*

A. Because I had put enough time and energy into that process and it became obvious to me

that I would never get a license and it would be an ongoing process approximately until the day I die and I didn't have the time and ability or the manpower to continue on, so I withdrew my application for a license.

CHAIRMAN PATTERSON: . . . I want to know why you thought you'd never get a license. Is there something in your background or your company's background that you suspected would prevent you from getting a license?

THE WITNESS: No, sir, it was nothing like that at all.

CHAIRMAN PATTERSON: Not the fact that you were doing business with Nat-Nat?

THE WITNESS: That was the fact in my mind, yes. And I told the [Casino] Control Commission . . . I felt that I was being muscled into not using Nat-Nat.

Q. *Do you believe that you have lost the opportunity to get jobs in Atlantic City because you withdrew the application?*

A. No, I don't think so.

Q. *So is it fair to say that the application was a headache without any benefits?*

A. Basically, yes.

Q. *So from your point of view you can avoid all the hassles of going through the licensing [procedure] simply by never contracting directly with a casino, operating or otherwise, and simply getting involved as a subcontractor?*

A. Yes. That's a fair statement. However, normal procedure is that we operate as a subcontractor under a general contractor.

CHAIRMAN PATTERSON: And it is your understanding you do not need a license if you operate in that fashion?

THE WITNESS: That's correct. . .

How G & H "Paid" Nat-Nat at Showboat

G & H's president, John Grant, refused to come to New Jersey to give sworn testimony at the S.C.I.

However, during an interview by S.C.I. agents at his office in Broomall, Pa. he contended that he had not associated with Nat-Nat in the Showboat job because of Merlino's disrepute. He discounted the fact that half the G & H workers on the Showboat job were Nat-Nat employees, saying that they had gravitated to the Showboat site because Nat-Nat was not busy. Actually, Nat-Nat was engaged at the time of the Showboat project on two major joint venture projects with G & H. Despite these disclaimers, the S.C.I. is convinced that Nat-Nat shared G & H's profit from Showboat either as a joint venture or, more likely, in return for the privilege of doing business on Nat-Nat's turf. Supporting this view are certain records of G & H, particularly two checks payable to Nat-Nat. These transactions were reviewed in detail with G & H's former controller, Donald Readler, beginning with a check for \$5,000. This check to Nat-Nat was identified on the G & H check stubs as a charge against either the Showboat or another account, the Oyster Creek radiation waste project, which was a confirmed G & H joint venture with Nat-Nat. Despite the casual either-or way in which G & H's president directed Readler to identify the check, it certainly linked G & H with Nat-Nat on the Showboat project. Following is an extract from Readler's testimony on this check:

Q. *There are [check stub] entries numbered "[job] 4536 or 4603?"*

A. Right.

Q. *The word "or" appears there on the stub.*

A. Yeah.

Q. *Can you explain that entry?*

A. I think I asked Jack at that particular time which job to charge it to. He said, "one or the other." So I put both numbers down. Where it got posted at the end of the month, I couldn't tell you without looking at the posting records.

Q. *You've testified that 4603 was Showboat.*

A. Yes.

Q. *What was 4536? Was that the Radwaste Building at Oyster Creek?*

A. Yes.

Another G & H check to Nat-Nat, for \$7,500,

also was allocated to G & H's Showboat account—for a while. Readler's testimony on this check:

Q. *Did anyone at G & H ever tell you that Nat-Nat was a joint venturer with G & H on that [Showboat] project?*

A. I'm not sure they told me that, but there was a profit distribution, and I asked what job should it be charged against and at that time they said Showboat. It was later changed and charged against another job, I forget which . . .

Q. *I'd like to show you what's been marked as Commission's Exhibit 81, a photocopy of a page of check stubs out of the G & H checking account. I'd like to call your attention to check 3308. Do you recognize that document?*

A. Yes, it's my handwriting.

Q. *Particularly the date on stub 3308 and the entry "Nat-Nat Steel?"*

A. Yes, that's right.

Q. *Did you receive instructions from anybody to make out that check to Nat-Nat and to allocate it to the Showboat job?*

A. By Jack Grant or John H. Grant. He's the president of G & H Steel.

Q. *At the time that he told you to allocate it to the Showboat, did you have any previous knowledge of any involvement by Nat-Nat in the Showboat job?*

A. No, I didn't.

Readler next testified that G & H's president, Grant, changed his mind about tying the \$7,500 Nat-Nat check to Showboat. Instead, it was to be charged against a General Public Utilities power plant computer center project in Reading, Pa. By this time, Readler confirmed, the Showboat job was almost one-third completed. His testimony:

Q. *Now, you've already testified that that 4603—*

A. That's Showboat.

Q. *That the 4603 allocation on the stub was crossed out?*

A. Right.

Q. *Did you cross it out?*

A. Yes.

Q. *Why did you cross it out?*

A. Jack [Grant] either came back to me later that day or at the end of the month when it came time to post the monthly totals and he told me to charge it to job 4579, which is a job in Reading, Pennsylvania.

Q. *What kind of job was that in Reading?*

A. It was for GPU Services, I think it was their office building, if I remember correctly.

Q. *Was that job ongoing at that time?*

A. It was almost finished.

Q. *At the time that Mr. Grant returned and asked you to reallocate—*

A. I showed surprise, yeah.

Q. *Had you prior to that time had any inkling of Nat-Nat being involved in the Reading job?*

A. No.

Q. *Do you have any knowledge of anything that Nat-Nat did or contributed to the project that would justify a profit distribution of \$7,500 to Nat-Nat?*

A. No.

Showboat Job Was 51% Non-Union

There were, as previously indicated, a number of reasons for G & H to persist in retaining its "partnership" with a mob company, even on a casino construction project. As shown, G & H was obviously laundering Showboat profit payments to Nat-Nat by charging them to other accounts but not hiding this ploy too astutely in its records. There was a critical need for G & H to pay off Nat-Nat's mob operator Merlino: To increase profits from the Showboat job by reducing—through Merlino's influence with the ironworkers union Local 350—its payroll costs. According to an S.C.I. audit of G & H's payroll records, 20,765 of the man-hours worked on the Showboat project, or 51 percent of the total, were not reported to the Ironworkers District Council of Philadelphia and Vicin-

ity. Hence, more than half the hours worked on a job for which Merlino's Nat-Nat was receiving a cash tribute were exempt from full union benefits.

Further, of the 39 workers on G & H's 1985 payroll for Showboat, 19 were workers who had customarily appeared on Nat-Nat job payrolls. This statistic raises questions about Grant's stated reason for engaging in joint ventures with Nat-Nat—to assure the required supply of ironworkers. S.C.I. accountants, by checking payroll records on G & H's joint venture projects, ascertained that one-third of the employees on these projects can be traced to Nat-Nat payrolls. But the one project, Showboat, that G & H sought to disown as a joint venture with Nat-Nat, shows that about half of the total work force was affiliated with Nat-Nat.

When these payroll findings were reviewed with Ernest Dana, G & H's former vice president, he disclaimed any knowledge or responsibility. He said G & H's Grant would have to respond to that issue, probably knowing all the while that Grant, as a Pennsylvania resident, could not be subpoenaed to give sworn testimony to the S.C.I. Following is an example of Dana's reaction to the payroll situation:

Q. We have analyzed the payroll for the Showboat job and compared it to the payroll of jobs where Nat-Nat was involved as a joint venturer with G & H. 50 percent of the workers on the Showboat project were what I think can be characterized as Nat-Nat regulars, people who show up frequently on other Nat-Nat projects, and that's the project in which Nat-Nat was not involved?

A. Right.

Q. On projects where Nat-Nat was involved, the usual frequency of Nat-Nat workers is about one-third. Now, the question occurs to me that if you had 50 percent Nat-Nat people on a job where Nat-Nat wasn't getting anything for providing labor versus the usual only one-third, why was it ever necessary to bring Nat-Nat into the picture to provide labor? Can you respond to that?

A. Well, on the jobs that he was involved with, he was supplying us with supervision and labor.

On the jobs that he wasn't involved with, he wasn't supplying us with supervision and labor.

Q. My question to you is: If you were getting the same people when he wasn't involved, and by "he" I guess we mean Nat-Nat, if you're getting the same people when he is not involved, why did you ever need him to be involved at all?

A. Well, I think you will have to ask Jack Grant that because Jack Grant is the person who was primary in deciding what jobs Nat-Nat would be involved and what jobs Nat-Nat wouldn't be involved . . .

Merlino's Shop Steward Reports on Showboat

Perhaps the most decisive evidence of Nat-Nat's presence at the Showboat project during the period of the G & H operation are Nat-Nat's weekly shop steward reports in May and June, 1985, to Ironworkers Local 350 as the employer of union workers at that project. Merlino, Nat-Nat's vice president, was listed as the foreman on all nine of these reports and also—incredibly—as the shop steward on seven of them.

Merlino's designation as shop steward further demonstrates his influence over Local 350, whose business agent, Thomas Kepner, made the appointment despite Merlino's obviously conflicting role as a corporate executive of Nat-Nat. The purpose of shop steward appointments by a union business agent is to generally "police the job" to protect both the union local and its members from an employer who could reduce his labor costs, and thus inflate his profits, by under-reporting or not reporting his utilization of union labor at a project. There is no question but that Merlino's role as an officer of Nat-Nat represented a direct conflict of interest with his reporting obligations as the shop steward for Nat-Nat's labor force on the Showboat job. Kepner was subpoenaed to appear before the S.C.I. but invoked his 5th amendment privilege on all questions.

Hiding Nat-Nat at Resorts Tower Project

During his immunized testimony, Dana told the S.C.I. that G & H had considered utilizing Nat-Nat

as its subcontractor on the Resorts Tower project in 1985-86 but "abandoned the idea" because Nat-Nat had been barred from casino work by the Casino Control Commission. However, the S.C.I.'s investigative findings confirmed that Nat-Nat was employed, or, again, at least paid off, on the Resorts Tower job—through a "minority enterprise" subcontractor, M & M Steel Service, Inc., which G & H controlled at the time by means of a management "training" contract. (M & M discontinued its operation early in 1987). Under this contract, G & H charged M & M a 15 percent fee on direct costs and retained 85 percent of the net profits. Acting as M & M's management consultant, G & H submitted a successful bid on the Resorts Tower project and then "arranged" for Nat-Nat to obtain and supervise the required manpower. M & M thus served as a "minority enterprise" conduit for G & H tribute to Merlino. A year earlier G & H had assigned a small M & M rebar contract at Harrah's casino to Nat-Nat, which received 100 percent of the net profit; M & M, the minority company, received nothing. Dana, while initially contending that Nat-Nat had no connection with the Resorts deal, admitted G & H's management consultancy arrangement with M & M:

Q. *And was M & M a minority enterprise?*

A. Yes, it was.

Q. *Did G & H use M & M as a vehicle to satisfy its minority quota requirements on various jobs?*

A. I don't like the terminology "use."

Q. *Did G & H go and find jobs that it wanted to get involved in but bid on behalf of M & M rather than G & H, realizing that M & M might have a leg up in the process because M & M was a minority business?*

A. Yes.

As stated earlier, Lawrence Merlino was discovered climbing a ladder at the Resorts Tower project in May, 1985. When Emanuel Mitchell, president of M & M, testified at the S.C.I., he said he believed that Merlino was at the job site to visit his son, Joseph. Mitchell's recollections of that project, including Merlino's presence at it, were vague:

Q. *Do you know whether G & H turned to Nat-Nat for any labor on this job?*

A. No, I don't.

Q. *You don't know?*

A. I don't know.

Q. *This is the job that you referred to before when you said you saw a picture in the paper of Mr. Merlino going up a ladder.*

A. Yes.

Q. *Apparently, he was there to talk to his son; is that your understanding?*

A. That's the only reason—if he was there for any reason, I don't know anything about it.

Q. *Did you know, prior to seeing the thing in the paper, that his son was working on this job?*

A. No, I didn't.

Q. *I take it, then, that the son, Joseph Merlino, was not among those four workers that you recruited for the job?*

A. Right.

Q. *Do you know now how it came about that Joseph Merlino was working on the job.*

A. See, because I set [it] up for the union to send the people in.

Q. *Whom did you speak with?*

A. The gentleman we were talking about a few minutes ago. I can't remember his name. I may—no, I don't have his card.

Q. *Mr. [Thomas] Kepner?*

A. Yes, the business agent.

Q. *You spoke to Mr. Kepner and said you needed a certain amount of manpower?*

A. Yeah.

Q. *Joseph Merlino was among those sent down?*

A. I don't know where Joe Merlino was sent down from. I went to talk to Mr. Merlino—or the Mr. Kepner told him I needed manpower. G & H

or the foreman on the job called the union and got the rest of the men. I sent four guys there and they were all black, so we ain't got no problem with them, they are the people I sent. The other people on the job, the G & H office sent them or the union hall sent them. I can't tell you anything further.

Q. You also mentioned that G & H may have gotten involved in recruiting people for the job?

A. They had to. I didn't send them, he had to do it. That was part of [its] job too.

Nat-Nat Involvement at Resorts Admitted

S.C.I. accountants reviewed M & M records, which were maintained at G & H, and found several distinctive clues to the mystery of Nat-Nat's involvement in sharing G & H profits at the Resorts job, despite recollections to the contrary by M & M's president Mitchell. It should be noted here that M & M was the subcontractor (of record, at least) on two related Resorts projects—the Resorts Tower project for Feriozzi Concrete Co., and the Resorts parking garage for the Massett Building Co. The M & M file included computer printouts of M & M job costs for both of these Resorts jobs. Marginal notations on these printouts included, as an example, a scrawled estimate of G & H's profit on the Tower project, as of 11-30-85, of \$55,319 and Mitchell's 15 percent, or \$8,298. Below these calculations, the margin contains in parentheses, in handwriting that Dana admitted was his:

(42 1/2% G & H)

(42 1/2% NN)

These calculations reflect G & H's 85 percent profit from M & M's operation, as per its management consultancy contract with M & M, and an equal split of that 85 percent profit with Nat-Nat. Similar marginal calculations appear on the printout relative to M & M's subcontract with the Massett company, again reflecting a split with Nat-Nat. When these printouts were shown to Dana, his testimony gradually faltered to the point where he lapsed into prolonged silence. Following is Dana's recollection of this issue:

Q. In both instances the handwritten entry says 15 percent and then has a dollar amount. Does that mean that 15 percent of the profit goes to M & M?

A. ... that would have been his share, yes.

Q. And then the G & H share was 85 percent?

A. Yes.

Q. In each instance after the 15 percent share has been computed, there is the entry 42 and a half—

A. Well, as I said, we were considering involving Nat-Nat, but then we decided we wouldn't involve them.

Q. When was this document produced? After the job had commenced or before the job had commenced?

A. Well, it says it's 12/10/85.

Q. So is that before the job commenced?

A. I don't know. Well, no, this was produced after the job commenced or we wouldn't have these figures.

Q. Well, was it produced after the decision had been made that Nat-Nat should not be involved?

A. I guess it was.

Q. Well, then, why did you compute half of G & H's profit to go to Nat-Nat? Isn't it a fact, Mr. Dana, that Nat-Nat was getting half of the profits on the M & M jobs at Resorts International?

A. No, they weren't getting half of the profits.

Q. Do you have any explanation for those entries?

A. All I can tell you is this: No payments were made—

Q. I think you—

A. —to Nat-Nat.

Q. I think you're quite clear as to that. My question to you is: Why did you break the 85 per-

cent down the middle in those entries? I don't know what you did with the money. You have testified you didn't do anything with the money as respects Nat-Nat. Why did you make the entry in the left-hand margin splitting the 85 percent down the middle between Nat-Nat and G & H? Do you have any answer?

A. I am trying to think. [Prolonged pause] It appears that Nat-Nat was getting a percentage of this.

Q. It sure does.

A. But they did not get it distributed out of these jobs.

Q. Did they get it distributed out of another job like the GPU job?

A. You will have to ask Jack Grant.

Nat-Nat's \$7,500 Bill on Resorts

The G & H attempt to cloak Nat-Nat's stake in the Resorts Tower complex was further stymied by a bill found in G & H's files for M & M, in the form of a handwritten letter to M & M from Nat-Nat. The letter, dated September 25, 1985, states: "To bill you for foremen and ironworkers furnished to M & M Steel Service in Atlantic City." (M & M had no other project in Atlantic City at the time). The voucher requests payment of \$7,500 relative to project M-1006—which was G & H's identification of the M & M Resorts operation. When Dana was asked about this, he replied: "I never saw this before and I have no idea where it came from."

S.C.I. Counsel Morley next showed Dana a check to Nat-Nat, numbered 1676 and dated September 25, 1985, from M & M that was voided, and also a stub corresponding to the voided check as well as two following check stubs. Dana was questioned about these transactions:

Q. [Exhibit] C-60 is a plastic jacket which contains a check from M & M Steel Service, Incorporated, it's check number 1676. Also in the jacket is the stub corresponding to that check as well as the two stubs following, because we didn't want to detach them. The

check itself has been voided, it's in the amount of \$7,500 and it's dated September 25, 1985. Now, on C-59, the Nat-Nat—I will call it an invoice, for lack of a better term—there is the pen-written entry "1676, 9/25/85." The check 1676 in C-60, although it's been voided, [and] appears to have been signed by you.

A. That's right.

Q. It also appears to have been made out to Nat-Nat Steel, although that payee there has been stricken with a felt tip pen. Is that correct?

A. Yes, yes.

Q. Now, does it appear to you that the name Nat-Nat appears under the felt tip—

A. Yes, I will tell you what this is.

Q. Okay.

A. I don't know where you got this or what it is, but this is Jack Grant's writing, that's all I can tell you. That's my only knowledge of that. That's Jack Grant's writing. This check here was made to Nat-Nat. I signed it because I was an authorized signature for M & M at the time, and I don't know who decided to pay \$7,500 but after signing this, I said, "What is this for," and somebody said, "It's a distribution" for I think it was Resorts. and I said, "Well, we decided we are not going to involve him in that job."

Q. "Him" meaning Nat-Nat?

A. Nat-Nat, and so the check was cancelled.

Q. The stub for the next consecutive check, 1677, is a stub to G & H Steel also for \$7,500 dated one day later.

A. Yes.

Q. Do you have any knowledge of what that was for?

A. No, I don't write checks, I don't make distributions, and the mechanics of writing, you know—making payments, and all of that, is in the bookkeeping department.

Q. Did you have any discussion with Mr. Grant about the error of issuing that check 1676 to—

A. I think I said to him, "You cannot—we are not involving Nat-Nat" in the Showboat job—I don't mean the Showboat, the Resorts Tower.

Q. *Did Mr. Grant respond in any way?*

A. He said, "You're right."

The \$7,500 eventually found its way to Nat-Nat in the form of a check from G & H issued on the same day that the money was received from M & M.

As was obvious from the testimony, Dana was unable to refute the evidence uncovered by the S.C.I. that linked Nat-Nat to Resorts construction as a partner in G & H profits. His testimony also explained why G & H president, John Grant, refused repeated invitations by the S.C.I. to come to New Jersey to testify under oath.

Scarfo Hid Casino Work

Mob boss Nicodemo Scarfo's company, Scarf, Inc., utilized a now bankrupt contractor, Toro Construction Co., to hide its activity as a casino sub-contractor in 1980-81, according to the S.C.I.'s investigative findings. Before outlining this deception, which took place at the Claridge and Playboy projects, certain details confirming Scarfo's influence over Toro and its president, Robert Locicero of Landisville, should be noted.

Toro Was Scarfo Mob's Bank, Money Laundry

Audits of Scarf corporate records indicate that the Toro company served variously as a bank and a money laundry for the Scarfo gang in Atlantic City before it finally went broke. As previously reported, Toro contributed \$45,000 toward bail for Scarfo, Philip Leonetti and Lawrence Merlino when they were arrested for the Vincent Falcone murder in 1979 (for which they subsequently were tried and acquitted). Although this loan was repaid, Scarf records show that Toro loaned it \$10,000 on December 10, 1979, which apparently has never been repaid. This loan, like the bail bond transaction, was unsecured and interest-free. As with another \$10,000 loan Toro made earlier in the year to Nat-Nat, which was repaid,

Locicero was unable to recall any details of the transaction when he testified as an immunized witness at the S.C.I.

Q. *Has Toro ever loaned money to Scarf, Incorporated?*

A. I don't recall. I don't believe so. It may have. I don't believe so.

Q. *How about \$10,000 in 1979, like the 10,000 that Toro loaned to Nat-Nat in 1979?*

A. Is this the same 10,000?

Q. *I doubt it.*

A. I don't recall.

Probably the most peculiar transaction with Toro involved a house in Longport that Scarf, Inc., principal Leonetti wanted to purchase but couldn't because he was unable to obtain a mortgage in his own right. (The house was to become the residence of Scarfo's girlfriend). Locicero and his wife, in February, 1981, borrowed money from Toro to make a down payment on the house in the amount of \$24,470.72. Scarf, Inc., records show it repaid Locicero's obligation to Toro in June, 1981. In the meantime, the Lociceros obtained a mortgage for \$80,000 from the Newfield National Bank. Although Scarf, Inc., has been making the mortgage payments, as shown by corporate records affirming the obligation, no deed has been registered with the County showing any transfer of the property by the Lociceros to anybody. Indeed, the bank, which Locicero insisted knew about Leonetti's role in the deal, recognizes that Locicero would be liable should Scarf ever default on the mortgage payments. Locicero's testimony suggests how slavishly submissive he was to the Scarfo gang's wishes:

Q. *What did you intend to do with the house once it was yours?*

A. Sell it to Phil Leonetti.

Q. *And it's your testimony that there came a time when you sold the house to Phil Leonetti?*

A. That's correct.

Q. *How was that sale accomplished?*

A. I went to an attorney and outlined the project or the house, the structure, and told him what my intentions were. And I asked him if he could make this arrangement or take care of this paperwork, and he explained to me how he could do it or how it would be done, and he did the paperwork.

Q. *Did you go to a settlement where you transferred title of the property to Mr. Leonetti?*

A. I don't believe so, no.

Q. *Did you ever make any payments on the mortgage?*

A. No, not to my knowledge.

CHAIRMAN PATTERSON: Has anyone else made any payments to the mortgage?

THE WITNESS: To my knowledge Phil Leonetti makes the payments.

CHAIRMAN PATTERSON: Do you know whether you are still responsible for the mortgage or is Leonetti responsible for the mortgage?

THE WITNESS: I believe the mortgage is in my name, all payments are made by Leonetti.

CHAIRMAN PATTERSON: So if Mr. Leonetti did not make the payment and the bank wanted to go after someone to make a payment, they would go after you, as far as you know?

THE WITNESS: Yes.

Toro Was Scarf Pipeline from Winzinger

Toro paid Scarf, Inc., \$64,096 during 1981 for casino work at the Claridge and Playboy. However, the source of these payments was a major subcontractor for the projects, Robert T. Winzinger, Inc. (which is under federal indictment for fraud conspiracy relative to its obligations to labor union benefit funds). The Playboy payments resulted from Toro's assuming a job from which Scarf had been ousted at the urging of casino regulators. However, Scarf later used Toro to shield the fact it was actually working on the Claridge project for Winzinger.

For the Claridge work, Scarf billed Toro \$36,911, and Toro billed Winzinger for that same amount. Winzinger later paid Toro \$27,861 and Toro then made an identical payment of \$27,861 to Scarf. Locicero, as Toro's president, was granted immunity and questioned at length on these transactions. Despite their peculiarity, they were matters that Locicero could not—or did not want to—recollect:

Q. *Let me ask you a straightforward question about the Claridge job. Did Toro have a contract with Winzinger to do some concrete work on that job which Toro then turned over to Scarf and had Scarf do all of the work?*

A. I don't recall.

CHAIRMAN PATTERSON: Why else would you pay Scarf?

THE WITNESS: I don't recall at this time.

CHAIRMAN PATTERSON: Well, can you think of any reason why you would pay Scarf?

THE WITNESS: By just reviewing these two documents, the whole transaction, I don't recall the transaction at all.

CHAIRMAN PATTERSON: Why would you pay Scarf if Scarf didn't do some work?

THE WITNESS: I don't know.

CHAIRMAN PATTERSON: Would there be any circumstances you'd pay him for work he didn't do?

THE WITNESS: It could have been for materials or something. I don't recall.

Q. *Mr. Locicero, this is purely hypothetical. If Toro had a contract with the Winzinger company to do concrete work on the Claridge Casino, and Toro then turned around and gave that entire contract to Scarf, Incorporated, Scarf did all the work and Scarf got all the money, but the payments were made from Winzinger through Toro to Scarf, if that situation existed, would you, as president of Toro Construction, know that it was happening?*

A. If we subbed the job out, I most likely would know, yes.

Q. *In all of the years that you worked at Toro, was there ever a time that you right now recall when Toro got a contract, assigned a contract in its entirety to somebody else and did nothing but, in effect, launder the payments between the general contractor and your subcontractor, launder those payments through the books of Toro? Do you have any recollec-*

tion of any instance in which that kind of arrangement existed?

A. Not offhand, no.

Q. *Are you surprised to see those documents suggesting an arrangement where Toro was simply laundering payments between Winzinger and Scarf?*

A. I assume those documents are accurate.

Conclusions and Recommendations

As stated at the outset of this report, the S.C.I.'s principal investigative objective was to reveal that organized crime-influenced contracting companies have penetrated the regulatory screen that is supposed to bar them from casino and publicly funded construction projects and to propose reforms that would make such projects more secure against mob incursion. The Commission's probe confirmed, as also noted, a flagrant "contravention of legislative intent and political promise that there would be no organized crime presence at these job sites." The S.C.I. hopes that its factual findings and the conclusions and recommendations below will combine to revive both the unfulfilled intent and the failed promise. While we believe that government should endeavor to put companies such as Nat-Nat and Scarf out of business altogether, it has a heightened responsibility to act aggressively when these companies intrude into the sensitive gaming industry or profit from tax revenues. Therefore state government's commitment to promote the integrity of its casino gambling industry and to safeguard the tax dollars involved in its public works demands adequate statutory guidelines. This report points to certain inadequacies in the regulatory process that deserve an immediate and aggressive remedial effort.

Several references have been made to the corruptive influences of organized crime-owned contracting companies and the conduct of the

mobsters or mob associates who operate or represent them. In an effort to capitalize on the casino and general construction boom, such companies have resorted to various devices in an effort to continue to amass revenues from construction jobs despite their notoriety. As the S.C.I.'s findings have made evident, these disreputable contractors have created and/or utilized other corporations as "shields" in order to obtain contracts they could not openly bid for. They have contrived secret deals, particularly so-called "joint venture" agreements, in order to mask their presence at construction sites. Whatever their disguise, their tactics have remained consistently venal, including threats of job disruptions to profit from construction projects.

Also documented here has been organized crime's influence over a few labor unions which not only bolstered strong-arm threats but also has allowed particular mob-run companies, working through "fronts" or "joint ventures," to underbid legitimate competitors by cutting back (with the acquiescence of certain union leaders) on the cost of union benefits that other companies must pay. As this report pointed out, in one episode, such renegeing on union labor health, welfare and pension benefits is easily contrived when a labor leader can designate a company executive and job foreman as a shop steward on a project, responsible for reports that can hide an employer's benefit payment obligations to a union trades

council. (Indeed, it is axiomatic that, on any given job site, the shop steward represents the union and the foreman represents the employer. To wear both hats on the same job site for the same employer is an outrage). S.C.I. accountants have uncovered instances of gross under-reporting or non-reporting by Nat-Nat of job hours by ironworkers it employed as well as similar transgressions under the Nat-Nat and G & H "joint venture" deals. For example, according to an audit of records of Nat-Nat remittances to the Iron Workers District Council of Philadelphia and Vicinity Benefit and Pension Fund, more than 58,400 hours of the total of almost 105,000 hours actually worked by union ironworkers were never reported by Nat-Nat to the District Council Fund during the period 1979-86. The unreported hours represented over 55 percent of the total work hours and, at the applicable rates, had a total value in pension and other benefits of about \$209,000. The percentage of working hours that went unreported by Nat-Nat ranged widely, from about 10 percent in the latter half of 1979 to highs of 97.9 percent in 1986, 85 percent in 1985 and 74.5 percent in 1982. The resultant cost savings to Nat-Nat not only enabled it to underbid rival rebar subcontractors for jobs but also vastly increased the profit of its mob owners.

Centralize Disqualification Process

At present the State Treasury Department's Division of Building and Construction maintains and distributes a periodic list of disqualified—debarred or suspended—contractors which is regarded, at least by the Division, as the primary compilation for universal use. However, the Department of Transportation, because of the volume in transactions and dollars of its dealings with road construction contractors, has traditionally conducted its own prequalification procedures, including a substantial disqualification list that is constantly updated. Other agencies, as cited in this report, also maintain lists of varying reliability and currency on contractors. The existence of such a wide variety of lists for the single purpose of purifying contractual dealings with private vendors has been shown to be self-defeating. The mere existence of a debarment list means nothing if the list is antiquated or incomplete, yet it tends to become an excuse for inadequate and

superficial scrutiny of bidders for construction or other work in which State government has a financial or other direct or indirect interest. Therefore, subject to additional related recommendations, the S.C.I. recommends that—although other governmental agencies may well continue to sponsor disqualification lists—the Treasury Department's debarment list be established as the primary list for mandatory statewide reference and that sufficient resources be made available to the Division of Building and Construction to enable it to maintain an appropriate and adequate centralized and authoritative screening function.

Separate List for Construction Contracts

The Commission does not believe it must delineate every particular of a revised procedure for barring organized crime-controlled companies from construction projects. However, existing efforts to pre-qualify bidders for State contracts and to otherwise promote the integrity of dealing with private vendors have convinced the Commission that the work involved to produce effective results is extraordinarily voluminous, time-consuming and sensitive. The Commission's recommendations admittedly will increase the commitment of personnel and funds to this process. In order to facilitate the attainment of the proposed reforms, the Commission urges that serious consideration be given to the idea of maintaining a separate screening list for construction contractors and subcontractors. This suggestion is not intended as a discriminatory criticism of such contractors, but is proposed chiefly because this is an area which concerns projects that are not only the most costly and complex but also the most vulnerable to racketeering, extortion and other corruptive perversions. A disqualification list for construction contractors would enable its monitors to more diligently focus on conducting and updating the background checks that will be necessary to assure the list's validity and to guarantee its usefulness.

Define Organized Crime Debarment

The S.C.I. believes that the Casino Control Act, which authorizes the Casino Control Commission to act against organized crime-influenced com-

panies and individuals, has not been as aggressively implemented as it could be. The court-tested provisions and definitions of this Act should also be adopted by the Treasury Department and any officials authorized to debar undesirable contractors from State work. No individual or entity with an obvious organized crime coloration should be permitted to work at casinos or on casino construction projects or on any publicly funded projects. With respect to the casino area, the S.C.I. questions the Casino Control Commission's decision to reject the disqualification of Bayshore Rebar Co., as requested by the Division of Gaming Enforcement (DGE), despite this company's intimate connections with Scarfo mobster Lawrence Merlino, as described more fully in the body of this report. The Casino Control Commission has merely referred the DGE's complaint against Bayshore for a hearing by an administrative law judge. In our view, the company's obvious mob connections dictated that it should have been suspended pending a full hearing.

Close Casino Control Act Loopholes

The DGE has proposed amendments to the Casino Control Act for the purpose of extending the jurisdiction of the Division and the Casino Control Commission to regulate the relationship between casino licensees or casino license applicants and persons and entities with which they do business. The Division submitted the following statement in support of its legislative proposals, which are currently pending in the State Assembly:

Presently, only persons or entities which do business directly with casino licensees are subject to scrutiny. Those transacting business with casino licensees indirectly, and those transacting business with casino license applicants directly or indirectly, are beyond the reach of the State's regulatory mechanism. This jurisdictional void has been exposed most dramatically by reports concerning the involvement of companies with connections to organized crime with casino hotel projects in their pre-opening phases. Such companies,

and individuals associated therewith, have also been identified as on-site subcontractors on construction projects carried out by casino licensees. Similar incidents undermine public confidence in the strictness and credibility of the casino regulatory process, and run counter to the policy of excluding unsuitable persons and entities from the casino industry and restricting the ability of such persons and entities to profit therefrom.

The DGE has proposed an amendment to section 12 of the Casino Control Act to cover various enterprises, and construction companies in particular, which supply goods or services to applicants for casino licenses. This report takes note of incidents concerning organized crime-connected individuals or entities which performed construction work for contractors whose applications for casino licensure or other regulatory certification were pending—and who were thus beyond the reach of any regulatory controls. This suggested law change would make the casino licensing requirements which now apply only to those who deal with casino licensees also applicable to those who deal with license applicants. The S.C.I. joins DGE in recommending immediate enactment of this amendment.

The DGE further has recommended amending the Casino Control Act's section 104(b) to extend state scrutiny and regulation to subcontractors who, as this report makes fully evident, escape regulatory attention altogether because the controls do not descend to the level of those who are employed by general or prime contractors. Presently the law permits the Casino Control Commission to review the qualifications only of those persons or entities contracting directly with a casino licensee (i.e., prime contractors). Under the suggested changes, those who deal directly or indirectly with casino licensees or applicants would be affected. In addition, extending the amendment's impact to "agents" of those who contract with casino licensees or applicants, DGE stressed in its statement, "would provide a clear indication that contracts between prime contractors and subcontractors were now within the regulatory sweep." The S.C.I. also strongly recommends the swift enactment of this amendment.

Scrutiny/Control Should be Rigid

The S.C.I. urges that a reformed process of scrutinizing and checking on the qualifications of contractors be fully implemented and strictly enforced. No contract performance should be permitted to get underway until a background check has been completed with satisfactory results, so far as the subject is concerned, if a scheduled vendor has not previously been a pre-qualified contract bidder and is new and otherwise unknown to authorities. There should be a formal process for law enforcement background inquiries under direction of the Office of the Attorney General that should permit such checks to be made as fully and as expeditiously as possible. A number of other steps should be considered to make the system more effective: All State governmental agencies should be required to utilize the central disqualification list, which should be circulated among all relevant officials as frequently as possible. All affected agencies should be required to report to the Division of Building and Construction all adverse data they receive on potential vendors. Formal notice should be sent to this central office of all vendors or contractors who have failed to meet contractual obligations. The disqualification list should be disseminated as widely as possible, including to county and municipal governments and independent authorities and commissions. Copies of the debarment list should be made available to all potential bidders,

thus alerting prime contractors against the employment of subcontractors who have been disqualified. Finally, the prequalification questionnaire should require responses to questions about prior criminal convictions and prior debarments or suspensions. Disclosure of an applicant's corporate affiliations, such as joint ventures, should be clearly required. Such forms should emphasize a warning that false answers to any questions will subject the applicant to prosecution for perjury.

Reference of S.C.I. Findings

Because of the possible criminal aspects of various S.C.I. investigative findings as summarized in this report and discussed above, this Commission is referring essential probe data to Attorney General W. Cary Edwards, the United States Attorney's Office and the United States Department of Labor. The Commission believes the Attorney General should consider prosecution based on the State Racketeer Influenced and Corrupt Organizations (RICO) statutes against mobster Lawrence Merlino's Nat-Nat, Inc., and its shadow companies, similar to the charges which have been lodged against mob boss Nicodemo Scarfo's Scarf, Inc. Finally, federal authorities, particularly the Labor Department, should be concerned about the additional evidence available in this report of the swindling of labor union pension and welfare benefit programs.

THE COMMISSION'S PUBLIC ACTIVITIES

1986 Update

The Commission during 1986 completed three public actions—a critique of the New Jersey Racing Commission's regulatory problems, a condemnation of the handling of the State Motor Vehicle Division's multimillion-dollar computer contract and a report on the SCI's public hearing probe of mismanagement and irregularities in the Division's MV agency system. Also, the Commission at year-end authorized the preparation of a report, in connection with its monitoring of organized crime in the Atlantic City region, which appears in the organized crime section of this annual report. Finally, on December 17, the Commission authorized a new investigation, as noted in the following letter by James J. Morley, Executive Director, to Senate President John L. Russo and Assembly Speaker Chuck Hardwick:

At its meeting today the Commission adopted a resolution authorizing an investigation into the acquisition of the Union Lake property in Cumberland and Salem Counties by the Department of Environmental Protection under the Green Acres Program. This investigation will be conducted to determine the circumstances surrounding the acquisition and to determine if those circumstances suggest the need for revisions in the procedures governing Green Acres acquisitions generally.

The Commission will not, however, inquire into the need for funds to perform remedial work on the Union Lake dam. Therefore, the Commission is not recommending that the investigation cause you to delay legislative consideration of the pending appropriation bill.

Racing Inquiry

On October 7, 1986, the S.C.I. submitted, in the form of a letter to the Racing Commission, a re-

view of racing industry problems. The review noted the "many regulatory improvements" which the Racing Commission implemented or tried to achieve during the S.C.I.'s inquiry but listed recommendations for rectifying numerous remaining problem areas. The letter pointed out that the Racing Commission, during the course of the S.C.I. investigation, had been confronted with significant changes in the industry that had complicated the regulatory reform process. The letter added:

Further, the Racing Commission itself was enlarged from four to seven members and several commissioners who had been in office during the SCI's inquiry are no longer sitting. Hence, a majority of the agency's expanded membership will have had no responsibility for regulatory lapses on which the inquiry focused, including those which have undergone correction. The SCI believes that your expanded Commission should be given the opportunity of a fresh start toward extending the corrective programs already initiated and implementing such other reforms as will be suggested in this letter.

The review urged the Racing Commission to tighten its controls over the conduct of its members by eliminating potential conflicts of interest, including a ban on wagering on horse races (as is imposed in many other state racing jurisdictions) and the elimination of "the unseemly practice of issuing hundreds of clubhouse passes to each racing commissioner. . ."

Under the heading, "Regulatory Timidity," the S.C.I. recommended that the Racing Commission exert its monitoring powers over individual race tracks more aggressively, particularly in connection with financial and operational security and integrity. The review letter urged that funds be provided so that the Racing Commission can increase its staff of auditors and thus impose more stringent controls over pari-mutuel supervision,

handling of funds allocated to horsemen's groups and to various breeding programs established by statute, and over expenditures by licensed permit holders. Expansion of the Racing Commission's laudable drug control reforms also was pressed and the Legislature was asked to provide funds to complete the computerization of the Racing Commission's vital licensing system.

In conclusion, the S.C.I. emphasized its concern about the gloomy outlook for racing in New Jersey, as follows:

The SCI's inquiry into the racing industry has left one overall—and negative—impression: Horse racing as a form of legalized gambling in New Jersey is in serious trouble. The industry is afflicted by a variety of problems that not even the most efficacious regulatory system can easily resolve. For example, what are the answers to such questions as: Why is horse racing losing its share of the gambling dollar? Has legalized gambling reached the saturation point in New Jersey? Is the available supply of qualified horses too small for year-round racing, not only in New Jersey but in the entire Northeast? What if anything can be done to resolve such a dilemma if it is perceived to exist? Has the need for horses to fill out race track schedules resulted in too many races of questionable quality and credibility? Does the betting public believe that racing can't be trusted? Has the excitement of witnessing a horse race been deflated by a suspicion that the odds are stacked against making a worthwhile wager on any race's outcome? These are only a few of the questions that probably can be resolved or alleviated only by a wholesale restructuring of the State's promotion and supervision of the horse racing industry. Perhaps racing should no longer be regarded as a State revenue source, but solely as the prime means of supporting a horse industry overall that adds so significantly to the State's economy.

The SCI lacks the resources to undertake the exhaustive exploration necessary to provide the answers to problems of such an overlapping and interlocking nature affecting all forms of legalized gambling in this state. However, the Legislature is establishing a task

force of experts to review New Jersey's legalized gambling in general, to assess the cause and effect of the problems that are multiplying so fast and to come up with some possible resolutions of these problems. So far as racing is concerned, such a task force is being proposed at a propitious moment. The SCI stands ready, as we believe your Racing Commission also does, to provide this prospective gambling study with every form of assistance at its disposal.

On November 10, 1986, the S.C.I.'s Executive Director, James J. Morley, appeared before a legislative committee at the request of its chairman, Assemblyman William P. Schuber, to expand on the agency's critique of the Racing Commission's performance and on the problems of the racing industry. At this discussion, Morley urged passage of a pending bill, Assembly 3163, which would appropriate \$390,000 for Racing Commission regulatory needs, chiefly to beef up its auditing and computerization efforts. He noted that enactment of this legislation would effectively respond to the S.C.I.'s most urgent reform proposals.

Price Waterhouse-DMV Computer Contract

The Commission, on June 24, 1986, completed the third and final phase of its overall inquiry into the State Division of Motor Vehicles (DMV) with the issuance of its report on the inappropriate implementation of a \$6.5 million computer contract between DMV and the Price Waterhouse (PW) accounting firm. This report culminated a probe that involved more than 30 witnesses and 200 exhibits. In its preface to the report the Commission stated that it had...

... found that the computer project was unnecessarily rushed to accommodate DMV's desire to achieve a significant DMV/computer initiative prior to the 1985 gubernatorial election. It further concluded that DMV improperly precluded competition from firms other than PW, a decision which Administration officials merely rubber-stamped. Moreover, the S.C.I. determined that DMV was incapable of effectively managing PW's performance on such a highly technical and complex project.

Regarding PW, the Commission established that it unnecessarily risked the success and financial viability of the project by improper utilization of an advanced programming language. In addition, PW's contribution to three annual Republican fund-raisers at the time of these events tainted the public's perception that its performance would be judged without favoritism. Furthermore, the Commission found that PW failed to adequately document and account for its allocation of employees' hours between tasks included within the \$6.5 million job and extra work for which PW argued it was entitled to additional sums. Finally, the S.C.I. questioned PW's judgment in charging numerous inappropriate expense items to the State, even though the total amount of such expenses was minor in comparison to the total contract price.

In reviewing the origins of the DMV-PW computer fiasco, the Commission identified as one factor the unrealistic deadlines imposed for completion of the project. In addition, bid waivers were approved that guaranteed the contract to PW, thus eliminating the possibility that better proposals might be forthcoming. Misjudgments mounted: DMV ignored the state's field-tested in-house computer experts and decided to manage the project itself under the command of computer neophytes; the project was plagued by supervisory confusion and technical misguidance; technical questions were left to PW to resolve. The misjudgments ultimately crippled the system, generating a backlog of more than 1.4 million transactions and widespread public protest. An important side issue was the revelation that PW had made significant political contributions that left open to public question the objectivity of decisions by State officials regarding PW's contractual obligations. The report made these relevant observations:

When efforts to remedy problems with the new system are finally completed, PW will request payment of \$1.4 million in outstanding billings submitted in early 1985. At the same time the State will determine whether it should offset liquidated damages against such sums for PW's failure to deliver a workable system within the contractual time frame. Under the November 9, 1983, agreement, liquidated

damages on the comprehensive system would amount to \$50,000 by September 1, 1985. An additional \$50,000 per month would become assessable on the first of every month thereafter. The State also will have to decide if actual damages should be offset against amounts payable or if it should sue PW for damage amounts not satisfied by a setoff.

Contractual provisions governing these decisions are ambiguous in some instances, leaving room for considerable discretion by state officials charged with interpreting or enforcing them. . . .

The S.C.I. cannot perceive how the public is to be reasonably satisfied that PW's political contributions will not unduly influence these important future decisions. This perception will remain despite then First Assistant Attorney General Cole's strongly worded notices to PW on August 26 and September 5, 1985, that the State would require PW to correct, without charge, all deficiencies in a reasonable period of time and would review its position on liquidated damages in light of the extent and timing of PW's remedial efforts.

. . . The contractual provisions governing warranty and liquidated damages leave altogether too much room for discretion and interpretation. The warranty provision, for example, states that the warranty "shall be implemented only by the correction of errors in the Systems software by [PW]." The State should assert an expansive interpretation of this clause during any future litigation or settlement of PW's system restoration obligations. Similarly, the key task for producing a functioning system—implementation and turnover—is not included in the list of tasks which must be completed to avoid assessment of liquidated damages. Moreover, none of the listed tasks are expressed in strong "quality" terms such as "operable," "workable" or "functional."

This Commission believes the public must be confident that public officials will require full contractual performance protecting public interest and funds and . . . will assertively interpret such ambiguous provisions as do exist

in the public interest. The political contributions tarnish such expectations in this case.

The S.C.I. was particularly concerned that PW, despite its reputation as one of the "Big Eight" accounting firms, violated its own rules—not only with respect to inappropriate personal and office expenditures but more importantly in its procedures for billing the State for its working time on the project:

The S.C.I. cannot demonstrate—nor does it even allege—that PW fraudulently mis-allocated hours. Neither can this Commission say that PW's interpretation or situational modification of its own policies was an attempt to create a system tolerant of excessive mis-allocations. Nonetheless, the Commission is disturbed that two admirable principles, which are even contained in PW's official policies, were disregarded during the DMV project. These are: 1) the requirement that each professional personally participate in the decision to allocate his hours a certain way, and 2) the requirement that each professional personally participate in the documentation of those allocations. These principles were especially important for the DMV engagement. Because of the \$6.5 million cap for general work and the budding dispute between DMV and PW concerning the amount of work properly allocated to extended support and enhancements, any deficiencies in employee participation and documentation of time changes and charges rendered the reallocation system unsatisfactory.

A review of certain audit guidelines and procedures used by State and Federal auditors reaffirms that the individual employee time-keeping record is fundamental to time billing accountability. Without employee approval a time sheet should not be changed after the employee has signed it and turned it in to his supervisor.

The S.C.I. has been informed that auditors in the Office of the State Auditor of New Jersey would, in most circumstances, take exception to estimated time allocations prepared by persons other than the individuals doing the work. When confronted with estimates by

those not actually performing the task, auditors require that during interviews the individual employees confirm the time they expended. The Guidelines for Comprehensive Audit of Labor Costs by the Defense Contract Audit Agency conclude that "audit evidence obtained from managers or supervisors regarding employee time charges is indirect information and is not as reliable as information obtained directly from the employee and corroborated with written documentation of the employee's work."

DMV, instead of insisting on obtaining a copy of PW's policies, chose to remain ignorant of PW policies containing these principles of individual reconciliation and documentation. Nor did management at DMV apparently feel a need to insist on a system which incorporated such principles. However, regardless of DMV's or PW's confidence in the accuracy of the extra billings, PW did not provide a system of accountability appropriate for a complex project involving massive public funding.

The S.C.I. report's conclusions strongly criticized both PW and DMV but, for stated reasons, were more harshly couched so far as the accounting firm's performance was concerned:

As this report demonstrates, the Commission's investigation confirmed mismanagement by DMV and professional misjudgment by PW in the implementation of the \$6.5 million DMV computer contract.

DMV's managerial deficiencies resulted in establishing a dangerous course for the project from its outset. The Division, as the S.C.I.'s probe record illustrates, avoided competitive bids that might have provided more alternatives and options assuring the project's success. Instead, it decided to rely solely on the so-called "Big Eight" repute of its project master planner PW, arbitrarily dismissing in the process the available expertise of in-house technicians who already had achieved major computer successes elsewhere in State government. Further, DMV insisted on "managing" the computer project itself, a highly technical burden that more appropriately is

assigned to technical experts. And, as the project's "manager," DMV decided to add to the Administration's political laurels by setting an all but impossible deadline—the gubernational election of 1985—for completion of the drastic makeover of its complex procedures for regulating the motoring public.

PW, in this Commission's opinion, deserves even more criticism than DMV.

Even though its contract with the State emphasized a "team" operation in handling major technical problems, it joined DMV in ignoring the technical talent available—and eager to contribute—in the State's telecommunications and data processing offices.

Indeed, disregarding the warnings that came from these experts, PW opted for excessive utilization of innovative software, hoping to complete its work within the \$6.5 million cost limitation by DMV's political deadline—with disastrous results to the motoring public. When PW belatedly realized that it could not rely on the IDEAL programming language alone for the new DMV system, which by then was fragmenting, it sought to evade full blame for its software misjudgment in an apparent effort to avoid the cost of correcting the problems its misjudgment had caused.

PW can be faulted in other areas, according to the Commission's findings.

PW not only agreed to meet an unrealistic deadline for completion of the work, but certain of its conduct throughout the project was surprisingly unprofessional.

PW assigned a large percentage of recent hires to the project, it misrepresented its ability to maintain staff continuity and it failed to adequately manage its project staff.

Further, PW billed at least \$170,000 more for out-of-pocket expenses than its contract with the State allowed without obtaining any formal approvals from DMV. PW forwarded no copy of its official time and expense policies to DMV, as requested. It then charged several thousand dollars of expenses to the State in

violation of those policies. It also unilaterally increased expenses on enhancement work to 13 percent of fees billed, regardless of actual expenses, without gaining DMV approval.

As to reallocation of employee billable hours between the work within the \$6.5 million cap and enhancements, which are not governed by the cap, PW failed to adequately account for the time devoted to enhancements. Individual employees were expected to keep elaborately detailed records of time spent on specific tasks for the project's internal control system and were, on at least one occasion, admonished to designate task subcodes for billing purposes. Nonetheless, as billings for enhancements dramatically increased, PW orally abandoned employee designation of the enhancement subcodes on their time sheets. Instead, supervisors estimated enhancement hours, long after the performance, without consulting with the individual employees who had done the work as had been promised to DMV. Informal records that allegedly served to refresh the after-the-fact recollections of PW supervisors were discarded. Only summary documents, whose conclusions proved impossible for State auditors to adequately review, were available for audit of hours reallocated from general work to enhancements. In addition, overtime hours were billed for PW employees working in the delay category. Finally, while charging \$75 per hour for the lowest category of staff working on enhancements or delay, PW charged only \$50 per hour for such staff doing the general work.

The Commission is dismayed that such a litany of improprieties must be voiced against so highly reputable an institution as Price Waterhouse. It certainly demonstrates that if the State of New Jersey, as in the past, intends to continue its reliance on such giants of the private sector for consulting work, State government must arm itself with statutory and regulatory safeguards against the repetition of the mismanagement and misjudgments that have plagued the computer project. Additional safeguards must be imposed against the influence of political contributions by firms doing business with the State. To these im-

portant ends the Commission proposes a series of recommendations that it hopes will receive the immediate attention of the Legislative and Executive branches.

A major S.C.I. conclusion was that the State's controls over the award and performance of technical and professional contracts must be expanded and strengthened. The report explained:

Projects as complicated as DMV's new computer system present a formidable challenge to the State's policy makers and managers. Any innovative generalist may conceive a grand scheme to improve an agency's performance with relative ease. The management challenge arises principally during implementation by private contractors. The State cannot afford to:

- 1) lose the benefits of competition; 2) take undue risks with emerging technologies; 3) relinquish firm and knowledgeable control of projects; 4) set ambiguous performance standards in its contracts; 5) fail to adequately develop its in-house expertise; 6) allow the impression that political contributions have influenced project decisions; or 7) neglect to ensure proper accountability for vendor billings.

The Commission therefore recommended a number of changes in which the State does business with its professional and technical vendors in order to avoid the gross deficiencies which occurred during the DMV-PW computer project. These recommendations (which are discussed in more detail in the published report) include:

Mandate Informal Competition in Bid Waiver Situations; Reveal All Public Exigency Sole Source Contracts for Public Inspection; Clearly Specify Limits on Expense Billings; Adopt Uniform Standards for Expenses; Set Standards for Audits and Documentation; and Continue Experimentation With Exclusivity Policy.

Legislative and executive branch consideration of the Commission's proposals should produce reforms that will guarantee continued public confidence in the integrity of the governmental pro-

cess. Further, the S.C.I. made one final recommendation with respect to increased controls over political contributions by vendors doing business with the State. Since this proposal already is under active legislative deliberation, it is reiterated here for public edification:

The Commission recommends that the New Jersey Campaign Contributions and Expenditures Reporting Act, N.J.S.A. 19:44A-1, et seq. be amended to require that firms and individuals doing business with the State pursuant to a waiver of advertising for competitive bids, or pursuant to any contract involving potential billings of more than \$25,000, report summary details of such work to the Election Law Enforcement Commission (ELEC) at the time of any political contribution of \$500 or more by the firm or individual. This reporting obligation should continue for at least one year following the completion of the State work. Finally, any individual or firm bidding on a job of more than \$25,000, or negotiating any contract involving a waiver of competitive bidding, should be required by statute to notify ELEC of any political contribution of \$500 or more during the year preceding the contract award date. Contract documents and requests for proposals should include form language notifying potential vendors of these obligations.

The knowledge that such contributions would be available for scrutiny in the full light of a given firm's or individual's business dealings with the State would encourage private vendors and public officials to deal with each other at arm's length and to take steps to avoid any appearance that the contributions might influence decisions involved in such dealings.

Furthermore, some method of prohibiting vendors from providing free places for public officials at privately funded political affairs must be mandated. Such munificence, in the case of key officials who should exercise independent judgment in the disbursement of public moneys, can erode public confidence that such officials will act without favoritism. Therefore, the Commission urges that the Joint Legislative Committee on Ethical Standards

and the Executive Commission on Ethical Standards consider proposing a statutory prohibition embodying the Commission's concerns through an amendment of the New Jersey Conflicts of Interest Law.

DMV Agency System

The S.C.I.'s report on the mismanagement and politicization of the DMV's agency system, with which most of the State's 5.2 million motorists are required to have periodic, direct contact for various motoring transactions, was issued in February, 1986, as part of the Commission's annual report for 1985. The DMV agency report summarized the proceedings, including testimony and the Commission's conclusions and recommendations, of a public hearing conducted on December 18 and 19, 1985, at the State House. Both the public hearing and the subsequent report on it received statewide attention when these public actions occurred and further elaboration is not necessary here. It should be noted again that copies of the S.C.I. report of the public hearing on DMV's agency system are available at the Commission's office in Trenton.

On April 9, 1986, S.C.I. Executive Director Morley reviewed the S.C.I.'s recommendations (which included a proposal for a state takeover of the MV agencies) at a public meeting of the As-

sembly's Select Committee on the Division of Motor Vehicles, headed by Assemblyman Schuber.

Boxing Reforms Promoted

S.C.I. Commissioner James R. Zazzali and Director Morley appeared before the Assembly Independent and Regional Authorities Committee on April 29, 1986, to discuss pending legislation incorporating the Commission's recommendations for organized crime incursion of the boxing industry and increasing safety provisions for the protection of boxers. The bill, Assembly #2204, sponsored by Assemblyman Schuber and members of the authorities committee which Schuber chairs, passed by a vote of 71-1 in the Assembly on October 21 and is awaiting final action by the Senate. Schuber's bill gives full credit to the S.C.I. for the reforms it would implement. These proposals were submitted in a commission report on organized crime's incursion of the boxing industry, which was made public in December, 1985, after an earlier discussion of them by Executive Director Morley in June, 1985, before the President's Commission on Organized Crime, in New York City. The S.C.I. had issued in March, 1984, an interim report on New Jersey's inadequate regulation of boxing. This interim report resulted in a wholesale revamping of the State Athletic Commission which regulated boxing at the time and the enactment of statutory reforms and promulgation of more progressive rules affecting the sport.

LAW ENFORCEMENT LIAISON

Introduction

The Commission last year was contacted almost daily by telephone or mail for various types of assistance by federal, state, county and local law enforcement agencies within New Jersey and by such agencies in numerous states. Additionally, the Commissioners adopted resolutions accommodating formal requests for information by federal, state and county law enforcement agencies, regulatory agencies and legislative committees. A number of referrals of evidence of criminal activities were also made by the Commission pursuant to section 9M-8 of its enabling law. S.C.I. personnel spent many working days during 1986 processing at least 230 requests for law enforcement assistance.

Liaison With The U.S. Attorney

Continuing close contact was maintained throughout 1986 with the office of the United States Attorney for New Jersey, then Thomas W. Greelish. Such liaison included the submission of investigative findings, hearing transcripts and other data, as well as the same notice of the Commission's intention to immunize a witness that is also given to the State Attorney General and appropriate county prosecutors. An example of the cooperative relationship with the U.S. Attorney's Office was the continuing designation of S.C.I. Special Agent Raymond H. Schellhammer as a Special Deputy Marshal to permit his participation in the U.S. Attorney's Organized Crime Drug Enforcement Task Force out of Newark. The S.C.I. role in this task force was cited in April, 1986, when it was publicly disclosed that a federal grand jury had subpoenaed all Rockaway Township municipal records pertaining to three local businesses, two of which are connected to current or former township officials. Schellhammer's ex-

perience in corruption probes was noted as a reason for his assignment to a task force that also included representatives of the Internal Revenue Service, the FBI, Morris County Prosecutor's Office and the U.S. Attorney's Office.

Liaison With The Attorney General

During 1986 the Commission continued its liaison with the Office of Attorney General W. Cary Edwards and various components of his Department of Law and Public Safety. Commission supervisory and legal personnel and the staff of the Attorney General's Office, particularly the Division of Criminal Justice, met on many occasions during the course of the year with regard to day-to-day activities.

Certain prosecutorial actions were instituted as the result of referrals to the Attorney General by the Commission of data indicating criminal misconduct. Reflecting such cooperation was the Commission's completion of a report on the regulation of the racing industry which had been requested by the Attorney General's Office. This probe resulted in the reference of criminal evidence unearthed by S.C.I. Special Agents Richard S. Hutchinson and the late William F. Ward, Sr., in connection with the agency's check on the activities of the Horsemen's Benevolent and Protective Association (HBPA). Largely as a result of Hutchinson's investigative findings, a State Grand Jury on December 3, 1986, handed up a 19-count indictment accusing a former HBPA secretary with deception, forgery and witness tampering in the embezzlement of more than \$10,000 worth of phony reimbursement claims. During the State Grand Jury's criminal inquiry, Hutchinson and S.C.I. Counsel Charlotte K. Gaal worked with Deputy Attorney General Daniel Giaquinto and Criminal Justice Division Investigator Robert Gray.

Citing Hutchinson's efforts, Edwards made the following comment: "We are grateful to the S.C.I. for bringing this matter to our attention during its [racing] investigation. The case goes to the heart of the reason for the existence of the HBPA, which was created to provide basic employee benefits normally received by employees in other industries. Those employees have a right to expect those benefits will be protected."

In addition, the S.C.I. in its report in June, 1986, on improprieties and irregularities in the implementation of the \$6.5 million computer contract between Price Waterhouse (PW) and the Division of Motor Vehicles (DMV), further illustrated its cooperative arrangement with the Attorney General's Office in the following conclusion:

Despite the fact the PW has invested considerable effort in correcting the new DMV system, the Attorney General will have to make several difficult decisions regarding remedies which may be available to the State. These decisions are complicated by the lack of performance standards in the contract with PW and ambiguities in the terms relating to liquidated damages, warranties and the like. They are further complicated by the size and technical complexity of the project. Without making any judgment as to the appropriate course which the Attorney General should take, the Commission believes that its voluminous record will assist the Attorney General in making these difficult decisions. We will, accordingly, make this record available to his office.

Another referral to the Attorney General's Office (and to the Cape May County Prosecutor's Office) in 1982-83, as a result of the Commission's probe of municipal and county utilities authorities, led to several State Grand Jury indictments in 1986 involving transactions of the Cape May County Municipal Utilities Authority (MUA).

In July, a grand jury indictment charged a former MUA appraiser with perjury and false swearing involving his testimony at the S.C.I. and before the jury. In September another indictment accused County Treasurer Philip Matalucci and

others of participating in a \$110,000 bribery scheme involving the award of contracts for construction of a \$1.3 million sewage treatment plant. Others indicted in the alleged scheme included Anthony T. Catanoso, former chairman of the Cape May Board of Freeholders, two construction firms and their officers and a Passaic County engineering firm that was a project consultant. The former MUA chairman, John Vinci, pleaded guilty to a conspiracy charge and cooperated with the investigation.

Liaison With County Prosecutors

The Commission takes pride in its close relationship with New Jersey's 21 county prosecutors and their staffs. This linkage between prosecutors and the S.C.I. is constantly reaffirmed as prosecutorial changes occur. One example of this liaison was the Commission's continuing effort during 1986 to provide appropriate county prosecutors with the findings of various S.C.I. inquiries.

Interstate Cooperation

The Commission continued its membership in various interstate organizations of a formal and informal nature which relate to its work. Additionally, the Commission received numerous requests for assistance on investigations from various law enforcement agencies throughout the nation. The Commission, in fulfillment of its statutory duty and in recognition of the importance of cooperation among the states in areas such as organized crime, responded to all such requests. The Commission itself also obtained assistance from various other states on matters of mutual concern with particular relevance to organized crime and racketeering. S.C.I. records indicate that such give-and-take liaison took place during 1986 with authorities in Arizona, California, Florida, Illinois, Iowa, Kansas, Missouri, Nevada, New Hampshire, New York, Ohio, Pennsylvania, Utah, Wyoming and Vancouver, Canada.

Several 1986 examples of the effectiveness of the Commission's liaison with law enforcement agencies throughout the nation deserve mention. One, in November, led to the apprehension of a murder suspect sought by Nashville, Tenn., police. The arrest took place at the East Windsor Police Department as a result of the handling of a look-up request to S.C.I. Special Agent Robert Diszler from Nashville via the Law Enforcement Intelligence Unit (LEIU) network. Another incident was the arrest in May by Morris County prosecutor's detectives of a Passaic Township individual sought by the Harris County District Attorney's Office in Houston, Texas, on a warrant charging him with "engaging in organized criminal activities." As a fugitive from justice, the prisoner was ordered held in \$1 million bail pending his

extradition hearing. The arrest followed a surveillance in which S.C.I. Special Agents Wendy A. Bostwick, Robert Diszler, Dennis McGuigan and Raymond H. Schellhammer participated.

During October, 1986, S.C.I. Special Agent Francis A. Betzler made a critical investigative contact with an inmate of the Federal Correctional Institute in Fort Worth, Texas. The arrangements caused the S.C.I.'s Intelligence Chief, Justin J. Dintino, to write Director James B. Adams of the Texas Department of Public Safety that his staff's (Texas Investigator Rick Andrews) cooperation "was far beyond normal professional courtesy and a fine example of the type of results one can attain by wholehearted cooperation between agencies."

COMMISSION STAFF

Professional Activities

The Commission's staff in 1986 consisted of 48 individuals, including 6 lawyers, 4 investigative accountants and 20 special agents. As in past years, various officers and employees participated in law enforcement conferences, seminars and workshops. Justin J. Dintino, the S.C.I.'s chief of organized crime intelligence, served on the President's Commission on Organized Crime until it completed its work on April 1. He continues as general chairman of the Law Enforcement Intelligence Unit (LEIU), an international organized crime intelligence network, and as a member of the policy board of the Middle Atlantic-Great Lakes Organized Crime Law Enforcement Network (MAGLOCLN), one of six regional data sharing systems in the country. During the year, Dintino lectured at organized crime seminars in Washington and New York. (Early in 1986, Gerard P. Lynch resigned as an S.C.I. counsel to become executive director of MAGLOCLN).

The Commission's assistant director, Helen K. Gardiner, and program analyst, Christine Klagholz, participated in professional development programs conducted under auspices of the Association of Government Accountants. Gardiner also attended a course on the impact of computers and computer software on law enforcement budget procedures at the University of Delaware.

Special courses and seminars on white collar crime, government corruption, organized crime and other law enforcement problems were attended by the Commission's special agents and investigative accountants. The wide ranging background of these employees has been particularly helpful in the successful completion of the Commission's unusually varied investigations. Collectively, this background includes previous careers or tours of duty with the U.S. Justice Department,

the U.S. Senate's organized crime investigations, the Federal Bureau of Investigation, the U.S. Internal Revenue Service, the State Police, various county prosecutors offices, the Pennsylvania Crime Commission, many municipal police departments and the military police. A number of special agents are active as officers or members of law enforcement intelligence groups, including Frank Betzler, Robert Diszler, Cyril Jordan, William Rooney and Kurt Schmid. Special Agent Bruce C. Best is active in the New Jersey Polygraphists, Inc. Rooney conducts lectures about the S.C.I. for recruits at State Police and municipal police training schools. Rooney is a certified State Police instructor and a member of the teaching staff of the Essex County Police Academy. Special Agent/Analyst Paul Andrews is a director and chairman for training, education and career development of the International Association of Law Enforcement Intelligence Analysts. He also lectured on network analysis before the New York State Organized Crime Task Force and on investigative analysis at the Philadelphia Police Academy and conducted an in-service training seminar for the New Jersey State Police Narcotics Bureau (North). Last June Andrews served as an official escort for Appeals Court Counselor and General Prosecutor Sohaib Mohamed Hafez of Cairo, Egypt, during his tour of criminal justice facilities in New Jersey and New York, including a visit to the S.C.I. office. Special Agent Patricia England in January became the S.C.I.'s representative on the MAGLOCLN Inter-agency Task Force on Child Pornography and Sexual Exploitation. Special Agent Michael Goch, a former lieutenant in the New Jersey State Police, retired in December after 12 years of service with the S.C.I. Last July he testified before a State Grand Jury investigating the Cape May County Municipal Utilities Authority. He previously had served on an S.C.I. investigative team which conducted the 1982-83 probe and public hearing of misconduct at various municipal and county utility authorities in New Jersey.

Special Agent Wendy A. Bostwick was certified by the New Jersey Police Training Commission as a firearms instructor and thus is one of the relatively few women qualified to teach at police academies and other law enforcement training facilities. Last August she attended an investigative conference on the subject of organized crime's interest in the pizza industry. Special Agent Robert K. Lagay last May represented the Commission at a conference of Eastern Regional Motorcycle Gang Investigators. Intelligence Chief Dintino and Agents Diszler and Jordan attended several LEIU training seminars, Diszler and Special Agent Mike Hoey attended a MAGLOCLLEN seminar on surveillance and Schmid participated in a symposium on terrorism. Special Agent Hutchinson also participated in a course on computer security at the University of Delaware.

Last January Special Agent William F. Ward Sr., of Hightstown, died at Princeton Medical Center. He was 38. He had been an officer with the East Windsor Police Department before joining the S.C.I. in 1984. The Commission adopted a resolution marking the "high honor and zealous devotion to duty" with which Ward had served the S.C.I.

Investigative Teams

The investigative team for the Commission's 1986 racing industry critique included Counsel Charlotte K. Gaal, team leader, Special Agents Hutchinson, Best and the late William Ward and Investigative Accountant William V. Miller. The investigation of the Price Waterhouse computer contract with the State Division of Motor Vehicles was led by Deputy Director (and Counsel) Robert J. Clark and Counsel Gaal, assisted by Special Agent Hutchinson and Investigative Accountants Arthur A. Cimino and Miller.

Organized Crime Intelligence Chief Dintino headed the investigation of organized crime-influenced contracting companies, assisted by Executive Director (and Counsel) James J. Morley and Counsel Gaal, Special Agents Betzler and Dennis McGuigan, Investigative Accountants Cimino and Michael Czyzyk and Intelligence Analyst Elizabeth Calamia.

LIAISON WITH THE PUBLIC

Introduction

Since its inception the Commission has sponsored a total of 85 public actions, including 27 public hearings, 34 public reports based on those hearings and 24 public reports which were not preceded by public hearings. These public actions are mandated by various provisions of the S.C.I.'s enabling law as supplemented by revisions enacted since 1968. For example, annual and interim reports to the Governor and Legislature have been required from the outset. Such reports have helped to fulfill another requirement that the Commission keep the public informed as to the operations of organized crime, law enforcement problems and other activities "by such means and to such extent as it shall deem appropriate."

Public Hearings, Reports

A brief listing of the S.C.I.'s 85 public actions illustrates the wide-ranging variety of allegations and complaints that, by formal authorization of the Commission, were subjected to its traditional process of probes, hearings and public reports. In the organized crime field, the Commission's continuing confrontation of high-ranking mob figures was highlighted by public hearings and reports on organized crime influence in Long Branch and Monmouth County (1970), criminal activities in Ocean County (1972), narcotics trafficking (1973), infiltration of legitimate businesses in Atlantic City (1977), incursions into the dental health care industry (1980-1981), into labor relations profiteering at housing projects (1981-82) and into the boxing industry (1985).

In addition, investigations in other law enforcement areas that were subjected to both public hearings and reports included: state cleaning services abuses and state building service contractual irregularities (1970), Hudson County Mosquito Commission corruption (1970), Jersey City waterfront land frauds (1971), workers compensation misconduct (1973), misuse of surplus federal property (1973), pseudo-charity solicitations (1974), Lindenwold borough corruption (1974), irregularities at medicaid-clinical labs (1975), Middlesex land deals frauds (1976), prison furlough abuses (1976), medicaid nursing home schemes (1976-77), improper conduct by private schools for handicapped children (1978), boarding home abuses (1978), absentee ballot law transgressions (1978), mishandling of public insurance programs (1979), misconduct by certain county and local sewerage authorities (1982), abuse and misuse of casino gambling credit (1983), improprieties in the leasing of state lands by a ski resort in Vernon Valley (1983) excessive spending and other irregularities in the operation of the Newark school system's Supplemental Fringe Benefits Fund (1984) and the inappropriate operation of the Division of Motor Vehicles agency system (1985-86).

Further, although no public hearings ensued, critical public reports and corrective recommendations followed the Commission's investigations of the garbage industry (1970), an Atlantic County embezzlement (1971), Stockton College land deals (1972), the Attorney General's office (1973), Middlesex bank fraud (1973), conflicts of interest on the Delaware River Port Authority (1974), medicaid nursing home cost reimbursements (1975), medicaid "mills" (1976), casino control law problems (1977), medicaid hospital problems (1977), wrongful tax deductions from public employees' injury leave wages (1979), mishandled sudden

deaths (1979), truck unloading complaints (1980), inappropriate HFA conduct (1981 and 1982), industrial commission law reforms (1982), inadequate regulation of boxing in New Jersey and school security guard abuses in Newark (both 1984), the mishandling of the Division of Motor Vehicles photo license contract (1985), the DMV-Price Waterhouse computer fiasco (1986), and a review of New Jersey racing regulatory, operational and security problems (1986).

Citizens Assistance

As in past years, hardly a week passed in 1986 that the Commission did not receive requests for investigative action, assistance or advice from citizens of New Jersey. Commission records include 85 such contacts by citizens, mostly for the purpose of filing complaints about law enforcement and other problems affecting them or their communities.

