

TO: James Hoffa, IBT General President  
FROM: Members of the Independent Review Board  
RE: Trusteeship Recommendation regarding Local 120 in Minneapolis, MN  
DATE: November 9, 2012

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**I. RECOMMENDATION AND SUMMARY**

Local 120, located in Blaine, Minnesota, has approximately 11,661 members who are employed as drivers, helpers and truck terminal employees, over the road, city transfer, cold storage, grocery and market drivers. (Exs. 304, 326) In addition to Blaine, Local 120 has offices in Fargo, North Dakota; Des Moines and Dubuque, Iowa; Sioux Falls, South Dakota and Mankato, Minnesota. (Exs. 304, 326) IBT auditors last examined the Local in August 2006. (Ex. 331)<sup>1</sup> Since the time of this audit, four Locals have merged into Local 120. They include the following: Local 116 in Fargo in March 2007; Local 4 in Minneapolis in May 2007; Local 421 in Dubuque in August 2008 and Local 749 in Sioux Falls in April 2010. (Exs. 332-333)

The Independent Review Board for the reasons detailed below recommends that the IBT General President place Local 120 into Trusteeship under Article VI, Sec 5 of the IBT Constitution.<sup>2</sup> There is evidence that the Secretary Treasurer and President are corrupt and

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<sup>1</sup> The audit covered the period from April 1, 1998 through July 31, 2006. (Ex. 331)

<sup>2</sup> Pursuant to Article VI, Section 5(a) of the IBT Constitution,

If the General President has or receives information which leads him to believe that any of the officers of a Local Union or other subordinate body are dishonest or incompetent, or that such organization is not being conducted in accordance with the Constitution and laws of the International Union or for the benefit of the membership, or is being conducted in such a manner as to jeopardize the interests of the International Union or its subordinate bodies, or if the General President believes that such action is necessary for the purpose of correcting corruption or financial malpractice, assuring the performance of collective bargaining agreements or other duties of a bargaining representative, restoring democratic procedures or preventing any action which is disruptive of, or interferes with

incompetent, the Local is engaged in financial malpractice and is not being conducted in the best interests of the members.

In 2007 and 2008, the Local spent over \$4,000,000.00 to buy land and construct a new building. The Secretary-Treasurer with the assistance of his son, the President, and another son, who was then an employee of the Local, controlled the process within the Local. The Local entered into a contract with a general contractor that provided the Local would pay actual and defined contract costs plus a fixed fee to the contractor, Stone Construction. The contract provided a guaranteed maximum price of \$3,091,524 for the building construction that could not be exceeded. If the fixed fee plus actual costs were less, the Local would pay less. There were two change orders to the Stone contract that increased it to \$3,185,429. To protect the Local from being charged for improper costs, the contract provided the Local with the right to audit the actual costs the general contractor incurred in constructing the building. One of the costs the general contractor charged to the contract was a \$90,000 fee to Todd Chester (“Chester”), a close family friend of the Secretary-Treasurer and President, for speaking to the Local’s Secretary Treasurer about using the contractor. Although the Local paid the maximum price under the contract, the Secretary-Treasurer chose not to exercise the Local’s rights to audit costs. As a result, this allowed the contractor to have the improper payment to Chester made from the funds the Local caused to be sent to the contractor. The Secretary-Treasurer admitted he assumed Chester would receive some payment from the general contractor. The contractor’s own fee for

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(continued...)

the performance of obligations of other members or Local Unions under collective bargaining agreements, or otherwise carrying out legitimate objects of the subordinate body, he may appoint a temporary Trustee to take charge and control of the affairs of such Local Union or other subordinate body. . .

(Ex. 302)

acting as general contractor was \$135,282 under the contract as opposed to Chester's \$90,000 fee for the introduction to the Local's principal officer. In addition to Chester's payment, there were other suspicious costs allotted to the Local under the contract that would have been examined closely in an audit. In addition to these questionable costs, over \$30,000 the contractor owed the Local was not paid to it. It was not clear from the records to whom or to what entity this money went, if the contractor did not keep it improperly. By failing to take necessary steps to protect the members' money, the Secretary-Treasurer, at a minimum, breached his fiduciary duties to the members. 29 U.S.C. §501(a); In re Carey, July 27, 1998 Decision of the Independent Review Board at 23, aff'd, United States V. IBT [Carey and Hamilton], 22 F. Supp 2d 135 (S.D.N.Y. 1998), aff'd, 247 F.3d 370 (2d Cir. 2001).

Pursuant to its mortgage note dated November 9, 2007, the Local must pay the full borrowed principal of \$3,382,966 on the loan's maturity date of November 30, 2012 to Bank Mutual, the lender. There was an amendment to the note in 2008 when the Local borrowed an additional \$295,500 from the bank to increase the loan to \$3,678,466. There was no change in the maturity date. The 2011 Local 120 Form LM-2 reported an outstanding debt of \$3,640,678 as of December 31, 2011.

Local 120 since 2007 has operated a for-profit Bar and a charitable gaming operation in Fargo, North Dakota. The financial results of these operations as a subsidiary of the Local were included on the Local's Forms LM-2 and the Bar and Gaming employees were listed as Local employees. During the years Local 120 controlled the operations, incorporated as "Teamsters", it lost money and the Local subsidized this open-to-the-public for profit bar.

The Local's Bar and Gaming employees were non-union workers. The only benefit they received was that after one year employment they were entitled to one week's paid vacation.

The President and Secretary-Treasurer have told others that these employees cannot receive benefits and their wages must be kept low in order for the union-owned Bar to attempt to be profitable.

A self-appointed Local 120 Bar and Gaming Board, separate from the Local 120 Executive Board, purports to control the Local-owned Bar and the funds it generated. Currently, that Board consists of the Local's Secretary-Treasurer, his son, the President and two at-will employees of the Local's Bar who are not union members. Since 2007, this Bar and Gaming Board has voted stipends, totaling \$335,832, to its members paid from the operations. The Local's President and Secretary-Treasurer have received \$72,700 and \$68,100, respectively since 2007. The Bar and Gaming operations are a subsidiary of the Local. There was no Local Executive Board approval of the diversion of these Local funds to the officers as the Bylaws required. These payments were a breach of their fiduciary duties under 29 USC § 501 and in violation of the Local 120 Bylaws. Partly because of these stipends, the Local has over the years been forced to pay Bar and Gaming operations related expenses from the general fund because the Bar had insufficient revenues to cover costs.

In 2010 and 2011, the Secretary-Treasurer appointed the family friend and father of his grandchild, Todd Chester, as consultant to the Bar. The principal officer made Chester a part time Local employee at \$26,000 a year plus health insurance, a benefit denied the full time non-union Local Bar employees. He placed Chester in charge of the Bar, including its inventory. Chester, shortly after the Secretary-Treasurer hired him, filed for bankruptcy. Chester recently admitted, contrary to his sworn bankruptcy filing, that he owned a bar in Minnesota in this period. Under the stewardship of this bankrupt bar owner, there were higher amounts of inventory than the Local Bar records showed as used than Bar records indicated was sold to customers. This

difference was unexplained. During this period, Chester misrepresented to several individuals that he was returning inventory to wholesalers. The records of the wholesalers who supplied the Bar liquor did not indicate any returns or credit received for any returns.

The Local has a current sham contract with a group of companies under the umbrella of American Pride Home Services. This current contract was in effect from 2009 to 2013. The prior contract, which was identical but for duration, was entered into between the employer and the Local with the current Secretary-Treasurer and principal officer as sole signatory. These contracts explicitly stated there was no collective bargaining relationship between the Local and the employer. They permitted the employer to impose discipline on member-employees in its sole discretion, including termination of employees. The economic arrangements between the employees and the company were also excluded from the contract. The employer needed the contract to represent itself as a union employer in selling products to union members, its target market. The Secretary-Treasurer himself actively hawked the company's products to the Local's members, including sending solicitation letters to use its services on Local letterhead, proclaiming the company was a Local 120 employer while he did so.

From 2007 to 2012, the Local has spent at least \$214,755 for tickets to sporting events. During that period, the President has been in charge of the distribution of these tickets. The record keeping for who used the tickets and for what union purpose the tickets were being used was seriously deficient. This was despite being aware that sporting tickets as the Secretary-Treasurer testified were a "hot button" issue.

Other expenses at the Local appeared to be inappropriate. For example, the President has submitted false expense receipts. The Local has also paid for food and alcoholic drinks for the

officers and business agents without a union purpose. The President also has used the promise of future Local business to attempt to have Local vendors not press him to pay personal debts.

As detailed in this report, the Secretary-Treasurer and President have violated the Bylaws on numerous occasions, acting without required membership and Executive Board approval, not maintaining required records at the Local and paying themselves out of Local funds without Executive Board approval.

## **II. INVESTIGATIVE FINDINGS**

### **A. Current Officers**

Brad D. Slawson (“Slawson, Sr.”), is the Secretary-Treasurer and principal officer of Local 120. (Ex. 1 at 6-7; Ex. 306)<sup>3</sup> He has been a member of the IBT since 1970. (Exs. 306, 309) In January 1984, he was elected Vice-President of Local 544. (Ex. 306) In 1998, Local 544 merged into Local 120. (Ex. 1 at 8) In October 2007, he became President of Local 120.<sup>4</sup> (Ex. 306) Slawson, Sr. is also the Vice President of Joint Council 32. (Ex. 1 at 5-6) He was appointed an International Representative in 1999. (Ex. 1 at 10-11) In 2010, Slawson, Sr. was appointed an International Vice President. (Ex. 1 at 11) He lost his bid in 2011 for re-election to that office.<sup>5</sup> He is Co-Chairman of the Minnesota Teamster Health & Welfare Fund and the Food Pension Plan. (Ex. 1 at 6; Ex. 306) Slawson, Sr. is also the Vice President of the Local 120 Bar and Gaming Board. (Ex. 1 at 6) His dues have been paid through November 2012. (Ex. 309) In 2011, Slawson, Sr. received a salary of \$122,922 from Local 120 and a salary of

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<sup>3</sup> He had been the principal officer of Local 120 since late 2006. (Ex. 1 at 5-7) In 2007, the Local changed its Bylaws and the Secretary-Treasurer became the principal officer. (Ex. 300 at 4) Slawson, who had been President, then became the Secretary-Treasurer. (Ex. 1 at 6-7)

<sup>4</sup> He had been the Vice-President and Recording Secretary before becoming President. (Ex. 1 at 7)

<sup>5</sup> Slawson Sr. testified that he had been an International Vice-President until March 2012. (Ex. 1 at 11)

\$79,500 as an International Vice President.<sup>6</sup> (Exs. 304 and 319) Slawson, Sr. also received \$15,600 from the Local 120 Bar and Gaming operations. (Ex. 320) He also received \$8,100 from Joint Council 32. (Ex. 307) Slawson, Sr.'s total earnings from Teamster entities in 2011 were \$226,122. (Exs. 304, 319, 307, 320)

Brad A. Slawson ("Slawson, Jr.") is the President of Local 120. (Ex. 2 at 5) In approximately 1987, he became a member of the IBT when he joined Local 544. (Ex. 2 at 5-6; Ex. 306) In 1996, Slawson, Jr. was elected Recording Secretary of Local 544. (Ex. 2 at 6) In 1998, Local 544 merged with Local 120. (Ex. 1 at 8; Ex. 2 at 6) After the merger, Slawson, Jr. became a business agent with Local 120. (Ex. 2 at 6) About a year later, he became Recording Secretary of Local 120. (Ex. 2 at 6)<sup>7</sup> Currently, he is also the President of the Local 120 Bar and Gaming Board. (Ex. 320; Ex. 2 at 11) In 2011, Slawson, Jr. was also an International Representative. (Ex. 319) His dues have been paid through October 2012. (Ex. 308) In 2011, Slawson, Jr. received a salary of \$120,535 from Local 120 and \$18,000 from the Bar and Gaming operations. (Exs. 304 and 320) He also received \$6,000 from the Local 120 PAC. (Ex. 2 at 16) In 2011, he also earned \$18,000 as an International Representative. (Exs. 307, 319) Slawson, Jr.'s total earnings in 2011 from Teamster entities were \$162,535. (Exs. 304, 319, 320; Ex. 2 at 16)

Michael Klootwyk ("Klootwyk"), is the Vice President of Local 120. (Exs. 319 and 306) He became a member of the IBT in approximately 1971. (Ex. 306) Klootwyk had been a Trustee, then the President and finally the Secretary-Treasurer and principal officer of Local 387.

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<sup>6</sup> The Form LM-2 for 2011 for the IBT listed Slawson, Sr. as "Intl VP/Intl Rep". (Ex. 319)

<sup>7</sup> He had been the Secretary-Treasurer of Local 120 prior to November 2006. In approximately November 2006, he became the Vice President. In 2007, the Local changed its Bylaws and the Secretary-Treasurer became the principal officer. (Ex. 300 at 4) Slawson, Jr., who had been Vice President, then became the President.

(Ex. 306) In 2004, Local 387 merged into Local 120. Klootwyk then became a business agent with Local 120. (Ex. 306) He was elected Recording Secretary and then Vice President of Local 120. (Exs. 306) Klootwyk was a Trustee of the Bar and Gaming Board. (Ex. 320) He resigned on February 1, 2012. (Ex. 2123) In 2011, Klootwyk was also an International Representative. (Ex. 306, 319) His dues have been paid through October 2012. (Ex. 310) In 2011, Klootwyk received a salary of \$106,906 from Local 120 and \$4,800 from the Bar and Gaming subsidiary. (Exs. 304, 320) He was on the Local's PAC. (Ex. 3 at 6-7) He also was paid \$12,000 by the IBT. (Ex. 319) Klootwyk's total earnings from Teamster entities in 2011 were, at least, \$123,706. (Exs. 304, 319, 320)

Bryan Rademacher ("Rademacher") has been the Recording Secretary of Local 120 since 2008. (Ex. 5 at 5-6) He became a member of the IBT in 1984 when he joined Local 544. (Exs. 306 and 311) Rademacher had been a Trustee of Local 544 from 1996 to 1998. (Ex. 306; Ex. 5 at 4-5) In 1998, Local 544 merged into Local 120. (Ex. 5 at 4; Ex. 1 at 8) In October 2008, Rademacher was appointed the Recording Secretary of Local 120. (Ex. 306; Ex. 5 at 5-6, 8) He has been reelected. Rademacher also had been the Recording Secretary of the Bar and Gaming Board. (Ex. 2119) He resigned on September 15, 2011. (Exs. 320 and 2119) Rademacher is a Trustee of the Minnesota Teamsters Health & Welfare Fund and the Minnesota Food Industry Pension Fund. (Ex. 306) He is also on the Local's PAC. (Ex. 3 at 6-7) His dues have been paid through October 2012. (Ex. 311) In 2011, Rademacher received a salary of \$111,893 from Local 120 and \$9,900 from the Bar and Gaming Subsidiary. (Exs. 304, 320) His total earnings from Teamster entities were at least \$121,793 that year. (Exs. 304, 320)

The Trustees of Local 120 are Paul Slattery ("Slattery"), Mike Irrgang ("Irrgang") and Troy Gustafson ("Gustafson"). (Ex. 304) Slattery became a member of the IBT in June 1989.



(Ex. 312) His dues have been paid through November 2012. (Ex. 312). In 2011, Slattery received a salary from the Local of \$58,060. (Ex. 304) He worked as an organizer. (Ex. 1 at 22; Ex. 2 at 29)

Irrgang became a member of the IBT in November 1973. (Ex. 313) His dues have been paid through September 2012. (Ex. 313) He was not a Local employee. In 2011, he received \$14,437 from the Local 120. (Ex. 304)

Gustafson became a member of the IBT in August 2006. (Ex. 314) His dues have been paid through September 2012. (Ex. 314) Gustafson, who was not a Local employee, received \$10,573 from the Local in 2011. (Ex. 304)

In 2011, the Local employed sixteen business agents. (Ex. 304)<sup>8</sup> One business agent earned \$116,725 and a second earned \$103,930. (Ex. 304) Six business agents earned between \$91,834 and \$91,956 that year. (Ex. 304) The other eight business agents earned between \$30,000 and \$76,217. (Ex. 304) In 2011, the Local also employed a strategic coordinator, Thomas Ledger, who was paid \$90,438. (Ex. 304)

In 2011, an attorney, Martin Costello, was paid \$91,342 in salary as a Local employee. (Ex. 304) The Local also paid an additional \$106,245 to his firm, Hughes and Costello. (Ex. 304)

## **B. Local 120's Purchase of Land and Construction of the Building**

### **1. Introduction**

In 2007 and 2008, Local 120 purchased land and constructed a new office building in Blaine, Minnesota. (Exs. 1000, 1001) The general contractor for the building construction was

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<sup>8</sup> The business agents then were David Baker, Joseph Battaglia, Brenda Emerson, Richard Erickson, Craig Hubner, Brad Jenkins, Paul Johnson, Randall Knudtson, Brian Nowak, Thomas Ohlson, John Rosenthal, David Schrunk, John Schwartz, Steven Sullivan, Donald Walz and William Wedebrand. (Ex.304) Ohlson was not an employee after December 31, 2011. (Ex. 21 at 63)

Stone Construction. (Ex. 1001) That company and Local 120 in November 2007 entered into a “Cost of the Work Plus a Fee” construction contract with a guaranteed maximum price of \$3,091,514. (Ex. 1001) There were two change orders to this contract that resulted in an increased maximum price of \$3,185,429. (Exs. 1002-1004) Under this “Cost of the Work Plus a Fee” contract, Stone was to charge the Local actual costs as defined in the contract and a fixed fee for its efforts. (Ex. 1001) Under the contract, the Local had the explicit right to examine Stone’s records to ensure the costs Stone was passing on to the Local were actually incurred and were appropriate costs to the Local under the contract. (Ex. 1001 at 7, 8) If the sum of costs and fixed fee were less than the maximum price, the lesser sum is what the Local would have paid. The Local paid the maximum contract price plus the costs of the change orders. (Ex. 1002) Slawson, Sr. signed the contract on behalf of Local 120. (Ex. 1001)

Within the Local the only officers or employees to see loan related documents and the documents related to Stone’s activities were the principal officer, Slawson, Sr., his son, the Local’s President, Slawson, Jr. and his other son, Lyle Slawson, a Local employee. (Ex. 4 at 15, 18-19, 24-46, 33-34; Ex. 10 at 20-27) The Slawsons, who were fiduciaries over the members’ money, never caused the Local or any of its agents to examine Stone records for underlying costs despite having the explicit authority to do so under the Stone contract. (Ex. 1001)

Todd Chester, a personal friend of the Slawsons who also had familial and business ties with them, received \$90,000 from the money Stone received from the Local. (Ex. 1 at 185, 193; Ex. 2 at 47-51; Ex. 1005) In contrast, Stone’s total fee under the contract was \$135,282. (Ex. 1001)<sup>9</sup> In Stone’s books, the payments to Chester were recorded as a cost of the contract. (Ex.

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<sup>9</sup> In fact, Stone’s fee under the contract should have been \$125,282 because pursuant to a later agreement, it had agreed it would defer \$10,000 from its fee to compensate the Local for a cost it incurred. (Ex.

1008 at 6) The service he provided was to introduce Stone to Slawson, Sr.. (Ex. 1009) This was not an approved cost under the contract. (Ex. 1001) Chester was not on the list of proposed vendors Stone submitted to the Local on January 17, 2008. (Ex. 1007) There were other vendors listed in Stone's records as receiving payments who were not included on the list of proposed vendors that Stone gave to the Local and were not known to the Slawsons as having been involved with the project. (Ex. 1007; Ex. 1 at 104; Ex. 2 at 58-59; Ex. 10 at 61-62; Ex. 1008) Chester was not on the list of vendor costs Stone submitted under oath to cause the bank to release money to it from the Local's loan account. (Ex. 1025) Stone could only mischarge costs to the contract, such as the payments to the Slawson family friend, if it were on notice that the Slawsons would never cause Stone's records of contract costs to be examined.

Indeed, the manner of Stone's retention as a general contractor was suspicious. Slawson, Sr. testified Chester asked him if Chester's client, Stone, could submit a bid on the Local's building project. (Ex. 1 at 130)<sup>10</sup> On June 20, 2007, Local 120 had received a contract proposal from another builder, Ryan Companies, which had retained the architect to design the building and which had done some work on the project. (Exs. 1010, 1011; Ex. 1 at 133-134) On July 27, 2007, the day after Stone submitted a proposal, without any analysis of the bids from the expert the Local retained to assist in evaluating proposals, Slawson, Sr. called a telephone poll of the Local's Executive Board to vote on awarding the contract to Stone. (Exs 1012, 1019) This was contrary to Slawson, Sr.'s stated practice of making no decision on the project without consulting with experts the Local retained. (Ex. 1 at 103, 109, 136-138) Moreover, it was the only time

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1065; Ex. 10 at 58-59) It does not appear that Stone ever deferred the \$10,000 as agreed. The Local was unable to produce any evidence to support that it had received the \$10,000. (Ex. 10 at 58-59)

<sup>10</sup> Chester was a real estate agent and bar owner. (Ex. 1009)

Slawson, Sr. sought Executive Board approval to retain an expert for the building project. Both Slawsons strongly advocated Stone be retained over Ryan. (Ex. 4 at 22-25; Ex. 5 at 31-33) Given that an actual contract with Stone was not signed until November, the urgency was not apparent. (Ex. 1001) Almost immediately, Stone's proposal price began increasing until by November it was substantially higher than the Ryan proposed contract price. (Exs. 1001, 1019, 1020) Slawson, Sr., an experienced negotiator, did not view the differing prices as an opportunity to negotiate with either company for a lower price for the Local. (Ex. 1 at 141-144)<sup>11</sup>

In addition to the \$90,000 paid to Chester, Stone failed to pay back to the Local money it owed to the Local. The Slawsons did nothing to collect the money the Local was owed. For example, in connection with a financial guarantee the City of Blaine required for site improvement, the Local through the construction loan transferred \$26,961 to Stone to put into an escrow account to be returned upon the city's approval of the improvements. (Exs. 1013, 1008, 1021) The Local could have funded this escrow itself in which case the City of Blaine would have returned the money to the Local directly. (Ex. 1014) Instead, Slawson, Sr. had Stone fund the escrow with Local money, removing the Local as the party to whom the money would be returned. (Exs. 1014, 1021) In October 2008, the City of Blaine returned the \$26,961 to Stone. (Ex. 1013) It was not a cost under the contract, but Stone never returned the money to the Local as it was obligated to do. (Ex. 1008; Ex. 1001 at 6) The Slawsons or the Local's attorneys made no attempt to collect it. (Ex. 10 at 56)<sup>12</sup>

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<sup>11</sup> According to Slawson, Sr., he told Staubach, the Local's real estate expert, to tell Ryan to match Stone's earliest proposal. (Ex. 1 at 146)

<sup>12</sup> During his sworn examination Lyle Slawson was asked about a performance bond estimated on Stone's November 7, 2007 cost estimate to be \$25,664. (Ex. 10 at 56; Ex. 1084) The actual cost of the financial guarantee required by the City of Blaine was an escrow payment of \$26,961 and a performance bond. (Ex. 1021)

There were other suspicious irregularities in connection with the construction project, which are detailed below. The Local used a company, American Pride, to act as a mortgage broker and also as a disbursing agent in connection with the mortgage and construction loan. (Ex. 1015; Ex. 1 at 74-76) Slawson, Sr. had previously entered into a sham contract with American Pride and its CEO, Thomas Gilbert (“Gilbert”) so that it could deceive union members into believing it was a bona fide union employer. (Ex. 5000, 5001) He misrepresented to the Executive Board that American Pride was the source of the mortgage and never revealed to it that the actual lender was Bank Mutual. (Exs. 221, 201-294; Ex. 4 at 33)

Bank records showed that American Pride was replaced as the disbursing agent of the multi-million dollar loan funds by First USA Title in approximately May 2008. (Ex. 1016) None of the three Slawsons acknowledged they were aware of that company during the time the loan proceeds were being disbursed. (Ex. 2 at 58; Ex. 10 at 32; Ex. 1 at 103) No record at the Local reflected a new company was disbursing its monies. (Ex. 10 at 32-36)<sup>13</sup> It is unclear why First USA Title began disbursing Local funds from the construction loan or why Gilbert continued to be involved in communicating with the Local about Bank Mutual’s requirements. (Ex. 10 at 32-35) The Local did not receive records of all draws against the construction loan. (Ex. 10 at 43; Exs. 1023-1025)<sup>14</sup> When the Local wired \$410,000 to Bank Mutual in July 2008, the Local had

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<sup>13</sup> On August 1, 2008, the Local issued a check to First USA Title for \$4,413.65 which appears to be part of the closing costs when \$295,500 was added to the construction loan and not connected to the draw disbursements. (Ex. 1022) Slawson, Sr. and Jr. signed this check. (Ex. 1022)

<sup>14</sup> There were eight “Application and Certification for Payment” forms signed by Stone and the architect and submitted to Bank Mutual. (Ex. 1025) In response to document requests from the Chief Investigator, the Local produced four of these eight forms, applications 1, 3, 4 and 5. (Exs. 1023, 1024) The Local did not produce Applications 2, 6, 7 and 8. (Exs. 1023-1024) For the draw on Applications 2 and 3, the Local had unsigned fund disbursement authorizations in the Local’s records.

to get the bank account information from Gilbert who was still involved as he sought the transfer. (Ex. 1027; Ex. 1073)<sup>15</sup>

To make the \$410,000 transfer, which Slawson, Sr. and Slawson, Jr. authorized, they caused the Local to withdraw \$189,130 from dedicated strike fund accounts in violation of the then Bylaws. (Ex. 1028; Ex. 300 at 42) Indeed, as detailed below, the Slawsons on multiple occasions violated this and other Local Bylaws in connection with the building project.

## **2. Background**

### **a. The Staubach Company**

According to Slawson, Sr., beginning in approximately 2004 or 2005, the Local began to assess moving to another location. (Ex. 1 at 146; minutes) According to him, the Local wanted a turnkey project, one in which the Local would just pay for and move into. (Ex. 1 at 108-109) Instead, despite that assertion, Slawson, Sr. entered into a project whereby to protect the Local's assets the Local needed to monitor closely the costs of construction. (Ex. 1001)

On March 10, 2006, Local 120 entered into a Memorandum of Understanding with The Staubach Company—Minnesota, Inc. ("Staubach"). (Ex. 1029)<sup>16</sup> Slawson, Sr. signed the agreement with Staubach on behalf of the Local. (Ex. 1029) Pursuant to it, Local 120 engaged Staubach as "Exclusive Commercial Real Estate Broker of Record and Project Management Consultant in the pursuit of the construction of a building or the purchase of an existing Building." (Ex. 1029) Pursuant to this agreement, Staubach was to be paid a brokerage commission on the sale of the land which was described as being customarily paid by the seller

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<sup>15</sup> It is unclear why Gilbert was involved in this transaction which occurred after American Pride was no longer the disbursing agent for the construction loan funds. He may have had some relationship with First USA Title.

<sup>16</sup> The memorandum of understanding was dated January 26, 2006, but was signed on March 10, 2006. (Ex. 1029)

and an additional fee of 3.5% of the total project cost. (Ex. 1029) On August 17, 2007, the Staubach agreement was amended to increase the payment for services to 5% of the total project cost. (Ex. 1029)<sup>17</sup> Slawson, Sr. signed this amendment to the Staubach agreement. (Ex. 1029)<sup>18</sup> The Executive Board did not approve either the agreement or the amended agreement with Staubach. (Exs. 189-222; Ex. 300 at 4)<sup>19</sup> One of the representatives from Staubach who worked with the Local was John Mueller.

**b. Pope Architects**

On August 20, 2007, on behalf of the Local, Slawson, Sr. signed a contract with Pope Architects (“Pope”). (Ex. 1030) There was no Executive Board approval for this contract. (Exs. 201-222; Ex. 300 at 4) Under this contract, Pope was to be paid \$62,500. (Ex. 1030 at 15) One of the representatives from Pope who worked with the Local was Jim Johnson.

**c. American Pride**

American Pride represented the Local as a mortgage broker in finding a lender. (Ex. 1 at 75-76)<sup>20</sup> Slawson, Sr. had previously entered into a sham “working agreement” with American Pride and he hawked its services to the members under the deceitful description it was a union company. (See pages 82-99 infra) American Pride also acted for a time as the disbursement

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<sup>17</sup> It is unclear why the payment to Staubach was increased. The other change in the amended contract was a change in the anticipated completion date of the project from August 31, 2007 to May 1, 2008. (Ex. 1029 at 4)

<sup>18</sup> Staubach was paid \$37,043.10 when the land was purchased. (Exs. 1031, 1033) According to the closing statement, this amount was paid from the seller’s funds. (Ex. 1031) In addition, Stone paid Staubach \$71,023 on February 7, 2008 and \$51,058 on June 30, 2008 for a total of \$122,081 as its fee on the contract with the Local. (Ex. 1034)

<sup>19</sup> At the March 17, 2006 Executive Board meeting, after the Staubach agreement was signed, Slawson, Sr. reported that Staubach was “. . . being used to find or build a new location for Local 120. . .” (Ex. 203) There was no vote taken to approve using Staubach. (Ex. 203)

<sup>20</sup> At one point, Slawson, Sr. claimed American Pride was going to be a tenant in the newly constructed building but eventually decided against that. (Ex. 204)

agent for the funds from the Local's construction loan. (Ex. 1015) Thomas Gilbert, the CEO of American Pride, managed the process for American Pride and remained involved after First USA Title replaced American Pride. (Exs. 1027, 1036, 1073; Ex. 1 at 74-75; Ex. 10 at 32; Ex. 1092) American Pride also provided assistance to Slawson, Sr. in preparing and filing the Local's loan application. (Ex. 1 at 74-76) American Pride Title Services was also the settlement agent when the Local purchased the land and closed on its loan. (Exs. 1031, 1032)<sup>21</sup> The Executive Board did not approve using the services of American Pride. (Exs. 189-240)<sup>22</sup>

The Local could not produce any written agreement between it and American Pride.<sup>23</sup> Nor could the Local provide any document that reflected the cost to the Local for American Pride's post-closing services for making the applications to draw on the loan and for disbursing the loan money after settlement.<sup>24</sup> Slawson, Jr. claimed he did not know American's Pride role regarding the building. (Ex. 2 at 45, 56) Slawson, Sr. also testified that American Pride "kind of handled the financial relationship with the selected bank." (Ex. 1 at 75-76) Lyle Slawson testified that throughout the process all transactions between the Local and Bank Mutual were

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<sup>21</sup> American Pride Home Services was a group of companies, "The American Pride Family of Companies", which included American Pride Title and American Pride Financial Group, LLC.. (Exs. 1037-1039)

<sup>22</sup> Slawson, Sr. claimed there was a bidding process to select American Pride to serve as the mortgage broker for the Local and American Pride submitted the lowest bid for the cost of the services they were going to provide. (Ex. 1 at 75-76) There is no support for this claim. In response to the Chief Investigator's request for any and all documents supporting this testimony, the Local did not produce any bids, including any bid from American Pride. (Exs. 442, 445) Slawson, Sr. also suggested that Staubach selected American Pride. (Ex. 1 at 77)

<sup>23</sup> The Disbursing Agreement with American Pride, Bank Mutual and the Local 120 Building Holding Company was produced by Bank Mutual in response to a subpoena. (Exs. 1015, 1074)

<sup>24</sup> In response to a request for "Any and all records reflecting the cost of American Pride's services and how such cost was calculated", the Local provided a HUD closing statement. (Exs. 442, 445) From the HUD closing statements for the land purchases, American Pride Title Services was paid either \$12,105.80 or \$12,280.80 at around the time the Local purchased the land. (Exs. 1031-1032) This was for the land closing. (Exs. 1031-1032) No records were produced showing the cost of American Pride's services in disbursing funds from the Local's construction loan. (Exs. 442, 445)



done through American Pride. (Ex. 10 at 30-32) During an Executive Board meeting on August 17, 2007, Slawson, Sr. reported to the Executive Board that “it looks like we will go with American Pride for the loan which will be a 5 year loan with a 30 year amortization.” (Ex. 221) This was misleading. The Local’s mortgage and construction loan was obtained from Bank Mutual not American Pride. (Exs. 1035 and 1040)

According to an internal Bank Mutual memorandum dated September 7, 2007, an American Pride representative instructed representatives of Bank Mutual not to directly contact any Local representatives and to have all communication with American Pride. (Ex. 1041) Gilbert from American Pride handled the relationship between the Local and Bank Mutual. (Ex. 10 at 30-32)<sup>25</sup> Bank Mutual was also instructed to not send interest billings to the Local. (Ex. 1042) Rather, the Local was to be sent receipts for the interest after the payments with a copy sent to Gilbert at American Pride. (Ex. 1042) Lyle Slawson testified that the Local did not receive records of all the draws American Pride distributed from the Local’s loan. (Ex. 10 at 43)

As discussed below, Bank Mutual, American Pride and the Local 120 Building Holding Company entered into a Disbursing Agreement dated November 9, 2007. (Ex. 1015) Slawson, Sr. signed for the Building Holding Company. (Ex. 1015)<sup>26</sup> Louis Miller (“Miller”), then the

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<sup>25</sup> In a September 7, 2007 memorandum, a representative of Bank Mutual working on the Teamster construction loan application wrote:

To date I have dealt exclusively with the Broker. The Teamsters have a very good relationship with the Broker that entails finding housing for members, insurance for members and other sundry services as well as procuring financing. The Broker is hesitant to have any contact between a financial institution and the Teamsters until the financing is approved and accepted. They do not want to run the risk of a third party jeopardizing the relationship (as would be usual for any business and one of their best customers). When final approval is given I will be meeting directly with the principals of the Teamsters.

(Ex. 1041)

<sup>26</sup> The Local could not produce a copy of this agreement. A copy of this agreement was obtained by subpoena from Bank Mutual. (Exs. 1015, 1074)

Local's Vice President and a Director of the Building Holding Company, was not aware that American Pride controlled disbursements from the Local's construction loan. (Ex. 4 at 7, 25, 33-34) Slawson, Jr., also a member of the Building Holding Company's Board, claimed to be unaware of American Pride's role. (Ex. 2 at 38, 44-45)

Pursuant to this agreement, whenever the Building Holding Company sought a draw from the construction loan, the Building Holding Company was required to submit to American Pride and Bank Mutual a signed application for an advance. (Ex. 1015 at 2) It does not appear that the Building Holding Company or the Local submitted any requests for draws which the Building Holding Company or the Local signed. The Disbursing Agreement also required the submission for each draw of a "completed application for certificate of payment." (Ex. 1015 at 2) These applications Stone and Pope completed and then submitted to American Pride for submission to Bank Mutual. (Ex. 1025) Once Bank Mutual approved a request for payment, it issued the draw to American Pride which then disbursed the money to the contractor, Stone. (Ex. 1043)<sup>27</sup> The agreement did not explain how American Pride would be compensated for its services. (Ex. 1015)

### **3. The Land Purchase Agreement**

In approximately December 2006, the Local began the process of purchasing land in Blaine on which to construct a new building. (Ex. 212; Ex. 1 at 130) The details of the purchase were never presented to the members. The members did not approve the terms and conditions of the Local's purchase of land and construction of the building as required. (Exs. 100-144)

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<sup>27</sup> Later in the process, First USA Title began receiving the draws and disbursing the funds. (Ex. 1016) Neither the Local nor the Bank produced a Disbursing Agreement pursuant to which First USA Title disbursed funds from the Local's construction loan.

Earlier, according to the minutes of the February 16, 2006 general membership meeting, at that meeting:

Brad [Sr.] reported on the leasing or building of a new Local 120 building due to the issues we have at the present location. Brad reported that the lease for our present location runs out in October 2007 and that a building committee will be formed to address these issues and make a decision as to the move at a new location. Brad reported that Joint Council 32 may also join in on this project so all Teamster locals are in one location.

Brad then answered questions and concerns from the membership.

A motion was made . . . and seconded . . . to allow Local 120 to enter into a loan of up to 10 million dollars for the purpose of building or leasing a new location for Local 120. Motion Carried.

(Ex. 119)<sup>28</sup> This resolution, more than a year prior to the Local's purchase of the land and construction of the building and when the members had no knowledge of the actual cost of the project or the terms of the loan, did not constitute membership approval for the terms and conditions of the Local's land purchase and construction as the Bylaws required. (Ex. 300 at 8, 10, 11)

The minutes of the Local 120 general membership meeting on April 12, 2007 reported that the members voted "to give the Executive Board the authority to purchase land and build a new building." (Ex. 130)<sup>29</sup> As discussed below, this purported delegation of the membership's

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<sup>28</sup> According to Slawson, Sr., in late 2006 the Joint Council decided not to join Local 120. (Ex. 1 at 155)

<sup>29</sup> The minutes of this meeting stated, "Brad gave a detailed report on the land in Blaine for the new building. Brad also explained the cost of the new building. Brad answered questions and concerns from the membership on the new building. Brad stated that he won't rule out a new dues assessment in the future, but he believes it is possible to build the new building without it." (Ex. 130) The minutes of the April 12, 2007 membership meeting also contained the following statements:

A motion was made and seconded to take a vote for the new building, Motion Carried.

A motion was made and seconded to give the Executive Board the authority to purchase land and build a new building. Motion Carried.

There was a call from the floor to take a standing count on the vote. The outcome was the same.

responsibility under the Bylaws to the Executive Board did not constitute the requisite membership approval for the terms and conditions of the real estate transaction. Bylaws cannot be amended by a resolution. (Ex. 302) On April 13, 2007, the Local's Executive Board "... approve[d] the purchase of the land and the new building." (Ex. 217)

On June 29, 2007, the Executive Board meeting minutes reported that, "John Hughes explained the purchase agreement for the land on which to construct the new Local 120 building. Art Walsh explained the building plans and contract for the new Local 120 building." (Ex. 219) John Hughes was an attorney who represented the Local. (Ex. 1 at 108)<sup>30</sup> At that meeting, Slawson, Sr. reported that he had "... signed an agreement to get started on the purchase agreement for the land." (Ex. 219)

On July 13, 2007, the Executive Board approved the purchase agreement for the land. (Ex. 220)<sup>31</sup> On July 24, 2007, on behalf of Local 120, Slawson, Sr. signed a purchase agreement to purchase approximately 2.83 acres in Blaine, Minnesota from Cloverleaf Office Partners, LLC for \$7.50 per square foot. (Ex. 1000) Pursuant to this agreement, the Local also agreed to pay a proportionate share of a total of \$513,549 in expenses. (Ex. 1000 at 2)<sup>32</sup> The specific sum of the cost of the land purchase was not in the agreement. (Ex. 1000) Calculating the cost of the land using the figures in the contract, the cost of the land purchase was \$1,077,382.91. (Exs. 1000,

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(continued...)

(Ex. 130)

<sup>30</sup> It is not clear who Art Walsh was. There is a real estate attorney Arthur D. Walsh in St. Paul. (Ex. 1051)

<sup>31</sup> The minutes of this meeting contained the following statement, "Brad Slawson, Sr., Secretary-Treasurer gave an updated report on the new building. A motion made and seconded to move forward and sign a purchase agreement for the purchase of the land on which to build the new Local 120 office building. Motion Carried." (Ex. 220)

<sup>32</sup> According to the purchase agreement, these expenses totaling \$513,549 were for "land area for common ponding and drainage", "civil engineering and design fees" and "soil correction." (Ex. 1000)

1044)<sup>33</sup> There was no membership approval for the terms and conditions of this purchase agreement. (Exs. 127-144) As discussed below, the actual purchase of the land took place in November 2007. (Ex. 1031, 1032)

On October 25, 2007, a Staubach representative sent an email to Lyle Slawson stating that he had left a message for Hughes, the Local's real estate attorney ". . . not to accept progress payments for the road construction, only accept escrowing the amount at this time." (Ex. 1045)<sup>34</sup> Had the Local accepted this money in 2007, the Local would have had \$78,598 which could have been used for the building.<sup>35</sup> It could have reduced the amount of money needed to be borrowed in November 2007. Ten months later, on July 15, 2008, Lyle Slawson asked attorney John Hughes to send an invoice for a portion of the costs of the road construction to the original land owner. (Ex. 1046) On December 23, 2008, the Local received a check in the amount of \$78,598 for the road construction from the original land owner. (Ex. 1047) The consequence of not taking the money when available in October 2007 was the Local could inflate the cost of the project by that amount on its application to increase the construction loan in approximately July 2008.

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<sup>33</sup> According to the purchase agreement, the price of the land was \$7.50 per square foot. (Ex. 1000) The Local was purchasing approximately 2.83 acres. (Ex. 1000) There are 43,560 square feet per acre. (Ex. 1044) Accordingly, the Local purchased 123,274.8 square feet (2.83 multiplied by 43,560). The cost was \$924,561. (\$7.50 multiplied by 123,274.8). (Ex. 1044) In addition to the price of the land, the Local agreed to pay its proportionate share of expenses totaling \$513,549. (Ex. 1000) The total property was 9.51 acres. (Ex. 1000) The Local's share, 2.83 acres, was 29% of the total property. (Ex. 1044) According the Local was responsible for \$152,821.91, which is 29% of \$513,549. (Ex. 1044) The total amount the Local owed under the purchase agreement was \$1,077,382.91. (Ex. 1044)

<sup>34</sup> The owner of the land had agreed to pay a portion of the cost of constructing a road on the property. (Ex. 10 at 60) During his sworn examination, Lyle Slawson testified that he had no memory of this email. (Ex. 10 at 59-60)

<sup>35</sup> As discussed below, this was the amount the land owner eventually paid the Local. (Ex. 1047)

#### **4. Creation of the Local 120 Building Holding Company**

On September 28, 2007, the Secretary of State of Minnesota issued a certificate of incorporation for the Teamsters Local 120 Building Holding Company. (Ex. 1048) Slawson, Sr. was the sole incorporator. (Exs. 1049, 1053) According to the Articles of Incorporation for the Building Holding Company which Slawson, Sr. signed, the initial directors of the Company were Slawson, Sr., Slawson, Jr., Louis Miller and Dean Cypher. (Ex. 1049) Slawson, Sr. appointed the directors. (Ex. 2 at 38-39) There was no Local 120 Executive Board approval to form the Building Holding Company or to appoint directors to the Building Holding Company. (Exs. 189-291) During his sworn examination, when asked who appointed the directors to the Building Holding Company, Slawson, Sr. “guessed” that the Executive Board had appointed the directors. (Ex. 1 at 166) Contrary to this claim, the Local’s Executive Board meeting minutes contained no reference to the Building Holding Company or to the appointment of Directors. (Exs. 189-294) Moreover, Slawson, Jr. testified that Slawson, Sr. appointed him to the Building Holding Company. (Ex. 2 at 38-39) During his IRB sworn examination, when Miller was shown the “Minutes of First Meeting of the Incorporator and Board of Directors of Teamsters Local 120 Building Holding Company”, Miller testified that Slawson, Sr. called him into that meeting. (Ex. 4 at 26-27)

The Local produced unsigned minutes for the Building Holding Company dated September 28, 2007 which were titled “Minutes of First Meeting of the Incorporator and Board of Directors of Teamsters Local 120 Building Holding Company.” (Ex. 1066) In response to a subpoena, Bank Mutual, which made the construction loan to the Building Holding Company, produced these same minutes signed by Slawson, Sr.. (Ex. 1050) According to these minutes, the meeting began at 11:00 a.m. and Slawson, Sr. reported that the Articles of Incorporation had been filed and four directors were appointed to the Board of Directors of the Building Holding

Company: Slawson, Sr., Slawson, Jr., Louie Miller and Dean Cypher. (Ex. 1050) At that time, Slawson Sr. was the Local's Secretary-Treasurer, Slawson, Jr. was the Local's President, Miller was the Local's Vice President and Cypher was a business agent in residence at the Local's North Dakota office. (Ex. 222; Ex. 4 at 27-28; Ex. 1 at 7, 32, 166, 196) According to the minutes, the Board elected Slawson, Sr. to be President of the Building Holding Company, Slawson, Jr. Vice President, Miller Secretary-Treasurer and Cypher Recording Secretary of the Building Holding Company. (Ex. 1050)

The Local produced another document purporting to be minutes for the Building Holding Company, also dated September 28, 2007, titled "Minutes of the First Special Meeting of the Board of Directors of Teamsters Local 120 Building Holding Company." (Ex. 1054) According to these Special Meeting minutes, the meeting started at 11:00 a.m. and the Slawsons and Miller were present while Cypher attended "electronically". (Ex. 1054)<sup>36</sup> According to the minutes,

Brad Slawson, Sr. reported that the purchase of a parcel of land in Blaine, Minnesota by Teamsters Local 120 was scheduled to close on October 4, 2007 and that Teamsters Local 120's interest in the purchase agreement is to be assigned to the Corporation so that title in the land will vest in the Corporation. The Corporation will then own the land subject to the underlying mortgage, which mortgage must be consented to by the Corporation. After the closing and the land is transferred to the Corporation, construction and financing of a building to be used by Teamsters Local 120 and other tenants will immediately commence.

A motion was made and seconded to approve the transfer of Teamster Local 120's interest in the Blaine, Minnesota land to the Corporation and to cooperate with Teamsters Local 120 in any way to allow and facilitate the financing and construction of the land and a building to be constructed on the land.

(Ex. 1054)

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<sup>36</sup> Although the two meetings were reportedly both held on September 28, 2007 at 11:00 a.m., in the minutes of one meeting Cypher was listed as present and in the minutes of the other meeting Cypher was listed as attending "electronically." (Ex. 1050, 1054)

**5. False Minutes Purporting to Transfer the Local's Interest in the Purchase Agreement to the Building Holding Company**

The Local produced a third set of minutes also dated September 28, 2007. These had the different title: "Board of Directors Meeting of Teamsters Local 120." (Ex. 1055) It appears that given the difference between this third set of minutes and the first two sets all dated the same day, the change in title omitting a reference to the Building Holding Company, was done to make it appear these were Local 120 Executive Board minutes and not minutes of the Building Holding Company Board. This was consistent with the action purportedly taken at that meeting.

According to these minutes, Slawson Sr. made the following motion which the four directors unanimously approved:

That Teamster Local 120 consent to the transfer and assignment of its interest in that purchase agreement dated July 24, 2007 for Lot 1, Block 1 Cloverleaf Common Second Addition, Anoka County, Minnesota to the Teamsters Local 120 Building Holding Company and further authorize the guaranty of the mortgage to finance the purchase of the property and construction of a building on the property.

(Ex. 1055) Thus, these minutes in their text purport to have what the title misleadingly described as the Board of Directors of Local 120 take an action only the Executive Board of Local 120 had the power to do. According to the minutes of this "Board of Directors Meeting of Teamsters Local 120", both Slawsons and Miller were present and Cypher attended by conference call. (Ex. 1055)<sup>37</sup> Slawson, Jr., who was not the Recording Secretary, signed these minutes. (Ex. 1055; Ex. 2 at 40-41)

When shown these minutes during his sworn examination, Slawson, Jr. described them as Building Holding Company minutes. (Ex. 2 at 40-41) Slawson, Sr. and Slawson, Jr. both testified that the action reflected in these minutes was done at the direction of the attorneys

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<sup>37</sup> The minutes of this meeting did not state the time of the meeting. (Ex. 1055)



Martin Costello and John Hughes. (Ex. 2 at 41; Ex. 1 at 167-169) Miller testified that he did not remember two meetings on the same day and did not know why there were different minutes. (Ex. 4 at 28-29) Costello denied he gave such advice. (Ex. 1125)

These minutes were submitted to Bank Mutual. (Ex. 1055)<sup>38</sup> They purported to authorize the Local's transfer of its interest in the land purchase agreement to the Building Holding Company. (Ex. 1055) Furthermore, these minutes purported to authorize the Local to be the guarantor of the mortgage to finance the land purchase and building construction. (Ex. 1055) The Local produced these minutes to the Chief Investigator among a group of Local 120 Special Executive Board meeting minutes. (Ex. 1067)<sup>39</sup> However, as Slawson, Jr. admitted, these minutes did not reflect Local 120 Executive Board action. (Ex. 1055; Ex. 2 at 40-42)

The Board of Directors of the Building Holding Company did not have the authority to transfer the Local's interest in the purchase agreement to the Building Holding Company. Nor did the Board of Directors of the Building Holding Company have any authority to make Local 120 the guarantor of the mortgage for the purchase of the property and construction of the building. As described below, without the requisite Executive Board authorization, on November 1, 2007, on behalf of the Local, Slawson, Sr. signed a Guaranty for the \$3,382,966

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<sup>38</sup> Bank Mutual is a federally insured Bank. Submission of intentionally false documents to it would be a federal crime, 18 U.S.C. §1344.

<sup>39</sup> By letter dated September 30, 2011, the Local produced these minutes in response to a request from the Chief Investigator for all Local Executive Board, Special Executive Board and membership meeting minutes. (Ex. 402) The document included before the September 28, 2007 "Board of Directors Meeting of Teamster Local 120" was minutes of an August 18, 2008 "Special Executive Board Meeting of Local Union #120" and the minutes produced following the September 28, 2007 minutes were minutes of a "Special Executive Board Meeting of Local Union #120" dated January 18, 2007. (Ex. 1067)

Subsequently, the Local produced these minutes with Building Holding Company minutes. (Ex. 1083)

mortgage and construction loan dated November 9, 2007 that made the Local responsible for repayment of the loan. (Ex. 1075)

Article 3.3 of the Construction Loan agreement Slawson, Sr. signed on behalf of the Building Holding Company required that, “The execution and delivery to Lender of the Loan Documents, and the performance by Borrower of its obligations thereunder, are within Borrower’s power as a non-profit corporation, have been duly authorized by proper organizational action on the part of Borrower. . .” (Ex. 1040 at 3) The minutes given the bank improperly titled “Board of Directors Meeting of Teamsters Local 120” appeared to be designed to deceive the Bank into believing the Local duly authorized the actions.

The Slawsons’ claimed reliance on counsel would not be a defense. No experienced union official could rely on a lawyer’s advice that the Board of a shell corporation whose members the officer appointed, could on its own authority transfer Local assets to itself and make the Local a guarantor on an over three million dollar loan. If the advice was given, it was wrong on its face. One lawyer, who represented the Slawsons at their testimony, denied their claim he gave them that advice. (Ex. 1125)

**6. The Mortgage Application**

In addition to the false minutes Slawson, Jr. signed, other inaccurate statements were also made to the bank in the mortgage approval process. According to records obtained by subpoena from Bank Mutual, prior to the mortgage and loan being approved, American Pride submitted to Bank Mutual an undated estimate of project costs for the construction of a new Local 120 building which estimated that the price of the land was \$1,218,286. (Exs. 1056, 1074) This was \$140,904 more than the cost of the land in the signed July 24, 2007 land purchase agreement pursuant to which the land cost was \$1,077,382. (Exs. 1000, 1044, 1056) According to an October 2, 2007 internal Bank Mutual memorandum, which was dated shortly before the bank

approved the construction loan, the Bank determined after speaking with the broker, American Pride, that the inflated price American Pride reported for the land purchase was based upon the inaccurate claim of a purchase of 3.20 acres of land, not the actual 2.83 acres in the July 24, 2007 land purchase agreement. (Exs. 1000, 1056, 1058) According to the October 2, 2007 internal Bank Mutual memorandum, the purchase price of the land was corrected to be \$1,078,000. (Ex. 1057)

It also appears that in order to satisfy the Bank's concern as to whether the Local had adequate cash flow to service the proposed debt, the Local substantially inflated the number of Local members. (Exs. 1041, 1068, 1069) In a Bank Mutual internal memorandum dated September 7, 2007, a bank representative stated that the bank had received a document that Brad Slawson signed which stated that the Local had a current membership of 19,750. (Ex. 1041)<sup>40</sup> In contrast to that claim, the Form LM-2 for 2007 which would subsequently be filed showed the Local had 10,936 members and the Form LM-2 for 2006, which was then on file, reflected 9,685 members. (Exs. 1068 and 1069) More members would have meant more dues coming in monthly and lead the bank to believe the Local's cash flow was greater than it was.

According to internal Bank Mutual records, on approximately October 15, 2007, Bank Mutual approved a loan to the Building Holding Company of the lesser of \$3,382,966 or 80% of the appraisal to construct a new building. (Ex. 1058) The loan the Local took was for \$3,382,966. (Ex. 1035)

## **7. Construction General Contractor Ryan Companies**

Since, approximately, December 2006, Ryan Companies, a union general contractor, was involved in preparing the plans for the construction of the Local's building. (Ex. 1076; Ex. 1059)

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<sup>40</sup> The Bank document did not indicate if it was Slawson, Sr. or Jr.. (Ex. 1041)

On March 30, 2007, Ryan submitted a revised Design/Build proposal for the construction of the Local's new building which included "... architectural design, civil & landscape design, structural design and complete construction services." (Ex. 1070) On approximately June 18, 2007, Ryan and the Local signed an interim agreement to provide design/build services for the construction of the new office for the Local. (Ex. 1060) Slawson, Sr. signed this agreement on behalf of the Local. (Ex. 1060)<sup>41</sup> Under this interim agreement, Ryan was to be paid a maximum of \$30,000 for specific work, including working with Pope Architects, which Ryan had retained, to prepare "architectural, civil, and landscaping drawings, and all other documents required for the City of Blaine submittal date of July 13, 2007." (Ex. 1060) There was no Executive Board approval for this agreement. (Exs. 201-219)

On June 20, 2007, Ryan sent an email to Slawson, Sr. and representatives of Staubach stating that Ryan's guaranteed maximum price for the construction of the Local's building was \$2,875,722. (Ex. 1062) On June 22, 2007, Ryan sent the Local a draft contract with a guaranteed maximum price of \$2,875,772. (Ex. 1010)<sup>42</sup> The contract was essentially one under which the Local would pay actual defined costs and a fixed fee with a guaranteed maximum price for the project. (Ex. 1010)

#### **8. The Slawsons' Relationship with Todd Chester**

The Slawsons are intertwined with Todd Chester. Slawson, Sr. and Slawson, Jr. are friends with Chester, have business relationships with him and have a familial relationship. (Ex. 1 at 185-193; Ex. 2 at 47-51) Slawson, Sr. has known Chester for many years. (Ex. 1 at 185-

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<sup>41</sup> In this agreement, it was anticipated that construction would start in September 2007 and the building would be completed in February 2008. (Ex. 1060)

<sup>42</sup> On July 17, 2007, Ryan sent the Local another interim agreement. (Ex. 1063) It does not appear that the Local signed this agreement. (Ex. 1063)

193)<sup>43</sup> Chester is the father of one of Slawson, Sr.'s grandchildren. (Ex. 1 at 188) The grandchild appears to have been born sometime in 2008. (Ex. 2022 at 26) Slawson, Sr. also has had business relationships with Chester. (Ex. 1 at 189-192) Slawson, Sr. used Chester as a real estate broker when he purchased his home. (Ex. 1 at 190-191) Checks passed between them. (Ex. 1071) In addition, in 2008, Chester arranged for Slawson, Sr. to be an investor with Chester and others in a planned bar near the Minnesota Twins new stadium. (Ex. 1 at 189-191)<sup>44</sup> In connection with this, on March 25, 2008, Slawson, Sr. wrote a check to Chester for \$7,500. (Ex. 1064)

Slawson, Jr. was a good friend of Chester whom Slawson, Jr. knew before he graduated from high school. (Ex. 2 at 48) The friendship deepened over time. (Ex. 2 at 48-51) For approximately the last seven years, Slawson, Jr. has been the Vice President of the Blaine Youth Hockey Association and his wife is the Blaine Youth Hockey Gaming Manager. (Ex. 2 at 49) The charitable gambling pull-tabs for the Blaine Youth Hockey Association are located in two bars that Chester has ownership interests in: Route 65 Pub and Grub and Mac and Chester's Standing Room Only. (Ex. 2 at 49-50) Slawson, Jr. advocated before the Blaine City Council that Route 65 Pub, Chester's bar, be granted a license for this purpose. (Ex. 1072) Chester acknowledged these were important financially to his bar. (Ex. 1072)<sup>45</sup> Slawson, Jr. is the uncle of one of Chester's children. (Ex. 1 at 188)

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<sup>43</sup> Chester attended victory parties for the Slawson slate in Local elections. (Ex. 11 at 67)

<sup>44</sup> According to Slawson, Sr., the project did not materialize because the building was declared an "historical building." (Ex. 1 at 189)

<sup>45</sup> According to Slawson, Jr., the bars charge rent of a percentage of the pull tabs sold. (Ex. 2 at 51-52)

**9. Chester Introduced Stone Construction to the Local and Without Any Analysis of the Proposals by the Local's Expert, the Slawsons Caused Stone To Be Immediately Selected as General Contractor**

According to both Chester and Slawson, Sr., Chester introduced general contractor Stone Construction to Slawson, Sr. for the purpose of Stone making a bid to build the Local's new building. (Ex. 1009; Ex. 1 at 130) Slawson, Sr. testified that there was perhaps one telephone call or meeting with Chester in which Chester asked if Stone could bid on the general contractor work for the planned new building. (Ex. 1 at 130-131) Stone submitted a letter proposal dated July 26, 2007 to Slawson, Jr. for the construction of the Local's building which included a cost estimate. (Ex. 1019) The July 26, 2007 proposal from Stone was the earliest Stone proposal the Local produced to the Chief Investigator. (Ex. 1019)<sup>46</sup> The next day, on Friday, July 27, 2007, Slawson, Sr. held a specially called telephone poll of the Local's Executive Board to approve using Stone for the construction of the Local's building. (Ex. 1012) The issue for the poll was as follows:

Local 120 has received a new bid from a different contractor to build our new building. The name of the company is Stone Builders. They have come in over \$200,000 cheaper with no negative modifications. Poll vote to approve using Stone Builders for the building. If approved, we will be signing the contract for these builders on Monday, July 30, 2007.

(Ex. 1012)<sup>47</sup> The Slawsons strongly advocated making the switch to Stone. (Ex. 4 at 22-23; Ex. 5 at 31-33)<sup>48</sup> They did this without any analysis of the contractors' submissions by the Local's

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<sup>46</sup> The July 26, 2007 proposal Stone produced in response to a subpoena had a handwritten notation which stated, "Original Bid Submitted" (Ex. 1077)

<sup>47</sup> The Local produced an unsigned contract with Stone dated July 27, 2007, the same day as the telephone poll of the Executive Board. (Ex. 1052) Pursuant to this unsigned contract for which "the basis of payment is a STIPULATED SUM", the contract sum was \$2,512,113. (Ex. 1052)

<sup>48</sup> One Local officer recalled that he knew Slawson, Jr. had a connection with Stone through Chester. (Ex. 4 at 22-23)

expert. (Ex. 1 at 137-139) The motion was approved. (Ex. 1012)<sup>49</sup> Stone was the only company providing expert services to the Local in connection with the building project for which Slawson, Sr. sought Executive Board approval.

The Local had hired Staubach to help it evaluate bids for construction services. (Ex. 1029; Ex. 1 at 110-111) Yet, Staubach did not evaluate the Stone proposal until sometime after Slawson, Sr. caused Stone to be selected. (Ex. 1 at 130-132, 137-138) This conflicted with Slawson, Sr.'s claim he relied on the experts for all he did. (Ex. 1 at 75-77) Stone subsequently paid Chester a total of \$90,000 which Chester claimed was paid to him solely for the introduction. (Exs. 1005, 1009) Stone's fee for being the general contractor for the entire project of actually constructing the building was \$135,282. (Exs. 1001, 1006) Slawson, Sr. admitted he knew that Chester was going to receive a fee from Stone in connection with the construction of the Local's building, but he did not determine the amount of the fee. (Ex. 1 at 132) Moreover, as discussed below, Slawson, Sr. affirmatively represented to some Local Executive Board members and other employees that Chester was not going to receive any payment in connection with the Local's new building. (Ex. 4 at 31-33; Ex. 5 at 34-35; Ex. 11 at 71-72)

The July 26, 2007 Stone proposal was for \$2,442,113 with alternate expenses not included which totaled another \$296,895. (Ex. 1019 at 9)<sup>50</sup> As discussed below, per Staubach's subsequent analysis comparing the Ryan and Stone proposals, several of the alternate expenses

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<sup>49</sup> When asked during his sworn examination what the urgency was for selecting Stone so rapidly, Slawson, Sr. responded that Ryan was doing work on the building and the Local then received a bid that they thought was \$200,000 less. (Ex. 1 at 137) As discussed below, the contract with Stone was not signed until sometime in November 2007 at which time the contract was \$352,506 higher than Stone's July 26, 2007 proposal with all the alternates included. (Exs. 1001,1019) It was \$215,742 higher than the price in Ryan's proposed contract. (Exs. 1001, 1010)

<sup>50</sup> As noted above, the Local produced an unsigned contract with Stone which had a contract sum for building the Local of \$2,512,113. (Ex. 1052)

not included in Stone's proposal were included in the Ryan proposal. (Ex. 1078) For example, the alternate expenses in the Stone proposal included a building permit fee of \$21,500 and an \$80,000 allowance for winter conditions which would be projected additional costs above the proposal price. (Ex. 1019)<sup>51</sup> If all the alternate expenses were included in Stone's July 26, 2007 proposal, the total amount of the proposal would have been \$2,739,008. (Ex. 1019)

In an analysis of the Ryan and Stone proposals the Local produced, which was created by an unknown source and included a notation that it was printed on August 2, 2007 at 6:42 a.m., after Stone had already been selected in the telephone poll, the Ryan cost was described as \$119,264 over the Stone cost. (Ex. 1079)<sup>52</sup> This analysis did not include any reduction in Ryan's fee or contingency. (Ex. 1079) This analysis described Ryan as a union contractor and Stone as not. (Ex. 1079) According to Slawson, Sr., Local 120 was the third largest IBT construction Local. (Ex. 22 at 149)<sup>53</sup> On Tuesday, August 2, 2007, the same day, a Staubach representative informed Ryan that Ryan had been taken off the project. (Ex. 1080)<sup>54</sup>

In an undated analysis of the Ryan and Stone proposals that the Local produced to the Chief Investigator, Staubach reported that there was a \$48,831 difference between the then Ryan

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<sup>51</sup> It its later analysis, Staubach included these amounts in the Stone proposal. (Ex. 1078)

<sup>52</sup> In this undated analysis printed on August 2, 2007, the Ryan proposal was calculated to be \$2,875,772 and the Stone proposal was \$2,756,508. (Ex. 1079)

<sup>53</sup> On August 1, 2007, a Staubach representative sent an email to Slawson, Sr., Slawson, Jr. and Lyle Slawson which stated that,

. . . Ryan was told today from both a structural steel firm and a mason that they knew Stone Construction to be an "Open Shop." I'm sure Stone intends to use all union labor on this project, but, Dave and I did not know that if they were an "open shop," if that would make a difference to you. . . .

(Ex. 1081)

<sup>54</sup> On August 17, 2007, the Local issued a check to Ryan for \$27,000. (Ex. 1082)



proposal and the Stone proposal. (Ex. 1078)<sup>55</sup> In the Staubach analysis, the Ryan proposal was calculated to be \$2,786,994 after Ryan offered to reduce its fee and the contingency amount in the proposal. (Ex. 1078) The Stone initial proposal was calculated to be \$2,738,113, after costs, such as winter conditions which were included in the Ryan proposal, were added to the Stone proposal of \$2,442,113. (Ex. 1078) The difference between the two company's submissions then would have been \$48,831. (Ex. 1078)

During the August 17, 2007 Executive Board meeting, Slawson, Sr. "reported that Ryan has been taken off of the project and we are going with Stone, as Stone's bid was \$250,000.00 under Ryan's bid. . . ." (Ex. 221) At that point, Slawson, Sr. knew the difference between the two company's proposals was much less. (Ex. 1078; Ex. 1 at 138-139) He knowingly exaggerated the difference.. (Ex. 1078; Ex. 1 at 139) The documents analyzing the Ryan and Stone proposals were not shared with other Executive Board members. (Ex. 4 at 23-25) The Executive Board was not given an explanation of the differences between the contracts or told that Staubach's analysis had determined a much smaller difference in the two proposals. (Ex. 221) Indeed, on August 28, 2007, eleven days after Slawson, Sr.'s August 17, 2007 report to the Executive Board that Stone would be used to build the Local's new offices, the Stone proposal had already increased by \$373,809 to \$2,815,922. (Ex. 1020) Slawson, Sr. never proposed negotiating costs down with both companies. (Ex. 1 at 143-146)

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<sup>55</sup> In Lyle Slawson's listing of events relating to the building voluntarily created in response to the IRB investigation which was provided to the Chief Investigator, he placed Staubach's analysis before August 2, 2007 when Ryan was notified by Staubach that the Local was going to use Stone instead of Ryan. (Ex. 1084 at entries 34-36) His list did not include the analysis showing a \$119,264 difference between the Ryan and Stone proposals. (Exs. 1084, 1079)

## 10. The Local's November 5, 2007 Contract With Stone

The contract that the Local eventually signed with Stone was dated typographically November 5, 2007, more than three months after the Slawsons caused the Local to act urgently in selecting Stone in the telephone poll. (Exs. 1001, 1012) It is unclear when this contract was actually signed since it contained a handwritten and initialed reference to a November 12, 2007 addendum to the contract. (Ex. 1001 at 11) Under this contract, which was a "Cost of the Work Plus a Fee" contract, the guaranteed maximum price of the construction of the building was \$3,091,514. (Ex. 1001 at 3) Slawson, Sr. signed this contract on behalf of the Local. (Ex. 1001 at 12)<sup>56</sup> This contract was \$352,506 more than Stone's July 26, 2007 proposal with all the alternates added in. (Ex. 1001, 1019) There was no Executive Board approval for the increased Stone contract. (Exs. 221-239) The minutes do not reflect that the Executive Board was told of the higher price. (Exs. 221-239)<sup>57</sup>

Because the contract with Stone was a "Cost of the Work Plus a Fee" contract with a guaranteed maximum price, Stone agreed to perform the project for the Local for the actual cost of the work plus a fixed fee. (Ex. 1001) Article 5.1 of the contract provided, "The Owner shall pay the Contractor the Contract Sum in current funds for the Contractor's performance of the Contract. The Contract Sum is the Cost of the Work as defined in Article 7 plus the Contractor's Fee." (Ex. 1001 at 3)<sup>58</sup> Pursuant to the contract, Stone's fee was \$135,282. (Ex. 1001 at 3)

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<sup>56</sup> The Local, not the Building Holding Company, entered into this contract with Stone. (Ex. 1001 at 1)

<sup>57</sup> Slawson, Sr. claimed he kept the Executive Board informed of Stone's costs going up. (Ex. 1 at 144) The minutes did not reflect this. (Exs. 221-239; Ex. 4 at 23-24; Ex. 5 at 32-33)

<sup>58</sup> Article 7 of the Stone contract provided the following regarding the "Cost of the Work":

The term Cost of the Work shall mean costs necessarily incurred by the Contractor in the proper performance of the Work. Such costs shall be at rates not higher than the standard paid at the place of the

Although the contract's wording indicated costs were not fixed and Slawson, Sr. was advised by multiple law firms and a construction project manager, he maintained under oath he had entered into a fixed price contract so costs were not relevant. (Ex. 1 at 106, 110) He claimed the maximum contract price was the fixed price he had agreed to on the Local's behalf rather than a cap on how much the Local could pay. (Ex. 1 at 106, 110)

The Stone contract gave the Local the right to monitor and verify Stone's payments to contractors something not necessary in a fixed price contract. (Ex. 1001 at 7) Article 11 of the contract provided:

The Contractor shall keep full and detailed accounts and exercise such controls as may be necessary for proper financial management under this Contract, and the accounting and control systems shall be satisfactory to the Owner [the Local]. The Owner and the Owner's accountants shall be afforded access to, and shall be permitted to audit and copy the Contractor's records, books, correspondence, instructions, drawings, receipts, subcontracts, purchase orders, vouchers, memoranda and other data relating to this Contract, and the Contractor shall preserve these for a period of three years after final payment, or for such longer period as may be required by law.

(Ex. 1001 at 7) In addition, the contract gave the Local's accountants the right to review Stone's final accounting. (Ex. 1001 at 8) Article 12.2.3 of the Stone contract contained the following provision under "Final Payment": "The Owner's accountants will review and report in writing on the Contractor's final accounting within 30 days after delivery of the final accounting to the Architect by the Contractor." (Ex. 1001 at 8)

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(continued...)

Project except with prior consent of the Owner. The Cost of the Work shall include only the items set forth in this Article 7.

(Ex. 1001 at 4)

As discussed below, Slawson, Sr., a fiduciary, did not direct an audit to be done to account for the Local's money given to Stone.<sup>59</sup> Accordingly, the Local did not determine the actual cost of the project or verify that all payments Stone made with the Local's money were costs within the contract and were actual. Instead, Slawson, Sr. ignored his fiduciary obligations and caused the Local to pay Stone on its untested representations the guaranteed maximum price, which included a \$25,000 builder's contingency, plus the cost of the two change orders. (Exs. 1002, 1001, 1003, 1004, 1086)<sup>60</sup> Not disclosed to the Local in any document was the \$90,000 introduction fee to Chester. (Ex. 1008; Ex. 1 at 193)

**11. Slawson, Sr. Arranged for the Building Holding Company to Borrow \$3,382,966 without the Requisite Executive Board Approval**

On behalf of the Building Holding Company, Slawson, Sr. signed a Mortgage Note and a Construction Loan Agreement dated November 9, 2007, pursuant to which the Building Holding Company borrowed \$3,382,966 to purchase the land in Blaine and build a building on the land. (Exs. 1035, 1040) The interest rate on this loan was 6.75% per year and the maturity date of the loan was November 30, 2012. (Ex. 1035) The balance of the loan is due on that date. (Ex. 1035)<sup>61</sup> In addition, on behalf of Local 120, Slawson, Sr. signed a Guaranty dated November 9, 2007, pursuant to which the Local agreed to guaranty that the Building Holding Company would comply with the Loan Document pursuant to which Bank Mutual loaned the Building Holding Company \$3,382,966. (Ex. 1075)

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<sup>59</sup> Slawson, Sr. testified he had the Local's accountants look at aspects of the project. (Ex. 1 at 113-115) Indeed, the only time the Local employed accountants with respect to the construction contract was in 2012, not to check actual costs, but in an attempt to justify Slawson, Sr. blindly having the Local pay the maximum price. (Ex. 1085)

<sup>60</sup> The two change orders totaled \$93,915. (Exs. 1003 and 1004)

<sup>61</sup> According to the Local's LM-2 filed for 2011, as of December 31, 2011, the balance of the loan was \$3,540,678. (Ex. 304)

There was no Local 120 Executive Board approval or Building Holding Company approval for the Building Holding Company to borrow \$3,382,966. (Exs. 213-239, 1083) Moreover, there was no Executive Board approval for the Local to be the guarantor for the loan to the Building Holding Company. (Exs. 213-239)

## **12. Purchase of the Blaine Land**

On or about November 1, 2007, the Building Holding Company purchased the Blaine land for \$1,038,000. (Ex. 1031, 1032) This was the amount resulting from the calculations based upon the purchase agreement less \$40,000 the seller paid for a soil correction that took place before the closing on the land. (Ex. 10 at 67-68; Ex. 1000) In addition to the purchase price, around the time of the closing the Local also paid \$50,646 in settlement charges, including \$12,280.80 to American Pride. (Exs. 1031, 1032)<sup>62</sup>

American Pride Title, LLC was the settlement agent for the closing. (Ex. 1031) Lyle Slawson testified that Gilbert in 2011 or 2012 told him that the Local did not bring the downpayment money to the actual closing and was allowed to pay it later. (Ex. 10 at 35) At around the time of the land purchase, on November 5, 2007 the Local made a wire transfer of \$200,000 to American Pride Title, LLC. (Exs. 1087, 1088) This was inaccurately described in Local records as “down payment to American Pride Title.” (Ex. 1087) Slawson, Sr. authorized

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<sup>62</sup> In response to the Chief Investigator’s request for documents regarding the land sale and building construction, the Local produced two different Settlement Statements for this transaction both dated November 1, 2007. (Exs. 1031, 1032) In one settlement statement, the Building Holding Company was to pay \$200,000 cash at the settlement. (Ex. 1031) The other version of the settlement statement included \$750,000 described as “Borrower cash at closing”. (Ex. 1032) It is unclear why there are two versions of the settlement statement. (Ex. 1 at 162-164) The Local through Lyle Slawson received an explanation from Gilbert at American Pride in the course of the IRB investigation that the Local did not bring the \$200,000 down payment to the closing, but was allowed more time to make the down payment. (Ex. 10 at 33-35) The two Settlement Statements contained different amounts paid to American Pride: \$12,280.80 and \$12,105.80. (Exs. 1031, 1032)

this transfer by letter dated November 1, 2007. (Ex. 1089)<sup>63</sup> There was no membership or Executive Board approval for this \$200,000 payment. (Exs. 218-230, 127-140)

Subsequent to the \$200,000 payment, between January and July 2008, the Local paid an additional \$550,038 from Local accounts to either American Pride Title, the settlement agent, or Bank Mutual, which made the mortgage and construction loan. (Exs. 1090, 1027, 1091) The total of \$750,038 the Local paid was paid as follows: \$200,000 to American Pride on November 5, 2007; \$30,000 to American Pride on January 28, 2008; \$110,038.90 to American Pride on January 28, 2008 and \$410,000 to Bank Mutual on July 7, 2008. (Exs. 1088, 1089, 1027, 1090, 1091)<sup>64</sup> There was no Executive Board or membership approval for any of these payments. (Exs. 127-144, 213-239)

### **13. Payment for the Construction of the Building**

As discussed above, the Local and Stone entered into a “Cost of the Work Plus a Fee” contract dated November 5, 2007 which had a guaranteed maximum price to build the building of \$3,091,514. (Ex. 1001) That did not hold. As a result of two construction change orders Slawson agreed to (Exs. 1003, 1004), the total amount paid to Stone for the construction of the Local 120 building was \$3,185,429. (Ex. 1002)<sup>65</sup> Bank Mutual disbursed this amount to Stone initially through American Pride Title, LLC and subsequently through a company called First

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<sup>63</sup> There was no second signature on this letter. (Ex. 1089) Pursuant to Section 8(C) of the Local’s Bylaws, “the principal officer in conjunction with the President and Vice President, shall have the authority to disburse or order the disbursement of all monies necessary to pay the bills, obligations and indebtedness of the Local Union, which have been properly incurred as provided herein.” (Ex. 300 at 4)

<sup>64</sup> As discussed below, according to records subpoenaed from Bank Mutual, the \$410,000 paid to Bank Mutual was deposited into an LIP account which was a loan in process account. (Ex. 1058) The information as to which Bank and account number to wire it into had to come from Gilbert. (Ex. 1027)

<sup>65</sup> These change orders were change order #1 for \$67,760 on April 10, 2008 and change order #2 for \$26,155 on July 30, 2008. (Exs. 1003, 1004)

USA Title. (Exs. 1043, 1016, 1092) Slawson, Jr. and Lyle Slawson could not identify First USA Title. (Ex. 2 at 58; Ex. 10 at 32; Ex. 1 at 103)<sup>66</sup>

Bank Mutual, the Building Holding Company and American Pride Title, LLC entered into a Disbursing Agreement dated November 9, 2007. (Ex. 1015) Pursuant to this agreement,

Whenever Borrower [the Building Holding Company] desires to obtain an advance from the Building Construction Reserve, Borrower shall submit to Lender and Title Company an application for advance signed by Borrower and in form and detail satisfactory to Lender and Title Company, including an itemized list of the type of work, the amount previously disbursed for such work, if any, and the amount requested to be disbursed under the draw request. Such request shall be accompanied by a completed application for certificate of payment. . . .

(Ex. 1015 at 2) Slawson, Sr. signed this Disbursing Agreement on behalf of the Building Holding Company. (Ex. 1015) Despite requests, the Local failed to produce to the Chief Investigator signed requests by the Building Holding Company to Bank Mutual requesting draws.

The Disbursing Agreement also required the submission for each draw of a “completed application for certificate of payment.” (Ex. 1015 at 2) These applications were completed by Stone and Pope and submitted to American Pride and Bank Mutual. (Ex. 1025; Ex. 10 at 37-38, 42-44) Once Bank Mutual approved a request for payment, it issued the draw to American Pride which then disbursed the money to the contractor, Stone. (Ex.1043) Later in the project, Bank Mutual issued the draws to First USA Title which then disbursed the money to Stone. (Ex. 1092)

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Lyle Slawson, who handled most of the day to day duties for the Local on the project at the request of his father, testified that the Local only rarely received any records about the draws

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<sup>66</sup> According to the transcript of his sworn examination, Slawson, Sr. was asked about First USA Trust, which he did not recognize. (Ex. 1 at 103)

<sup>67</sup> Neither the Local nor Bank Mutual produced a Disbursing Agreement pursuant to which First USA Title disbursed funds from the Local’s construction loan.

on the Local's loan. (Ex. 10 at 42-44) The Local produced copies of four of the eight signed applications for certificate of payments which the general contractor, Stone, and the architectural firm, Pope, approved. (Ex. 1023, 1024) The draws on the construction loan were based upon these applications for payment.

According to a June 14, 2012 Local letter to the Chief Investigator which Slawson, Sr. swore to the truth of under oath, "Teamsters Local 120 did not approve the draws, nor was it involved in the process." (Ex. 420 at 7) If true, this claim was contrary to the Disbursing Agreement the Building Holding Company entered into and contrary to Slawson Sr.'s fiduciary duty to ensure that the Local's money was used properly. It was consistent with Lyle Slawson's testimony that the whole matter was handled outside the Local. (Ex. 10 at 43-44) Lyle knew of no one at the Local who was responsible for tracking the money the Local borrowed and how it was spent. (Ex. 10 at 44) Obviously, outside of his family members, Slawson, Sr. did not want in the Local's possession other records of what was happening or any information known within the Local about the project costs.

According to the June 14, 2012 letter from Local 120 which Slawson, Sr. swore to, "... Teamsters Local no. 120 does not know how Pope Architects got paid, except that Pope had \$66,914.19 in invoices related to the construction of the project and Teamsters Local 120 only paid Pope Architects' invoices totaling \$13,954.30." (Ex. 420 at 7) According to records subpoenaed from American Pride Title, on February 4, 2008, American Pride Title, LLC issued a check in the amount of \$53,334.89 to Pope Associates, the architectural firm for the construction of the Teamster building. (Ex. 1093)

As of approximately May 2008, First USA Title, instead of American Pride, began to receive draws on the Local 120 construction loan from Bank Mutual and then disbursed the



draws to Stone. (Exs. 1016, 1092) Slawson, Jr. and Lyle Slawson did not know of First USA Title. (Ex. 2 at 58; Ex. 10 at 32; Ex. 1 at 103)

**14. Payments Totaling \$90,000 from Stone to Todd Chester and Associates**

As noted above, Chester was a close friend of the Slawsons and the father of one of Slawson, Sr.'s grandchildren. (Ex. 1 at 188) He was the owner of Todd Chester and Associates, a real estate company. (Ex. 1127; Ex. 1 at 190) Stone issued both a \$15,000 check to Todd Chester and Associates on February 28, 2008 and a \$75,000 check on June 12, 2008. (Ex. 1005) The check stubs for these two checks included Stone's job number for the Teamster project, 07-067. (Ex. 1005)<sup>68</sup> In a Job Cost Report that Stone produced in response to a subpoena, the \$90,000 total payment to Chester was included under the heading "Realtor Fee." (Ex. 1094)<sup>69</sup> The amount of the payment to Chester should have been included on the "Application and Certification for Payment" forms a Stone representative signed under oath and which were submitted to Bank Mutual. (Ex. 1025) No such payment was included on these forms submitted to the bank. (Ex. 1025) It was buried in some other cost.

In response to a subpoena requiring all documents regarding the reason for the payment of \$90,000 to Chester, Stone did not produce any records supporting the payments to Todd Chester and Associates. (Exs. 1095, 1097)<sup>70</sup> In a June 4, 2012 letter, Stone's counsel wrote,

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<sup>68</sup> The first Stone check to Chester was deposited the same day it was issued and the other check was deposited the day after it was issued. (Ex. 1098)

<sup>69</sup> The payments Stone made to Staubach were also included under the "Realtor Fee" heading. (Ex. 1094)

<sup>70</sup> The subpoena to Stone required the production of the following documents, among others:

10. Any and all documents reflecting any and all agreements with Todd Chester and Associates, Todd Chester or any other entity or individual associated with Todd Chester, including but not limited to, all documents regarding money paid to Todd Chester and Associates, including any finder's fee.

After further conversation with my client, they were unable to locate any further communication regarding payments to Todd Chester and Associates. However, as we discussed, the payments represent the finders [sic] fee that was paid to Todd Chester and Associates. The finders [sic] fee represents 3% of the total project cost. The payment to Todd Chester and Associates with regard to the International Brotherhood of Teamsters project was made in two payments. The first payment of \$15,000 was made near the initiation of the project and the second payment of \$75,000 was made near the projects [sic] completion.

(Ex. 1096)<sup>71</sup> Under the contract with the Local, Stone's fee for being the general contractor for the project was \$135,282. (Ex. 1001 at 3) There was no contract produced between Chester and Stone. (Exs. 1009, 1096)<sup>72</sup>

In response to a subpoena requiring the production of "[a]ny and all records regarding any and all services provided in connection with Local 120 Building Holding Company's purchase of land and construction of a building in Blaine, Minnesota including but not limited to any and all contracts, agreements, reports, correspondence and emails", other than the two check stubs, Chester did not provide any documents regarding the \$90,000 Stone paid him in

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(continued...)

11. Any and all documents related to any reason for the payment of \$90,000 to Todd Chester and Associates.

(Ex. 1095)

<sup>71</sup> Three percent of the total project cost, \$3,185,429, would have been \$95,562, slightly more than the \$90,000 Chester was paid. It seems odd that Chester would be paid a percentage of total costs while Stone was paid a fixed fee. If Stone performed honestly, there was no economic relationship under the contract between costs and profit to Stone. Stone when it used Chester as a finder did not even know what that total costs would be. (Ex. 1001) The higher the costs the more it would pay Chester with no benefit to Stone. Even if Stone had paid a ridiculously high finder's fee of 50% of Stone's fee, Chester would not have gotten \$90,000.

<sup>72</sup> In contrast to the complete lack of documentation for Stone's payments to Chester on the Teamster project, Chester had received a payment of \$15,400 from Stone on September 18, 2006 for another project unrelated to the Teamsters. (Ex. 1126) For that payment, there was an email invoice from Chester to Paul Stone at Stone Construction which stated, "Regarding the commission due on the construction of building for Mike Stewart. As was negotiated, the commission due to Todd Chester and Associates for the amount of \$15,400. This is for the representation for the building for Mike Stewart, also known as American Tool and Grinding." (Ex. 1126)

connection with the Local 120 project. (Exs. 1099, 1009) Chester provided a written statement dated August 30, 2012 in which he asserted:

I did not have any dealing with the purchase of any land for the local 120 project. I did not have any dealings with the construction of the local 120 new building. My involvement was to introduce stone conduction [sic] to the principles [sic] of local 120 for the purpose of stone putting a bid to build the local 120 building. I do not have any emails with stone all of our conversations were in person or by phone. . . . I have never needed or have had a written contract with stone for any project that I have been involved with stone construction.

(Ex. 1009)

As noted, there was no written agreement between Stone and Chester to support his receiving \$90,000. (Exs. 1009, 1096) Slawson, Sr. testified that at the time the Local hired Stone he assumed that Chester would get paid a finder's fee. (Ex. 1 at 132) Slawson, Sr. claimed that he did not think that it would be a cost to the Local. (Ex. 1 at 132) Although he had the ability under the contract to do so, he never checked costs to the Local. (Ex. 1001; Ex. 1 at 116-119) Slawson, Sr. claimed that he only learned Chester received \$90,000 during the IRB investigation and was surprised at the amount. (Ex. 1 at 192-193) Slawson, Sr. claimed he did not remember disclosing to the Local's Executive Board that Chester introduced Stone to the Local. (Ex. 1 at 133)<sup>73</sup> He further testified that he did not have any conversations with anyone at the Local about compensation for Chester. (Ex. 1 at 133)

Miller, who at the time was Vice President of the Local and a Director of the Building Holding Company, did not know of any payments to Chester in connection with the Teamster building. (Ex. 4 at 31) Miller recalled that around the time the new building was almost completed,

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<sup>73</sup> There is no mention of Chester in either the minutes for the July 27, 2007 telephone poll or the August 17<sup>th</sup> meeting confirming the poll. (Exs. 1012, 221)

. . . Brad Slawson, Sr. and I were walking through the building, and he mentioned to me, he goes, you know, “Todd has got to get some money for this.” And my reaction was “Absolutely not. You have told everyone he would get nothing and if, in fact, you did do that, it would be a” -- I can’t remember if I said it would be a “revolt” or a “mutiny by everyone that’s here.”

And he said, “Well, just keep it to yourself. Okay fine, we won’t,” or something to that effect.

(Ex. 4 at 31-32)<sup>74</sup> Miller did not know why Stone would pay Todd Chester and Associates \$90,000. (Ex. 4 at 32-33)<sup>75</sup> Miller knew Chester had a connection with Stone. (Ex. 4 at 22-23) Rademacher, who was a Local 120 business agent at the time and attended Executive Board meetings as part of his duties, did not know that Chester had received \$90,000 from Stone Construction. (Ex. 5 at 34) According to Rademacher, Slawson, Sr. stated that Chester “. . . found the land for the building but he wasn’t going to be compensated.” (Ex. 5 at 34-35) A former business agent Thomas Ohlson testified that the Executive Board was never told of a connection between Chester and Stone. (Ex. 11 at 72)<sup>76</sup> Ohlson recalled that Slawson Sr. and Jr. stated that Chester had helped find the land in Blaine. (Ex. 11 at 71-72) Ohlson further testified that there was no discussion that Chester would receive a fee from the Local. (Ex. 11 at 72) There was no indication in any Local records that Chester had any involvement with any matter connected with the construction of the Local’s new building. (Ex. 100-291)<sup>77</sup> As a fiduciary, Slawson, Sr. should have disclosed it.

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<sup>74</sup> The building would have been almost completed at the time Chester received the \$75,000 on June 12, 2008 from Stone. (Exs. 1005; Ex. 12 at 3; Ex. 1025) This was his second payment. (Ex. 1005)

<sup>75</sup> Slawson, Sr. claimed that he did not tell anyone that Chester should get money from the project. (Ex. 1. at 133)

<sup>76</sup> Business agents attended Executive Board meetings. (Exs. 177-291)

<sup>77</sup> When asked whether he thought Chester would get a fee, Slawson, Jr. testified, “It really wasn’t something that crossed my mind because Todd was only there, I think, one Executive Board meeting and wasn’t part of the project.” (Ex. 2 at 37-38)

**15. The Local Failed to Exercise its Rights Under the Stone Contract to Monitor the Actual Cost of the Project**

As discussed above, the contract with Stone, which was based upon the actual cost of the project plus a fixed fee to Stone, gave the Local the authority to monitor Stone's payments for costs both during the project and for three years after the project was completed. (Ex. 1001 at 7, 8) The Local paid the maximum price under the contract, which included a builder's contingency, plus the costs of two change orders. (Exs. 1001, 1002, 1086, 1003, 1004) Slawson, Sr., the Local's principal officer, failed to exercise his fiduciary duty to monitor the costs to the Local. He did not have accountants for the Local review Stone's actual expenses as the contract allowed the Local to do. (Ex. 1 at 116-122) This failure was either gross incompetence or corrupt. The evidence suggests the later.

An audit was necessary to determine how Stone spent the entire \$3,185,429 in Local 120's money Stone received. As Slawson, Sr. testified when referring to an alleged \$200,000 difference between the Stone and Ryan proposals, ". . . That's a lot of money to us." (Ex. 1 at 137) The Stone contract involved millions. Yet he took no steps to review how Stone had spent \$3,185,429 of the Local's money.

Besides claiming costs were not relevant because it was a fixed price, during his IRB sworn examination, Slawson, Sr. claimed that Staubach and Pope, the architect, were monitoring Stone's actual expenses. (Ex. 1 at 106, 110-111, 119) Indeed, although Slawson, Sr. claimed that Pope was responsible for monitoring the actual costs of the project (Ex. 1 at 114, 118-119), this was contrary to the contract between Pope and the Local which provided that, "The issuance of a Certificate for Payment shall not be a representation that the Architect has . . . ascertained how or for what purpose the Contractor has used money previously paid on account of the Contract Sum." (Ex. 1030 at 4-5) Moreover, the Stone contract explicitly stated that the architect

was entitled to rely on the accuracy of the information the contractor supplied. (Ex. 1001 at 8) The contract provided that by taking action on Stone's applications for payments, the architect was not representing that they did an audit of Stone's documentation. (Ex. 1001 at 8) Indeed, Article 12.1.9 of the Stone contract specifically provides that, "Such examinations, audits and verifications, if required by the Owner, will be performed by the Owner's accountants acting in the sole interest of the Owner." (Ex. 1001 at 8) Indeed, Lyle Slawson acknowledged that a Pope representative explained this to him in telephone conversations after the IRB investigation began. (Ex. 10 at 37-39)

With respect to Slawson, Sr.'s claim that Staubach was monitoring Stone's costs, Staubach's memorandum of understanding did not provide that monitoring costs was one of the services it was to supply. (Ex. 1029) Staubach's fee was 5% of the total cost of the building project. (Ex. 1029) It was the only contractor whose fees increased as costs increased. Given that, it would have been foolish for the Local's principal officer to rely on Staubach to be the monitor of Stone's actual costs since higher costs would benefit Staubach.

During his IRB sworn examination, Slawson, Sr. also claimed that Legacy Professionals ("Legacy"), the Local's certified public accounting firm, did work relating to the contractor's costs. (Ex. 1 at 125-126) Subsequent to Slawson, Sr.'s IRB sworn examination, the Local was asked to produce, "Any and all documents related to the work Brad Slawson, Sr. testified on September 25, 2012 that Legacy Professionals had done in connection with the building, including anything related to the auditing of costs. Any bills from Legacy for this work should be included." (Ex. 442) In response, by letter dated October 11, 2012, the Local produced minutes of a Special Executive Board meeting dated August 22, 2012 which stated:

Brad [Sr.] reported on the IRB findings of a \$176,000 shortfall relating to the construction of the office building in Blaine, MN. Brad is ordering for a thorough

audit to be done on all expenditures regarding the construction of the office building. . . .

A motion was made and seconded to hire Legacy Professionals, at a cost of \$150.00 per hour, to perform an audit on the expenses and exchanges of checks relating to the construction of the office building in Blaine, MN. Motion Carried.

(Exs. 443, 1100)<sup>78</sup> The Local produced documents dated October 9, 2012 from Legacy which summarized the construction draws and interest and showed amounts which totaled \$3,678,466, the total amount of the Bank Mutual construction loan, a fact never in question. (Ex. 1085) Legacy also provided a “Schedule of payments from draws and down payment amounts” which showed where the money was paid, including \$3,185,429 paid to Stone. (Ex. 1085) Legacy did not analyze any records showing how Stone spent the Local’s money, which was the issue referred to in the IRB’s subpoena application. (Exs. 1085, 1101) Legacy’s analysis was dated October 9, 2012, after Slawson, Sr.’s September 25, 2012 IRB sworn examination. (Exs. 1085; Ex. 1) Legacy was merely hired to assist Slawson, Sr. and the Local in making a presentation to the IRB. The accountants had never been employed on the project to protect the members’ money.

Indeed, Lyle Slawson, who during the project kept all the Local’s records relating to it and dealt with all the Local’s professionals on the project weekly, testified he knew of no one at the Local who was watching over the Local’s money. (Ex. 10 at 19, 30-34, 43-44, 54-56) He also testified during the course of the project Legacy never contacted him asking for information. (Ex. 10 at 55)

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<sup>78</sup> It appears that the “\$176,000.00 shortfall” Slawson, Sr. referenced as an IRB finding was a statement in an IRB subpoena application dated August 17, 2012 for, among other things, records from Stone. (Ex. 1101) The subpoena application contained at statement that, “. . . at least \$179,737.35 of the Local 120 construction loan money Stone received, which totaled \$3,185,429, was unaccounted for based upon the records Stone has produced to date.” (Ex. 1101) As noted below, \$267,158.57 was unaccounted for in Stone’s check register. (Exs. 1002, 1008)

Slawson, Sr. also testified that real estate attorneys who represented the Local were monitoring Stone's costs. (Ex. 1 at 111-112) There were no documents which supported this claim. The contract itself recognized it was an accountant's task. (Ex. 1001 at 7-8)

Stone's check register listed checks totaling \$2,918,720.43 for the Teamster project. (Ex. 1008)<sup>79</sup> Stone received \$3,185,429 from Bank Mutual for the project. (Ex. 1002) Accordingly, based upon the check register Stone produced there was \$267,158.57 unaccounted for in Stone's check register. (Ex. 1002, 1008) In a September 6, 2012 letter to the Chief Investigator, Stone contended that Stone's profit was \$129,977.75 and claimed there were estimated additional expenses which were "... paid in-house through payroll and overhead expenses or items Stone Construction has in stock at its office which are used for job site and would not be listed separately on our estimates or draw forms." (Ex. 1065)<sup>80</sup> In its letter, Stone listed various estimated additional costs, such as "forklift usage on site for (6) months", which totaled \$249,538. (Ex. 1065) No documents were produced supporting this figure. (Ex. 1065) Pursuant to the Stone contract with the Local, certain expenses were specifically excluded from the "Cost of the Work" such as "Overhead and general expenses, except as may be expressly included in Article 7." (Ex. 1001 at 6)<sup>81</sup> The Stone contract also expressly excluded from the "Cost of the Work," "Rental costs of machinery and equipment, except as specifically provided in Section 7.5.2." (Ex. 1001 at 6)<sup>82</sup> An audit was necessary to insure Stone was not attributing improper overhead costs to the Local's contract costs.

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<sup>79</sup> This check register included the two checks to Chester totaling \$90,000. (Ex.1008)

<sup>80</sup> In Stone's September 6, 2012 letter, it referenced a \$179,737.35 figure which had been mentioned in the IRB's subpoena application as possible unaccounted for Local funds at Stone. (Exs. 1065, 1101)

<sup>81</sup> Article 7 of the Stone contract specified "Costs to be Reimbursed". (Ex. 1001 at 4-6)

<sup>82</sup> Section 7.5.2 provided:



**a. Other Diversions of Money Due the Local**

The City of Blaine required a financial guarantee for the site improvement performance. (Ex. 1021) In connection with this financial guarantee, the Local through the construction loan gave \$26,961 to Stone to put into an escrow account to be returned upon the city's approval of the improvements. (Exs. 1013, 1008, 1021) This amount was reflected on the cost sheet which described how the \$3,091,514 figure was calculated. (Ex. 1086) On November 21, 2007, Stone issued a check for this amount to the City of Blaine. (Ex. 1021) According to an email from a Staubach representative to Slawson, Sr. in September 2007, the Local could have escrowed the money itself and, thus, have had the money directly returned to it. (Ex. 1014) Instead, Slawson, Sr. had the money run through Stone for it to forward the Local's money to the City of Blaine for the escrow. (Ex. 1014; Ex. 10 at 55-57; Ex. 1021) He put an unnecessary intermediary between the Local and its money. The City of Blaine returned the \$26,961 to Stone by check dated November 7, 2008. (Ex. 1013) This was not a cost of the project. Stone never returned the money to the Local. (Ex. 1008) The Slawsons made no attempt to collect this money. (Ex. 10

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(continued...)

Rental charges for temporary facilities, machinery, equipment, and hand tools not customarily owned by construction workers that are provided by the Contractor at the site, whether rented from the Contractor or others, and costs of transportation, installation, minor repairs and replacements, dismantling and removal thereof. Rates and quantities of equipment rented shall be subject to the Owner's prior approval.

(Ex. 1001 at 5)

In addition to the amounts described in its letter to the Chief Investigator's office, Stone's check register and supporting documents also referenced equipment rental. (Exs. 1008; 1102) For example, on April 21, 2008 Stone paid \$7,140.36 to Morgan Chase Homes, which was a residential home builder. (Exs. 1008, 1102, 1103) According to Stone's records, this amount was paid for the rental of a Thawzall machine for nine days. (Ex. 1102) It is unclear whether, even if used on the project and not somewhere else, the cost of such equipment rental was proper under Article 7.5.2 of the Stone contract. (Ex. 1001 at 5) Moreover, even if it was proper, it appears that under Article 7.5.2 of the Stone contract, the Local was required to give prior approval for that type of cost. (Ex. 1001 at 5) There was no indication in the records of prior Local approval, suggesting it was a cost Stone was hiding. None of the Slawsons had heard of Morgan Chase Homes. (Ex. 1. at 104; Ex. 2 at 59; Ex. 10 at 62)

at 55-57)<sup>83</sup> If Slawson, Sr. had not put an unnecessary step in the escrow process, the money would have been returned directly to the Local. Had Slawson, Sr. directed that an audit be conducted of Stone's records, it would have been determined that the Local was owed this amount.

Stone appears to have failed to pay other money owed the Local. Pursuant to the contract with the Local, Stone's fee was \$135,282. (Ex. 1001 at 3) Based upon an issue regarding soil grading with the Local's land, in approximately February 2008, it appears that Stone agreed to reduce its fee by \$10,000, making its fee \$125,282. (Exs. 1065, 1104; Ex. 10 at 58-59)<sup>84</sup> According to a September 6, 2012 letter from Stone to the Chief Investigator, Stone stated that its total profit was \$129,977.75. (Ex.1065)<sup>85</sup> Stone's letter claiming its fee was actually reduced appears to contradict the final payment application Stone submitted to Bank Mutual. (Ex. 1006) In that payment application which a Stone representative signed on October 28, 2008, Stone stated that it had received its fee of \$135,282. (Ex.1006) Stone did not issue checks to itself for its fees. (Ex. 1008) Lyle Slawson could not indicate any document that showed the Local received the \$10,000. (Ex. 10 at 58-59)

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<sup>83</sup> During his sworn examination Lyle Slawson was asked about a performance bond estimated on Stone's November 7, 2007 cost estimate to be \$25,664. (Ex. 10 at 56; Ex. 1017) The actual cost of the financial guarantee required by the City of Blaine was an escrow payment of \$26,961 and a performance bond. (Exs. 1014, 1021)

<sup>84</sup> Because of the same soil issue, Staubach agreed that its fee would be reduced by \$23,977.50. (Ex. 1105) According to Stone's records, Staubach received two checks totaling \$122,081 for the Teamster project. (Ex. 1034) This was the reduced fee.

<sup>85</sup> According to the September 6, 2012 letter from Stone, in addition to the \$125,282 fee, Stone also received a fee \$4,695.75 which represented 5% of two change orders which totaled \$93,915. (Ex. 1065)

**16. Local 120 Strike Fund Money was Improperly Used to Pay for the Construction of the Local's Building**

On the instructions of Slawson, Sr. and Slawson, Jr., on July 7, 2008, \$410,000 was wired from the Local's general fund to Bank Mutual. (Ex. 1027; Ex. 2 at 54-55)<sup>86</sup> As described below, in violation of the Local's then Bylaws, \$189,130.87 in Local strike fund money was improperly deposited into the Local's general fund and was part of the \$410,000 wire transfer. (Ex. 1028)<sup>87</sup>

As noted, there was no Executive Board or membership approval for the \$410,000 payment. (Exs.136-144, 226-239)<sup>88</sup> The Local did not even have the account information and had to get it from Gilbert. (Ex. 1027) According to the Local, this was part of the \$750,000 down payment for the land purchase and building construction. (Ex. 1028; 1058) According to records subpoenaed from Bank Mutual, the \$410,000 paid to Bank Mutual was deposited into an "LIP account", a loan in process account. (Ex. 1058) According to Bank Mutual records, on August 5, 2008, Bank Mutual sent the \$410,000 to First USA Title along with additional funds from the loan to cover two draws on the construction loan. (Exs. 1111, 1112)<sup>89</sup> First USA Title was a company whom Slawson, Jr. and Lyle Slawson denied knowing about at the time of the

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<sup>86</sup> The \$410,000 was comprised of \$119,130 from a strike fund account at Smith Barney; \$90,890 from a certificate of deposit at Central Bank (Exs. 1106, 1028); \$23,000 from the Teamster Credit Union; \$106,991 from a certificate of deposit at Wells Fargo and \$70,000 from a strike fund checking account. (Exs. 1028, 1106-1110) With the exception of the \$70,000 which was deposited into the Local's general fund on July 2, 2008, each of the above amounts were deposited into the Local's general fund on July 3, 2008. (Ex. 1110) On July 3, 2008, the Slawsons authorized wire transfer instructions to the bank asking that the \$410,000 be wired on July 7, 2008. (Ex. 1027)

<sup>87</sup> Slawson, Jr. testified that he made no attempt to verify where the \$410,000 was coming from. (Ex. 2 at 58)

<sup>88</sup> Slawson, Jr. testified that he assumed that this payment was discussed with the Executive Board. (Ex. 2. at 55) It was not. (Exs. 226-239)

<sup>89</sup> There were two draws on August 5, 2008. (Ex. 1112) The first draw on that date from the construction loan was \$242,169.77 at which point the draws had reached the maximum amount of the first loan, \$3,382,966. (Ex. 1112) The second draw on August 5, 2008 was for \$261,937.69 which was part of the increased loan discussed below. (Ex. 1112)

transfer. (Ex. 2 at 58; Ex. 10 at 32) The total amount sent to First USA Title was \$914,107.46. (Exs. 1111, 1112) On August 6, 2008, First USA Title sent a check for that amount to Stone. (Ex. 1092)

As of June 30, 2008, the Local had \$216,927.05 in its strike fund accounts. (Ex. 316) On July 2, 2008, \$70,000 was transferred from the Local's strike fund to the Local's general fund. (Ex. 1108) On July 2, 2008, Slawson, Sr. authorized all money from the Local's strike fund account at Smith Barney to be wired into the Local's general fund. (Ex. 1109) On July 3, 2008, \$119,130.87 was transferred from that Smith Barney account to the Local's general fund. (Ex. 1107) In a letter dated October 11, 2012 after his sworn examination, Slawson, Sr. acknowledged that this strike fund money totaling \$189,130.87 was part of the \$410,000 wired to Bank Mutual. (Ex. 1028) After the July 7, 2008 \$410,000 wire transfer, the balance in the Local's general fund was negative \$42,786.59. (Ex. 1110) The use of strike fund money for the building construction violated Section 33(B) of the Local's then Bylaws which required that strike fund money ". . . shall be used exclusively for the payment of strike benefits and strike expenses as the Local Union Executive Board shall determine. . . ." (Ex. 300 at 42)

During his sworn examination, Slawson, Sr. claimed that any strike fund monies that were used for something other than strike related expenses were immediately replenished. (Ex. 1 at 179-180) By letter dated October 11, 2012, Slawson, Sr. claimed that the strike fund money used as part of the \$410,000 was replenished because, apparently solely in his mind, he designated other general fund money as strike fund money. (Ex. 1028) In this letter, Slawson, Sr. claimed that four accounts were "set aside for the strike fund". (Ex. 1028) There were no documents supporting his claim. According to the letter, "as Secretary-Treasurer and Principal Officer of Local 120, Brad Slawson, Sr., has personally monitored and maintained the existence

of the above-described accounts and CDs, and their respective balances, as being set aside for the strike fund.” (Ex. 1028) As discussed below at 129-132, the four accounts Slawson, Sr. claimed were “set aside for the strike fund” continued to be described in Local records as general fund money.

**17. No Requisite Approval for the July 31, 2008 Amendment Increasing the Construction Loan and Mortgage Note by \$295,500**

On or about July 31, 2008, the Building Holding Company received approval from Bank Mutual of an added \$295,000 to the maximum amount of the construction loan that the Local sought from the Bank. (Ex. 1113)<sup>90</sup> As described below, Slawson, Sr. signed the documents necessary for this additional loan on behalf of the Building Holding Company, including the amended mortgage note and amended construction loan. (Exs. 1113-1116) There was no approval by the Local’s Executive Board to borrow this additional \$295,500. (Exs. 226-239, 1083; Ex. 4 at 30-31) Furthermore, on behalf of the Local, Slawson, Sr. without Executive Board approval, signed an “Amendment to Guaranty” dated July 31, 2008 pursuant to which the November 9, 2007 Guaranty was amended to increase the principal balance to \$3,678,466, an increase of \$295,500. (Exs. 1116, 226-239) In addition, as discussed below, without Executive Board approval, as additional collateral for the loan, Slawson, Sr. granted Bank Mutual a “first lien security interest” in two Local 120 accounts which totaled \$122,718.41. (Exs. 1114, 1117, 1118)

In fact it is doubtful that there was ever approval from the Board of the Building Holding Company. Moreover, it appears that Slawson, Sr. submitted a false document to Bank Mutual in support of this additional loan. (Ex. 1119) Slawson, Sr. signed a July 31, 2008 “President’s

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<sup>90</sup> This was done less than two months after Stone paid Todd Chester and Associates \$75,000 on June 12, 2008. (Ex. 1005)

Certificate Concerning Action of the Board of Directors Taken in Writing in Lieu of Meeting Teamster Local 120 Building Holding Company.” (Ex. 1119) This document was submitted to Bank Mutual in support of the additional loan. (Ex. 1119) According to Slawson, Sr., John Hughes, an attorney who represented the Local, prepared this President’s Certificate. (Ex. 1 at 171-175) This document stated the following:

The undersigned DOES HEREBY CERTIFY that:

I am the duly elected and acting President of TEAMSTERS LOCAL 120 BUILDING HOLDING COMPANY, a Minnesota non-profit corporation (the “Company”); and

The below resolutions were adopted by a duly authorized written action of the Board of Directors, effective as of July 1, 2008.

“The undersigned, constituting the entire Board of Directors of TEAMSTERS LOCAL 120 BUILDING HOLDING COMPANY, a Minnesota non-profit corporation (the “Company”), acting pursuant to Minnesota Statutes and the Company’s Bylaws, hereby adopts, in writing, the following resolutions, effective as of July 31, 2008.

WHEREAS, the Board of Directors of the Company have all the requisite authority to manage the affairs and assets of the Company and to direct and appoint its officers or managers to manage the affairs and assets of the Company;

\* \* \*

WHEREAS, the Board of Directors of the Company have determined that it is in the best interests of the Company to increase the amount Loan by \$295,500 to finance the completion of the project and to sign and deliver to Lender all such amendment, security and other documents (“Amendment Documents”) required in connection with increasing the amount of the Loan to \$3,678,466 and amending the Loan Documents; it is therefore

RESOLVED, that the Company shall agrees [sic] to increase the Loan to \$3,678,466 and to execute and deliver to Lender the Amendment Documents; and

FURTHER RESOLVED, that any officer of the Company, including, but not limited to, Brad Slawson, Sr., is authorized and directed to execute and deliver the Amendment Documents and any and all documents required by Lender, its counsel or its title insurer; . . .

(Ex. 1119) Slawson, Sr. claimed the other directors were given a copy of this resolution and agreed to it. (Ex. 1 at 174)

Contrary to this “President’s Certificate” Slawson, Sr. signed on July 31, 2008, it appears there was no Building Holding Company approval to increase the loan by \$295,500. (Ex. 1083; our request/their response; Ex. 4 at 29-31) The Local and Building Holding Company did not produce any records or any other writing setting forth any resolution by the Building Holding Company to increase the loan by \$295,000 or agreement by its members to do that. (Exs. 419, 1083) There was no document of any kind given to the IRB despite requests as to how the four directors of the Building Holding Company registered their vote for this action. (Ex. 1083)

Article IX of the Articles of Incorporation of the Building Holding Company provided:

Any action required or permitted to be taken at a meeting of the Board of Directors may be taken by written notice signed by the number of directors required to take the same action at a meeting of the Board of Directors at which all directors were present. When written action is taken by less than all directors, all directors as provided in this Article must be notified immediately of the text and effective date. Failure to provide such notice does not invalidate the written action.

(Ex. 1049 at 3) No such document was produced. (Ex. 1083)

Miller, who was the Secretary-Treasurer of the Building Holding Company and the Local’s Vice President at the time, did not know of the \$295,500 increase in the construction loan. (Ex. 4 at 29-31; Ex. 1050) He never agreed to it. (Ex. 4 at 29-31) Slawson, Jr., another member of the Building Holding Company Board, testified that he did not recall this increase in the construction loan. (Ex. 2 at 42-44)

Pursuant to the Amendment to Construction Loan Agreement that Slawson, Sr. signed without any authority to do so, the Building Holding Company “grants to Lender [Bank Mutual] a first lien security interest in, and assigns to Lender the entirety of its rights in (until the Loan is repaid in full)” a certificate of deposit with a balance of \$66,197.09 and a “term share account”

with a balance of \$56,521.32. (Ex. 1114) As noted below, these were two of the accounts, Slawson, Sr. claimed he “set aside” apparently unknown to anyone else including the bank, as strike fund accounts after money had been taken from the strike fund to pay the \$410,000 to Bank Mutual in early July. (Exs. 1028, 1114) They were also Local assets as to which the Building Holding Company Board would not have had the authority to grant liens against.

## **18. Analysis**

Pursuant to 29 U.S.C. §501(a), Slawson, Sr. and Slawson, Jr. were fiduciaries with respect to the Local’s funds.

The officers, agents, shop steward, and other representatives of a labor organization occupy positions of trust in relation to such organization and its members as a group. It is, therefore, the duty of each such person, taking into account the special problems and functions of a labor organization to hold its money and property solely for the benefit of the organization and its members and to manage, invest, and expend the same in accordance with its constitution and bylaws and any resolutions of the governing body adopted thereunder. . .

In the Carey case, the IRB held that the information Carey had about large political expenditures the IBT made were “sufficient to impose on Carey a fiduciary duty to inquire further about any relation or tie between Carey’s own campaign fundraising and the IBT’s payment to an advocacy group like Citizen Action. The circumstances involving the IBT at the time mandated that Carey inquire into the purposes of the contributions.” (Ex. 1120 at 23) Here, given the amounts of money involved, the type of contract the Local signed, the contractor claiming the job cost the maximum guaranteed price and Slawson, Sr.’s knowledge of Chester probably receiving a fee, in doing nothing to monitor the costs the Local was paying Stone, Slawson, Sr. breached his fiduciary duty to ensure the Local’s money was used properly. His use of experts of all types except accountants, is telling. He knowingly breached his fiduciary duty.



**C. The Local's Bar and Gaming Operations in Fargo, North Dakota Were Not Run in Accordance with the Bylaws or in the Interests of the Members**

**1. Background**

Teamster Local 120 operated and continues to operate a Bar and Gaming facility, "The Teamster Club," that is open to the public in Fargo, North Dakota. (Ex. 2000) Teamster Local 116 previously operated the Bar and Gaming operations. (Ex. 327) In March of 2007, Local 116 merged into Local 120. (Ex. 332) At that time, Local 120 assumed the ownership and control over the operations of the Bar and Gaming operations. (Ex. 328 at 52; Ex. 2000)

The gaming operation was licensed for charitable gaming under the name, "Teamsters" in North Dakota. (Ex. 2002) The Bar's alcohol license was also under that name. (Exs. 2002, 2133) The Bar is a for profit business. (Ex. 2001) The federal tax Forms 990 were filed for "Teamsters" at the Bar and Gaming operation address as a corporation and an organization exempted from income tax. (Exs. 2001, 2002) There also were Forms 990-T filed for unrelated taxable income earned by an exempt organization. (Ex. 2001) The information on that return contained information for the for profit Bar, without Gaming information included. (Ex.2001) The "Teamsters" was incorporated in North Dakota. (Ex. 2002) It had Articles of Incorporation that were restated in 2007 along with the certificate of incorporation when Local 120 absorbed Local 116. (Ex. 2 at 65; Ex. 2002)

The Bar and Gaming operations were part of the Local. On the Form LM-2s, the Local described the Bar and Gaming operation as a subsidiary. (Exs. 304, 322) The Bar and Gaming operations' financial performances were included in the accountant's consolidated financial statements for the Local and reflected on the Forms LM-2. (Exs. 304, 322, 2000) The Bar and Gaming employees were listed on the Form LM-2 as Local employees. (Exs. 304, 322-323, 328,

330) The Bar and Gaming operations were Local owned and should have been under the Local's control.

Both the Bar and Gaming operations operated out of a section of the Local owned building in Fargo, N.D. (Exs. 304, 322-323, 320, 328, 330) The Local 120 Fargo office was also in the building. (Exs. 304, 322-323, 328, 330) Historically, there has been a bar manager and bar employees. (Exs. 304, 322-323, 328, 330, 2003) There were separate Gaming employees. (Exs. 304, 322-323, 328, 330) All were non-union. (Ex. 13 at 15-17; Ex. 17 at 4-6; Ex. 15 at 5-8; Ex. 2 at 59-60; Ex. 16 at 6-8) They received no health insurance. (Ex. 1 at 207)<sup>91</sup> Full-time employees no matter how long employed received one week vacation after one year of employment. (Ex. 2004; Ex. 17 at 5; Ex. 15 at 5) That was the only benefit besides wages. (Ex. 2004; Ex. 15 at 5; Ex. 16 at 6-8)<sup>92</sup> At Bar and Gaming Board meetings, the question of having the Local's Bar employees receive benefits such as health insurance was discussed on occasion at which the Slawsons explained the employees' compensation needed to remain low so that the Bar eventually could show a profit. (Ex. 14 at 9-10; Ex. 13 at 16) The Slawsons also misled some of the non-union Local employees by telling them if they performed well for several months, they would get a health insurance benefit. (Ex. 15 at 8; Ex. 16 at 7-8) When the time came, they would lengthen the time before the promised benefit could be received. (Ex. 15 at 8; Ex. 16 at 7-8) The promises to these non-union employees were not kept. (Ex. 15 at 8; Ex. 16 at 7-8)

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<sup>91</sup> According to Slawson, Sr. there was one Bar and Gaming employee, a bookkeeper named "Delores" whose last name he could not recall, who received health insurance. (Ex. 1 at 208) He appears to have been referring to Doris Johnson who is on the Bar and Gaming Board. (Ex. 2125)

<sup>92</sup> One bartender, Denise Little, testified that she received sick days. (Ex. 17 at 5)

Slawson, Jr. testified that the Bar put the Teamsters in a better light in the community. (Ex. 2 at 95) For a Teamster Local to operate a bar called “The Teamster Club” using non-union labor who received no benefits to keep its costs down would appear to undercut that claim.

## **2. Local 116**

When Local 116, which was located in Fargo, controlled the Bar and Gaming operations, all the members of the Local Executive Board were also the members of the Bar and Gaming Board. (Ex.13 at 11-12)<sup>93</sup> It was the Local Executive Board that made decisions concerning the Bar. (Ex. 8 at 12-14; Ex. 7 at 9-12) The Bar and Gaming Board, which was comprised of the members of the Local Executive Board, made the decisions on donations from the Gaming funds (Ex. 8 at 26-30; Ex. 7 at 11-12; Ex. 13 at 12; Ex. 14 at 6-7) Local 116 Executive Board members received a monthly stipend for being on the Executive Board. (Ex. 14 at 7-8) This also covered Gaming Board duties. (Ex. 14 at 7; Ex. 7 at 14-16)

In contrast, the Local 120 Bar and Gaming Board has remained separate from the Local Executive Board and kept outside of its control. (Exs. 2080-2128; Ex. 1 at 201-203) The Executive Board of Local 120 did not create the Bar and Gaming Board. (Exs. 214-291) Nor did the Executive Board appoint any of its members during the years the Local controlled the Bar. (Exs. 214-291; Ex. 1 at 206) There were no Bylaws governing the operations of the Bar and Gaming Board. (Ex. 2 at 65; Ex. 2005) There were Articles of Incorporation restated in 2007, that provided limited guidance. (Ex. 2002; Ex. 2 at 65) Slawson, Sr., and not the Local Executive Board, appointed the members of the Bar and Gaming Board. (Ex. 1 at 202-203 Ex.

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<sup>93</sup> Under North Dakota law, the governing board of an organization eligible to conduct a charitable gaming operation is primarily responsible for the proper determination and use of net proceeds (as defined). N.D. C.C. § 53-06.1-06(3). The net proceeds are those to be used for charitable deductions after allowable expenses are deducted. The Local 120 Gaming operation has operated continuously at a loss since 2008. (Ex. 2000) This was partly because of the amounts allocated to Gaming operations for stipends paid to the Bar and Gaming Board members. (Ex. 2001, 2011, 2077)

13 at 13-14; Ex. 2008) He also removed them on his sole authority. (Ex. 13 at 13-14; Exs. 2099, 2100)

The size of the Bar and Gaming Board has varied during the years Local 120 owned the Bar and Gaming Operations. (Exs. 2080-2128; Ex 1 at 201) It was as high as nine and, currently, as low as four. (Exs. 2080-2128) Its major function under North Dakota law was to decide to what charities the money the Gaming operation generated for charitable contributions was donated. (Ex. 2131; NDCC § 53-06.1-06 (3) ) Currently, the Board consists of the two Slawsons and two non-IBT members who are at-will employees of the Bar and serve at the Slawsons' pleasure. (Ex. 2 at 10-11, 66) This Board is directing, without any Local Executive Board guidance, to what organizations the Local's charitable gaming operation generated funds are donated. (Exs. 2080-2128; 216-291) It also voted on spending the Local's money on Bar operations and on stipends for its own members. (Exs. 2080-2128; Ex. 2 at 82-87)

In the last five years, the Board has averaged 8.4 meetings annually. (Exs. 2080-2128) The length of the meetings averaged 59 minutes. (Ex. 2074, 2080-2128) Since 2007, most of the Bar and Gaming Board members have either been officers or business agents of Local 120 and therefore fiduciaries under federal labor law, 29 USC § 501(a). (Ex. 2080-2128) The Executive Board members and business agents who were on the Bar and Gaming Board received an additional stipend from Bar and Gaming revenues above their authorized Local salaries for serving on that Board. (Exs. 2001, 2009-2012)<sup>94</sup> The Local Executive Board did not approve those additional payments from Local funds to Local officers and employees as it was required to do. (Ex. 300 at 9-12, 14; Exs. 214-291) The Bar and Gaming Board members could not seize

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<sup>94</sup> Half of the stipend was allotted as an expense to the Bar and the other half to the Gaming operation as an expense. (Ex. 2001)

the Local money for themselves as they did. These payments to the Bar and Gaming Board members have increased over time, even as the losses from the operations increased. (Exs. 2001, 2009-2012) For example, in 2010, in the course of the year stipend for the President/Board Chairman was raised in July 2010 to \$1,400 monthly to then \$1,500 a month in September 2010. (Exs. 2107, 2106) The Bar and Gaming operations, according to the certified financial statements Legacy Professionals prepared, lost \$162,086 that year. (Ex. 2000) The stipends were never disclosed at a Local 120 general membership meeting. (Exs. 127-176) According to Local Executive Board minutes, these stipends were never discussed at a Local Executive Board meeting. (Exs. 214-291) The minutes of the Executive Board meetings would have been read to the members. (Ex. 1 at 26-27)

The restated Articles of Incorporation from March 2007 for the “Teamsters”, the corporation through which Local 120 operated the Bar and Gaming, and for which the Certificate of Incorporation was also restated on March 15, 2007, after the merger, provided in Article VI in pertinent part:

No part of the net earnings of the corporation shall inure to the benefit of, or be distributable to the members, trustees, officers, or other private persons, except that the corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purpose set forth in Article VI hereof.

(Ex. 2002) This provision in the restated Articles of Incorporation of a Local Union entity does not give Local officers and employees without either member or Executive Board approval, the power to divert Local assets to themselves. Indeed, the Local 120 Executive Board never approved these Articles of Incorporation. (Exs. 214-291) The Local Executive Board never authorized these individuals to control the Bar and Gaming operations which were Local property. (Exs. 214-291) These operations were a Local subsidiary the Local owned completely. The Local officers and business agents on the Bar and Gaming Board remained fiduciaries over

the Local's assets. They remained still obligated to follow the Local Bylaws which governed their compensation.

An example of how the Bar and Gaming Board members acted in their self-interest occurred in September of 2010 shortly after the retirement of Dean Cypher as the Bar and Gaming Board's President. Walz, who was a Local 120 business agent and former Local 116 officer, served on the Gaming Board under both Locals. (Ex. 13 at 11, 13-14) He received a call in his Fargo office from Slawson, Sr.. (Ex. 13 at 13-14) Present with Slawson, Sr., on the speaker phone were Slawson, Jr., and Rademacher, the Local's Recording Secretary. (Ex. 13 at 13-14) Slawson, Sr. told Walz to take notes. (Ex. 13 at 13-14) He told Walz that the Bar and Gaming Board President would be Slawson, Jr., at \$1,500 a month, Slawson, Sr. would be Vice President at \$1,300, a month, Rademacher, Recording Secretary at \$1,000 and Walz, a Trustee at \$1,000 a month. (Ex. 13 at 14)<sup>95</sup> The conversation ended. (Ex. 13 at 14) The minutes of the September 30, 2010 Bar and Gaming Board meeting reflected a Board meeting by telephone and these Board and compensation changes. (Ex. 2107)<sup>96</sup> In fact, in July the stipend for the President had been increased to \$1,400 a month. (Ex. 2106) The Bar and Gaming Board members, who, at best, were self-appointed, caused without any Local 120 Executive Board approval, additional Local funds to be diverted to themselves personally. In doing so, they did not take into account the economic conditions of the Local or the lack of profitability of the Bar and the Gaming operations. Indeed, Slawson, Sr. had testified that the Local was in bad economic condition in 2010 and 2011. (Ex. 22 at 37-41) As a consequence, he claimed he was

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<sup>95</sup> Only two months before in July, the President's stipend had been increased from \$1,000 a month to \$1,400. (Exs. 2107, 2106)

<sup>96</sup> The stipends were split with half from the Bar operations and half from the Gaming operations. (Ex. 2001)

cutting costs to the bone. (Ex. 22 at 37-41) The Bar and Gaming operations were losing money. (Ex. 2000)

Rademacher was a member of the Bar and Gaming Board since May 2009. (Ex. 2099) He testified that he did not see any financial records of the Bar and Gaming operations until 2011. (Ex. 5 at 15-16) According to Rademacher, in 2011, the bookkeeper gave him a copy of profit and loss information for the Bar and Gaming operations. (Ex. 5 at 16-17) Rademacher resigned from the Bar and Gaming Board in September 2011 because he did not think the Local should subsidize the Bar and Gaming operations, which were open to the public. (Ex. 5 at 17-18)

For the period from March 2007 through August 2012, Slawson Jr. received \$72,700 above his authorized salary and Slawson Sr. received \$68,100 above his salary from Bar and Gaming revenue. (Ex. 2001, 2017, 2012) From March 2007 through August 2012, the money diverted from revenues and paid to all Bar and Gaming Board members totaled \$335,832. (Exs. 2001, 2077) A schedule of the amounts the officers and business agents the Local employed received from the Bar and Gaming revenues is Exhibit 2011. The Local's members were never told about these stipends. (Exs. 127-176)

Slawson Sr., and Slawson, Jr. claimed a North Dakota lawyer, Dan Phillips, told them they could take the Bar and Gaming operation money for themselves. (Ex. 1. at 205-207; Ex. 2 at 81-84) If in fact any such advice was given, any union officer would know a lawyer's advice that a self-appointed board composed of union fiduciaries could direct union money to themselves without complying with the Local's Bylaws was transparently wrong. Both Slawsons signed the Form LM-2s and knew these operations were Local owned and the money from them was a Local asset. (Ex. 304, 322, 323, 328, 330)

In taking payments for themselves from the Local owned Bar and Gaming operations without any Local 120 Executive Board authorization as required under Local 120 Bylaws, those Local Officers and business agents violated 29 USC § 501(a) which provides that officers and business agents with respect to the union's assets

hold its money and property solely for the benefit of the organization and its members and to . . . expend the same in accordance with its constitution and by-laws . . ., to [must] [refrain] from and to account to the organization for any profit received by him in whatever capacity in connection with transactions conducted by him or under his direction on behalf of the organization.

(Ex. 2134)

By diverting these revenues to themselves, the Bar and Gaming Board members left the operations with insufficient revenues to cover costs. As a result, the Local had to use money from the general fund to pay the Bar and Gaming operations' expenses such as taxes, equipment purchases and salaries. (Ex. 2018)

### **3. Bar Operations**

All the revenues from the Bar and Gaming were Local funds. (Exs. 2000, 304, 322, 323, 328, 330) Either directly or indirectly the Local paid all the expenses of the Bar's operations. (Exs. 2000, 2018) When all expenses were included, Bar and Gaming operations combined lost \$378,312 from March 2007 through December 2011. (Exs. 2000, 2013)<sup>97</sup>

Legacy Professionals, an accounting firm prepared Local 120's audited financial statements and Form LM-2's during the years 2007 through 2011 which included an annual statement of The Teamster Club's Profit and Losses for each of those years. (Exs. 2000, 304, 322, 323, 328, 330) It also prepared the Federal Tax returns for both the combined Gambling and Bar operation and the separate returns for the for profit Bar. (Exs. 2001) According to the

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<sup>97</sup> In that time the Bar lost \$245,785 and the Gaming Operation lost \$132,527. (Exs. 2000, 2013)



Financial Statements for those years, the Bar lost a total of \$245,785 and the Gaming lost a total of \$132,527, for a combined loss of \$378,312. (Ex. 2000, 2013) This loss would have included the \$335,832 in stipends paid to Bar and Gaming Board members between March 2007 and August 2011. (Ex. 2001, 2077, 2011)

The Local has argued to the Chief Investigator's office, through its former counsel in the IRB investigation, Martin Costello, that contrary to the financial statements and the Federal tax returns filed for the Bar, there was actually a profit over those years. Costello, the General Counsel for Local 120 and counsel for the Slawson's individually, made a presentation to the Chief Investigator on September 18, 2012. (Ex. 2014) During that presentation Costello represented that, contrary to the Financial Statements, the Bar actually realized a profit of \$86,138 during the period of Local 120 control and the Gaming had a net loss of \$52,224 resulting in a net combined profit for the "Teamster Club" of \$33,969. (Ex. 2015) He stated that the difference was the result of not allocating salary and benefits expenses to the Bar for certain Local 120 business agents and Bar and Gaming employees as the accountants had done for those years with Slawson, Sr.'s approval. Slawson, Sr. also stated that costs were inflated for tax purposes. (Ex. 1 at 220-222) These expenses totaled \$331,968. (Ex. 2014, 2015) Costello argued using Legacy's work papers for the Bar and Gaming operations that if these cost allocations, that had previously been made, were discounted, his conclusion was proven. Costello suggested that somehow these allocations of expenses should not be considered actual expenses the Bar and Gaming operations incurred but, instead, were bookkeeping entries that were not real but used to deflate the Bar's reported income for tax purposes.<sup>98</sup>

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<sup>98</sup> IRS Publication 535 states that in order to take a business expense for services performed "you must be able to prove that the payment was made for services actually performed." (Ex. 2016) It is assumed that Legacy Professionals and Local 120 would have had a good faith basis for deducting these allocations; otherwise these

The argument is without merit on many levels. In calculating the expenses for the Bar to set off against revenue on the IRS Form 990Ts that Legacy prepared for the Local, portions of the salaries and benefits of certain Local employees were allocated as Bar and Gaming expenses. (Exs. 2001, 2014) To do this, the Local and the accountants in good faith had to conclude these employees in Fargo spent that percentage of actual time working for the Bar and Gaming operations. (Ex. 2016) The Bar and Gaming operations did not transfer money to the Local to pay for these expenses. Rather, they were carried on the Local's records as due from the Teamster Club. (Exs. 2014, 2018) In essence, each year the Local was extending interest free loans to the Bar by covering the costs of personnel working for the Bar for which it was not reimbursed.

In addition to these allocations, the Local also paid directly the salary of Joni Tillich, a full time Bar and Gaming employee in 2009 and 2010. (Exs. 2014, 2132 ) This was an expense of the Bar that Legacy treated as such in calculating taxable income. (Ex. 2014) At that time, the Bar did not reimburse the Local for Tillich's salary. This also was carried as an interest free receivable due from the Bar. (Ex. 2014) The same applied to the salary of Todd Chester, the Bar consultant Slawson, Sr. hired and had the Local pay directly. (Ex. 2020, 2014)<sup>99</sup> Apparently,

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(continued...)

deductions would not be allowed by the IRS and, it would appear, they would have committed tax fraud through deflating income by using expenses that were false. (Ex. 2016)

<sup>99</sup> Tillich worked full time for the Bar and Gaming operations. (Ex. 2014) The Local paid her salary, which totaled \$119,840.49 for these years. (Ex. 2014) This included \$7,500 in severance pay that was paid to Tillich by Local 120 during 2010. (Ex. 2130) In addition, during the years 2010 and 2011 Local 120 paid Todd Chester, a "bar consultant", \$44,533.70 in salary and benefits. (Ex. 2019, 2020). He worked exclusively on Bar matters. (Ex. 1 at 209-212; Ex. 2 at 104-105) These salaries total \$164,086.34 in actual salary expenses the Local paid directly for the Bar that were not allocable in any way to the Local. They were a cost of doing business, that would also serve to reduce any net profit. Chester's salary and benefits in 2011 were ignored on Legacy's Work papers on which the Local relied for its analysis. (Ex. 2014)

it is these expenses the Local now urges should be ignored when determining if the Bar was profitable.<sup>100</sup>

Furthermore, Slawson, Sr. stopped charging the Bar and Gaming operations rent in April of 2010. (Ex. 1 at 220-222)<sup>101</sup> Rent was an expense of the Bar and Gaming operations in prior years. (Ex. 2000, 2019) Free space was a subsidy to both. Using the value of the rent the Local used previously, this was a subsidy of \$63,000 for the period they operated rent-free in 2010 and 2011. (Ex. 2000 2017)<sup>102</sup> In its urged recalculations, the Local disregarded the lack of rent as a subsidy and also did not treat rent as a cost in the prior years. (Exs. 2014, 2015)

On March 7, 2012, based on a discussion with Slawson Sr., Legacy recorded the Local as forgiving \$230,583 out of the \$357,783 the subsidiary operations owed it. (Ex. 1 at 119-122; Ex. 2018)<sup>103</sup> This \$230,583 debt to the Local began accumulating in 2007 and was carried as an interest free receivable until it was forgiven in March of 2012. (Exs. 2014, 2018)<sup>104</sup> Interest on credit extended would be a normal cost of doing business. If the Bar and Gaming operations had paid the going interest rate for these loans, the interest cost would have been a business expense and further reduced its net profit. This was another subsidy the Local did not account for in its presentation.

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<sup>100</sup> Since the Local employees must have been doing work for the Bar to have part of their salaries allocated to the Bar, the Bar would have had to hire someone else to do the work if they were not available, and would have incurred a similar expense.

<sup>101</sup> Legacy's financial statement for 2010 showed Bar and Gaming rent expenses of \$36,000. (Ex. 2000) However, Slawson, Sr. testified that the Local stopped charging rent in April 2010. (Ex. 1 at 220-221) In addition, the Local's records showed that only three payments of \$3,000 each, for a total of \$9,000, was paid in 2010. (Ex. 2017)

<sup>102</sup> The Bar and Gaming operations operated rent free for twenty-one months between April 2010 and December 2011. (Exs. 2000, 2017) At \$3,000 per month, this equaled \$63,000.

<sup>103</sup> At the same time, Legacy recorded the Building Holding Company as forgiving \$26,481 the Bar and Gaming operations owed it. (Ex. 2014) The total amount forgiven was \$257,064. (Ex. 2014)

<sup>104</sup> Forgiven debt becomes income in the year forgiven. Slawson, Sr. claimed he did not remember a conversation about what could be the tax consequences of his action in 2012. (Ex. 1 at 221-223)

When Slawson, Sr. forgave the \$230,583 debt owed to the Local on March 7, 2012, he also left open loans to the Bar totaling \$100,719 on the books as due to Local 120. (Ex. 2018)<sup>105</sup> This \$100,719 consisted of other costs the Local incurred on behalf of the subsidiary operation, including \$15,272.73 to purchase equipment for a point of sales system for the Bar and \$31,714.03 used to pay the IRS for Bar payroll taxes that the Bar had not paid. (Ex. 2018) This \$100,719 balance remained outstanding to the Bar and Gaming operations without any provision for interest. (Exs. 2014, 2018)<sup>106</sup> This unpaid interest would have also been an additional cost of doing business to the subsidiary operations.

There was no persuasive reason given for Local counsel's argument for not treating as real, expenses that were claimed in connection with filed federal tax returns. Through recent decisions, such as imposing no obligation on the subsidiary operations to pay rent for the use of Local space and the continued carrying of an unpaid balance due with no interest, the Local helped subsidize the operations.

#### **4. Lack of Disclosure to the Local Members and Executive Board of Bar and Gaming Information**

Over the five years Local 120 operated the Teamsters Club in Fargo, its members and Executive Board were told very little about the finances of the operation. For example, at the February 12, 2009 Executive Board meeting Slawson, Sr. announced the Local had received a \$50,000 check from the Bar and Gaming operations. (Ex. 241) He also announced that because the Bar was paying \$3,000 a month to the Local, the Local would receive a total of \$86,000 for that year from the Bar and Gaming operations. (Ex. 241) These minutes were read at a

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<sup>105</sup> This was calculated by adding the ending balance of \$94,986.76 and \$5,732 on the page entitled "Allocation of payroll, payroll taxes and benefits to bar and gaming." (Ex. 2014)

<sup>106</sup> If the Slawsons and other Bar and Gaming Board members had not been taking stipends, the Bar and Gaming operations would have had the cash to pay these expenses.

membership meeting on February 12, 2009. (Exs. 146) Slawson, Sr. did not explain that the \$50,000 was repayment of an earlier loan made to the Bar and Gaming operations as shown in Legacy's work papers. (Ex. 2014)

At the January 15, 2012 general membership meeting, Slawson, Jr. announced that the Local was not subsidizing the Bar. (Ex. 172) He did not inform the members that, contrary to what his father had previously told the Executive Board and what was read to the members almost three years earlier, the Bar and Gaming operations were no longer paying \$36,000 a year rent to the Local. (Exs. 241, 146, 172) Instead, he and his father had decided to let the Bar and Gaming operations use the Local facilities for free, a subsidy of \$36,000 a year, as well as to continue allowing the Bar to have interest free credit from the Local. (Ex. 2000, 2017) In February 2012, Slawson, Jr. informed the members that the Bar had made approximately \$14,000 in profit. (Ex. 173) Subsequently, he never informed the members that his father in March 2012 had forgiven, without Executive Board approval, a total of \$257,064 in debt the Bar and Gaming operations had owed to the Local and the Building Holding Company. (Ex. 2018; Exs. 174-176 )<sup>107</sup> The members were also never told that the Slawsons were committed to having a non-union work force at the Bar which received no benefits as employees of the Local in order for the Bar to show a profit. (Ex. 129-176; Ex. 14 at 8-10; Ex. 2 at 59-60; Ex. 13 at 16-17; Ex. 1 at 208) The members were also never told that the Slawsons, Jr. and Sr., in addition to their Local compensation from the Bar and Gaming operations, were receiving \$18,000 and \$15,000 annually. (Exs. 127-176, 2001)

##### **5. Todd Chester – Local 120 Employee and Bar Consultant**

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<sup>107</sup> In addition to the \$230,583 owed to the Local which Slawson, Sr. forgave, he also forgave \$26,481 the Bar and Gaming operations owed to the Building Holding Company. (Ex. 2018) The total amount Slawson, Sr. forgave was \$257,064. (Ex. 2018)

In March 2010, Slawson, Sr., hired the Slawson family friend and the father of one of his grandchildren, Todd Chester, as a Local employee to act as a consultant on the operations of the Bar. (Ex. 1 at 209-212; Ex. 2020)<sup>108</sup> Chester had first acted as a consultant for the Bar in February 2010. (Ex. 2020; Ex. 1 at 209-210) Unlike the full time Bar employees, Slawson gave Chester, a part time Local employee, health insurance benefits as part of his employment compensation. (Ex. 2019) Chester also became a member of Local 120. (Ex. 2021) There were no terms set on his hours to be spent on Local 120 tasks. (Ex. 7 at 27-28) His salary as a part time employee was \$20,622 annually. (Ex. 2020) For the period of his employment, the cost of Chester's benefits to the Local was \$9,748. (Ex. 2019) He filed for bankruptcy on November 4, 2010 while a Local employee. (Ex. 2022) He continued as a Local employee until August 2011. (Ex. 2116) Although he was hired in March and employed as a consultant in February, the Executive Board was not told of Chester's hiring until June 2010. (Ex. 257) Chester did not attend a Bar and Gaming Board meeting until October 2010. (Exs 2104-2108)<sup>109</sup>

In employing Chester as a consultant and hiring him without any Executive Board votes to retain him as an expert and to set the terms of his employment as a Local employee, Slawson, Sr. violated the Local 120 Bylaws. (Ex. 300 at 4-5, 10, 14; Ex. 1 at 209-212)<sup>110</sup> As discussed below, the Bylaws provided the Executive Board had to approve the selection of someone to provide special or expert services. (Ex. 300 at 4-5) That was Chester's claimed role. (Ex. 1 at 209-212; Ex. 2 at 60-63) The Local Bylaws also required that the Executive Board set the terms

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<sup>108</sup> This was the same person that Stone Construction, the general contractor on the Local's building project, paid \$90,000 to without any documentary explanation. (See Section 14 above at 41-44.)

<sup>109</sup> For unknown reasons, Chester in his bankruptcy petition claimed he did not start being paid by Local 120 until July 2010. (Ex. 2022 at 46)

<sup>110</sup> Slawson, Sr. said he insisted on this to establish Chester, as management, was on the other side of the wall from the Local's non-union bar employees. (Ex. 1 at 212)

of employment for a Local employee, including salary and benefits. (Ex. 300 at 10, 14) Slawson, Sr. solely set the terms for this close family friend. (Ex. 2 at 60-63; Ex. 1 at 209-212) Indeed, the Board was not told of Chester's consultancy until several months after the hiring had occurred and Chester had been receiving a salary from the Local. (Ex. 257) Unusually, Chester's name was not disclosed in the minutes which were later read at the membership meeting. (Ex. 257)

Slawson, Sr. told the Bar and Gaming Board that Chester was a successful bar owner who would set things right. (Ex. 5 at 22) Chester himself has given conflicting versions of his experience in Bar operations in several places. In his bankruptcy filing on November 4, 2010, under oath, Chester asserted he had no ownership interest in any business. (Ex. 2022 at Schedule B Items 13 and 14) He also listed himself as the manager of the Route 65 Pub and Grub. (Ex. 2022 at Schedule I p. 2 Current Monthly Income of Debtor). In an August 2012 statement to the IRB in response to a subpoena requiring the production of "[a]ny and all documents reflecting Todd Chester's experience in bar and gaming operations including any bar ownership or management experience", Chester claimed to have been an owner in three bars, one of which was the Route 65 Pub and Grub, including during the period of time covered in his bankruptcy application. (Exs. 2023) In a May 27, 2009 news article, Robert Smeija, Chester's partner, stated that Chester was no longer an owner for the Route 65 Pub and Grub. (Ex. 2027) In connection with an application in July 2009 to the Blaine City Council for the Route 65 Pub and Grub to run games of chance on behalf of the Blaine Youth Hockey Association, Chester, with Slawson Jr., the Vice President of the Hockey Association present, claimed to be the general manager of the Route 65 Pub and Grub. (Ex. 2024 at 23; Ex. 2025 at 6) He also explained how significant financially the charitable gaming operation for the Blaine Youth Hockey Association

was to his Bar. (Ex. 2024)<sup>111</sup> In a newspaper story dated January 6, 2010, Chester was described as the owner of the Route 65 Pub and Grub. (Ex. 2136)<sup>112</sup> Recently, on August 29, 2012, Smieja claimed Chester was an owner between March 2009 and January 4, 2012, which included the period covered by Chester's bankruptcy filing. (Exs. 2026, 2022) On this simple issue of ownership, Chester and his partner appear untrustworthy.

Chester at \$500 a week as a part-time employee with no set number of hours received a higher salary than all the full-time Bar employees but the manager. (Ex. 2003; Ex. 5 at 21-22) Unlike other full-time Bar employees, he received health insurance as a benefit. (Ex. 1 at 212; Ex. 2019) The first month when he worked as a consultant he submitted a report claiming he worked 48 hours. (Ex. 2020) Subsequently, when he became an employee, no report of his hours was filed. In Chester's expense submissions to the Local, he claimed 41 trips to Fargo during the 72 weeks from March 2010 through August 2011 when he was an employee. (Ex. 2072-2073) After he was employed in March, Chester began attending meetings of the Bar and Gaming Board in October 2010, seven months later. (Ex. 1 at 217; Ex. 5 at 22; Ex. 16 at 9-10; Exs. 2107, 2108) He told that Board one of the problems the Bar had was excess inventory. (Ex. 1 at 215; Ex. 22 at 88-89; Ex. 2 at 91-92; Ex. 7 at 29-30, 32-33) There was both too much liquor and beer kept in inventory. (Ex. 2 at 91) He explained he would partly address this by returning some product. [Ex. 1 at 215-216; Ex. 2 at 91-92; Ex. 7 at 30)<sup>113</sup>

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<sup>111</sup> Slawson, Jr.'s wife was the gaming manager for the Blaine Youth Hockey Association. (Ex. 2 at 49; Ex. 2135)

<sup>112</sup> After Chester began attending Bar and Gaming Board meetings, the minutes of March 22, 2011 show the Board caused a donation of \$1,000 to be made to Smieja. (Ex. 2112)

<sup>113</sup> Chester never made any reports to the Local 120 Executive Board regarding the Bar. (Ex. 11 at 70)



The Slawsons represented to the Bar employees that Chester was their boss. (Ex. 15 at 7-8) In his bankruptcy filing, Chester described his position as manager. (Ex. 2022 Schedule I p. 2. Current Income for Debtor) Chester, the bankrupt owner of another bar, was in control of the Local's Bar's inventory. (Ex. 15 at 9-10) As soon as Chester took charge, he told Denise Little ("Little), an experienced bartender who had previously ordered liquor, that the function would now be that of the inexperienced Bar manager, Leann Krebsbach ("Krebsbach"). (Ex. 17 at 6-7; Ex. 15 at 4, 8-10)<sup>114</sup> Eventually, during his time at Local 120, Chester directly took over the purchasing of inventory. (Ex. 2138; Ex. 15 at 8-9)

Chester told Krebsbach that no liquor should be ordered until he dealt with what he described as excess inventory. (Ex. 15 at 9) Over time, at different points, Chester instructed several employees, including Little and Krebsbach, to remove liquor from the inventory area and store it in an unlocked storage room. (Ex. 15 at 13-14; Ex. 17 at 6-8) Chester also had the key to the locked liquor storage area. (Ex. 15 at 11-12) He told several people, including the Slawsons, that he would return inventory for credit to the wholesalers who had sold it to the Local. (Ex. 1 at 215-216; Ex. 2 at 91-92; Ex. 15 at 12; Ex. 16 at 10) Those wholesalers were subpoenaed. (Exs. 2043, 2046, 2048, 2052) No wholesaler had any record of giving a credit for liquor to the Bar for return of product during the period of Chester's employment. (Exs. 2075, 2076) He also told a Local business agent, Don Walz ("Walz"), who was also a member of the Bar and Gaming Board and whose office was in the same Fargo building as the Bar, that he was going to return liquor to wholesalers for credit for the Bar. (Ex. 7 at 30-32) Walz learned Chester caused the

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<sup>114</sup> During her employment at the Bar, her last name was Krebsbach. (Ex. 15 at 4) At the time of her sworn statement, her name was Wixo. (Ex. 15 at 4) In this report, she is referred to as Krebsbach.

removal of cases of liquor from the Bar which then were kept on a pallet in a storage area. (Ex. 7 at 28-32) At a point thereafter, Walz noticed the pallet of liquor was gone. (Ex. 7 at 30-31)

Little, who was a bartender at the bar from 2007 until 2011, testified that Chester told her to have certain inventory removed and placed in a storage area. (Ex. 17 at 4, 6-8) This was early in his tenure. (Ex. 17 at 6) Chester began in March 2010. (Exs. 2020, 2021) He also had others besides Little remove inventory to the storage area. (Ex. 17 at 7-8) The former bar manager, Krebsbach, testified that in 2011 shortly before she was fired in approximately April, Chester also had her remove inventory which would allegedly be given away as prizes at benefits. (Ex. 15 at 12-15) She only knew of a bottle or two that was given away. (Ex. 15 at 13) That inventory also disappeared. (Ex. 15 at 14-15)

Two former employees of the Bar, Amber Tougas and Krebsbach, recalled a Bar and Gaming Board meeting in Fargo at which Chester suggested the Bar run a fake benefit for a non-existent sick baby or other false cause to generate more sales since the benefit would attract more customers. (Ex. 16 at 12-14; Ex. 15 at 17-19) There would not be, as with a legitimate benefit, any donation to charity. (Ex. 16 at 12-15; Ex. 15 at 17-19) Chester explained the scheme in some detail. (Ex. 15 at 17-19; Ex. 16 at 12-15) Krebsbach, whom Chester supervised, objected. (Ex. 15 at 17-19) She was fired the next month. (Ex. 15 at 17-19) Slawson, Jr. asked the employees to find a way Chester's suggestion could be done. (Ex. 15 at 19) Another employee, who also objected, remembered Slawson, Jr., initially going along with Chester's scheme before agreeing with others that it could not be done. (Ex. 16 at 14-15) The employees told Walz about Chester's proposal shortly after it happened. (Ex. 7 at 29)

On an annualized basis during Chester's employment, the revenue the Bar generated from product sold was at the lowest margin of return on inventory that it had been under Local

120's ownership. (Exs. 2029, 2030) State authorities use for industry audits a range of expected markups of between 300 to 500%. (Ex. 2062 at 28) In 2007, the Bar's margin was 229%. (Exs. 2029, 2030) In 2008, it decreased to 184%. (Exs. 2029, 2030) In 2009, it was at 188%. (Exs. 2029, 2030) In 2010, it was at 170% and in 2011, at 187%. (Exs. 2029, 2030) In the eighteen months Chester was employed in 2010 and 2011, the margin was 179%. (Exs. 2000, 2030, 2029) These percentages showed that, throughout Local 120's control over the Bar, revenue generated from inventory was inexplicably low, but particularly during Chester's time. As discussed below, it was consistent with the missing anticipated revenues that would have been generated from the products reported as used in Local records but not reported as sold in Local records in 2010 and 2011. The conclusion is that inventory was being diverted from the Bar's operations. As a bankrupt bar owner with access to and control over the inventory because of the position Slawson, Sr. improperly appointed him to, Chester had both means and motive to remove inventory. Chester's false claims to Bar and Gaming Board members that inventory would be returned to wholesalers for a credit, which returns did not happen, appeared designed to provide a cover story for the missing inventory.

##### **5. Discrepancies Between Amount of Alcoholic Beverages Used and the Amount Reported Sold**

An analysis of Bar records for 2010 and for 2011 showed that the amount of alcohol products used according to Local records for the Bar exceeded the amount of beverages recorded as sold at the Bar for those two years. (Ex. 2031) Used product is the difference between starting inventory plus product purchased during the year and the year end inventory.<sup>115</sup> A

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<sup>115</sup> The Bar's starting inventory as of January 1, 2010 was \$13,353. (Ex. 2000) The ending inventory on December 31, 2010 was \$11,749. (Ex. 2000) The ending inventory on December 31, 2011 was \$11,749. (Ex. 2000)

deduction for shrinkage was allowed in all calculations.<sup>116</sup> The inventory for much of that period was under the control of the Slawsons' bar expert, Todd Chester. (Ex. 1 at 209-217; Ex. 2 at 88-92; Ex. 15 at 8-10)

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<sup>116</sup> Shrinkage is an allowance for undocumented loss of saleable inventory that some state taxation authorities and the IRS use in calculating whether taxable revenue from sales reported corresponded with the revenue amount of inventory used would have generated. A shrinkage factor is used to give credit for breakage, pilfering, and spillage that may occur during the period and for which there was no contemporaneous proof. Absent specific documentation, the IRS has used a 10% spillage factor for bars and restaurants. (Ex. 2062 at 32) Each state uses different calculations. (Ex. 2137; Ex. 2062 at 32; Dillon, *State Sales Tax Liquor Audits of the Bar and Restaurant Industry: An Overview of State Efforts and Common Issues*, Journal of State Taxation (2006)) North Dakota apparently will not give credit for shrinkage absent documentary proof. City of Lemox v. Secretary of the Department of Revenue, 278 NW 2d 635 (N.D. 1978). In the analyses in this report, 2% was used for bottled beer, 10% for draft beer, and 20% for liquor. These were at the high end of allowances that could be found to be used by any state authority. The liquor allowance used in this analysis was 20% as opposed to 15%, the highest rate found for a state. (Ex. 2137) By using the highest percentage employed, this report gives more benefit to the bar owner than any of the state taxing authorities recognized. For example, the Audit Manual for Bars and Restaurants of the Sales and Use Tax Department of the California State Board of Equalization provide shrinkage factors as below:

0806.42: Overpouring and Spillage for Liquor

A 12% allowance is given to the extent of total distilled spirits purchased (excludes beer and wine). This allowance is commonly referred to as an "overpouring and spillage allowance." The "overpouring and spillage allowance" accounts for factors such as overpouring, spillage, waste, and breakage. Any adjustment greater than 12% for the overpouring and spillage allowance must be clearly explained in the audit working papers and well documented by the taxpayer.

(Ex. 2064)

Section 0806.55 "Draft Beer-Drink Size and Product Loss" provides in pertinent part:

To account for draft losses, a standard 10% overpour and spillage allowance is provided. The 10% overpour and spillage allowance accounts for draft beer overpour, spillage, and waste (e.g., inaccessible beer left in the keg, cleaning or flushing keg lines, waste in tapping a new keg or re-tapping, etc.).

Section 0806.60 "Breakage Allowance for Bottled Beer" provides:

A standard 1% allowance is provided to the extent of total bottled beer purchased. This allowance is commonly referred to as a breakage allowance. Any adjustment greater than the 1% allowance must be clearly explained in the audit working papers and well documented by the taxpayer.

(Ex. 2064)

This report's use of higher shrinkage percentages decreased the amount of revenue that the Bar should have generated from products used but not sold. Tax authorities auditing the Bar for unreported income are likely to be less generous.

**a. Beer**

The Bar sold both bottles of beer and draft beer in 12 oz cups. (Exs. 2031, 2032, 2036, 2037, 2040, 2041) An analysis of purchase and inventory records for 2010 showed it used bottles and kegs equal to 155,403 servings of beer. (Exs. 2031, 2032, 2036, 2037, 2040, 2041)<sup>117</sup> As noted above, for purposes of analysis, a 2% shrinkage loss factor for bottle beer and a 10% one for draft beer was applied. (See footnote 116 above) As a consequence, after allowed shrinkage, 148,532 units of beer would have been used in that period. (Exs. 2031, 2032, 2036, 2037, 2040, 2041) That year, the Bar recorded sales of 106,560 units of beer. (Exs. 2031, 2059, 2065, 2066) This was a 41,972 unit difference between product used according to purchase and inventory records and beer reported as sold. (Exs. 2031, 2059, 2065, 2066) Using the average sales price of beer sold in 2010 and multiplying it by the product used, sales should have generated \$350,084 in gross revenues. (Exs. 2031, 2033, 2059) The beer revenue the Bar reported for 2010 was \$251,158. (Exs. 2059, 2065, 2066) There was an unaccounted for difference of \$98,926 in lost gross revenue on beer sales. (Ex. 2031)

The analysis of beer purchases and inventory records in 2011 showed that 135,074 units of beer were used. (Exs. 2031, 2034, 2035, 2038, 2039, 2041, 2043) This included the reduction for shrinkage calculated at the rate used above for 2010. (See footnote 116 above) The sales records showed that in 2011, the Bar sold 105,283 units. (Ex. 2059) There was an unexplained 29,791 unit difference between used and sold. (Exs. 2031, 2034, 2035, 2038, 2039, 2041, 2043) In 2011, the reported gross revenue from beer sales was \$218,651. (Ex. 2059) Multiplying the average price of a unit of beer sold by the units of beer used that year, the gross revenue should

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<sup>117</sup> This was 108,378 bottles of beer and 47,025 cups of beer combined. (Ex. 2031)

have been \$280,521. (Ex. 2054)<sup>118</sup> There was a shortfall of \$61,870 between reported revenue and the revenue that should have been generated on the product used. (Ex. 2031)

For 2010 and 2011, the combined difference between the projected revenue on beer used and the actual revenue on beer sold was an unexplained \$160,796 less than projected. (Ex. 2031)

**b. Liquor**

A similar analysis was performed for units of liquor used in 2010 and in 2011 and units recorded as sold in those years. (Ex. 2031) A shrinkage loss allowance of 20% was included in the used total. (See footnote 116 above) In determining a unit, a 1.5 oz serving, which was on the high end of industry standards of between 1 oz and 1.5 oz., was used. (Ex. 2062 at 28) This was the unit the Bar used. (Ex. 17 at 9-10)<sup>119</sup> In 2010, the Bar records of purchases and inventories showed 103,529 units of liquor were used. (Exs. 2031, 2044, 2046, 2047, 2049, 2050, 2052) After applying a 20% shrinkage loss factor, 82,823 units for sale were available in 2010. (Ex. 2031) The Bar's records showed 67,543 units were sold. (Exs. 2058, 2065, 2066) In 2011, Bar records showed 92,521 units of liquor were used. (Exs. 2031, 2045, 2046, 2048, 2049, 2051, 2052) After applying a 20% shrinkage loss factor, there were 74,017 units for sale in 2011. (Exs. 2031, 2045, 2046, 2048, 2049, 2051, 2052) The Bar's records showed 62,829 units were reported as sold. (Exs. 2031, 2045, 2046, 2048, 2049, 2051, 2052) Accordingly, the difference between used and sold in 2010 was 15,280 units and in 2011 it was 11,188 units. (Exs. 2031, 2065, 2066, 2058)

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<sup>118</sup> According to an analysis of the Bar's sales records, the average price was \$2.35696 in 2010 and \$2.076795 in 2011. (Exs. 2053-2059, 2065, 2066)

<sup>119</sup> Denise Little, the supervising bartender, stated in 2010 and 2011 the Bar used 1.5 oz per drink. (Ex. 17 at 9-10)

Using an average sales price for liquor sold in the 2010 period, the gross revenue on the liquor used should have been \$242,263. (Exs. 2031, 2045, 2048, 2049, 2051, 2052)<sup>120</sup> The revenue reported on liquor sold in 2010 was \$197,567. (Exs. 2031, 2045, 2048, 2049, 2051, 2052) This was \$44,695 below revenue projected on what was used in 2010. (Ex. 2031) In 2011, the revenue on liquor used should have been \$200,259 (Exs.2031, 2056, 2045, 2046, 2048, 2049, 2051, 2052); the revenue reported on liquor sold was \$169,989. (Ex. 2031)<sup>121</sup> This resulted in a revenue difference of \$30,270 in 2011 below what inventory used should have generated. (Ex. 2031) For 2010 and 2011, the combined difference between revenues that should have been generated on liquor used and revenues on liquor reported as sold was \$74,965. (Ex. 2031)

The total difference in revenue projected from beer and liquor used as compared to sales reported for 2010 and 2011 was \$235,761. (Ex. 2031)

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<sup>120</sup> In 2010, the average sales price was \$2.92506. (Exs. 2055, 2058, 2065, 2066)

<sup>121</sup> The average sales price in 2011 was \$2.70559. (Exs. 2056, 2058)

**TWO YEAR ANALYSIS OF DIFFERENCES BETWEEN INVENTORY USED AND SOLD**

Year	Units of Liquor Used <sup>122</sup>	Revenue Units used should have generated	Units of Liquor Sold	Revenue Reported <sup>123</sup>	Unaccounted for Units	Unexplained Revenue Lost
2010	82,823	\$242,263	67,543	\$197,567	15,280	\$44,695
2011	74,017	\$200,259	62,829	\$169,989	11,188	\$30,270
<b>Totals</b>	<b>156,840</b>	<b>\$422,522</b>	<b>130,372</b>	<b>\$367,556</b>	<b>26,468</b>	<b>\$74,965</b>

Year	Units of Beer Used <sup>124</sup>	Revenue Units used should have generated	Units of Beer Sold	Revenue Reported <sup>55</sup>	Unaccounted for Units	Unexplained Revenue Lost
2010	148,532	\$350,084	106,560	\$251,158	41,972	\$98,926
2011	135,074	\$280,521	105,283	\$218,651	29,791	\$61,870
<b>Totals</b>	<b>283,606</b>	<b>\$630,605</b>	<b>211,843</b>	<b>\$469,809</b>	<b>71,763</b>	<b>\$160,796</b>

<sup>122</sup> “Used” is beer and liquor purchased and not reflected in ending inventory less a deduction for spillage, pilfering and spoilage. (See footnote 116 above)

<sup>123</sup> For the year ended 2010 the Local 120 outside accountant, who prepared Local 120’s audited Financial Statement reported gross sales of Liquor and Beer of \$430,378 after removing 7% sales tax. (Ex. 2000) Local 120’s sales records for this period reflect gross sales of liquor and Beer of \$448,725. (Exs. 2058, 2059, 2065, 2066) The difference is \$18,347 more gross sales reported by sales records. The difference is unexplained. If the smaller gross sales figure is used, as reflected in the accountant’s financial statement, the resulting deficiency would be \$161,968 (the sum of \$44,695, \$98,926 and \$18,347). If the Local’s sales records are used, the resulting deficiency would be \$143,621 (the sum of \$44,695 and \$98,926 from the above table) . (Ex. 2000)

For the year ended 2011 the Local 120 outside accountants, who prepared Local 120’s audited Financial Statement, reported gross sales of Liquor and Beer of \$413,627 after removing the 7% sales tax. (Exs. 2000, 2057) Local 120’s sales records reflect gross sales of \$388,640. (Exs. 2058, 2059, 2066) The difference is \$24,987 more gross sales. If the larger Gross Sales figure is used, as reflected in the audited Financial Statement for 2011, this would result in unaccounted for sales of \$67,153. If the Local’s sales records are used the resulting deficiency would be \$92,140 (the sum of \$61,870 and \$30,270 from above table).

In sum, for the two years, the accountant, not using actual sales records, reported a net difference of \$6,640 (\$24,987 less \$18, 347) of increased reported sales over the sales records figure used in the chart above. The accountant did not rely on the sales records. His figures were derived from the Local’s Quick Books. (Ex. 2031) All figures in the analyses in this report excluded sales tax. (Ex. 2031, 2057)

<sup>124</sup> “Used” is beer and liquor purchased and not reflected in ending inventory less a deduction for spillage, pilfering and spoilage. (See fn 115 above).



**c. Analysis of Inventory for Captain Morgan's Spiced Rum**

In September 2010, under Chester the Bar installed Point of Sale Registers. (Ex. 2 at 90-91) These allowed detailed analysis by product. (Exs. 2058, 2059) As discussed below, a sample of one particular product was analyzed for September through December 2010 and for all of 2011. (Ex. 2068-2070) There was a significant difference between the number of bottles the Bar records reported used of this product and the number of bottles the Bar reported as sold during this period. (Ex. 2068-2070) There were unexplained shortages in the inventory of this product when Chester controlled it. (Ex. 2068-2070)

For the four-month period of September 2010 through December 2010, the Bar purchased 279 one liter bottles of Captain Morgan's Spiced Rum ("Captain Morgan"). (Exs. 2047, 2068)<sup>125</sup> During the same period, according to sales records, the Bar sold 116.5 one liter bottles of Captain Morgan. (Ex. 2058, 2068) As a consequence, on December 31, 2010, the Bar should have had an inventory of Captain Morgan of, at least, 162.5 bottles, (279 purchased less 116.5 sold).<sup>126</sup> The ending inventory was reported as 28 bottles. (Ex. 2067) Thus, 134.5 bottles were unaccounted for. (Ex. 2068) The Bar paid \$13.94 a bottle for Captain Morgan. (Exs. 2048, 2058, 2068) Applying a 20% shrinkage factor to the missing inventory, the wholesale value of the unaccounted for Captain Morgan during these months was \$1,500. (Exs. 2049, 2058, 2067, 2068) This inventory after shrinkage would have generated additional gross revenue of \$9,439. (Exs. 2047, 2058, 2067, 2068)

A similar analysis was done for Captain Morgan for the period from January 1, 2011 through December 31, 2011. As of December 31, 2010, the Bar had an inventory of 28 liters of

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<sup>125</sup> These were the only months in 2010 for which POS records were available.

<sup>126</sup> If there had been any Captain Morgan in inventory at September 1, it should have increased the ending inventory number.

Captain Morgan. (Ex. 2067) In the next twelve month period the Bar purchased 697 one liter bottles of Captain Morgan. (Ex. 2049, 2069) During this same period, according to sales records, the Bar sold 299 liters of Captain Morgan. (Ex. 2058) As of December 31, 2011 the Bar Inventory reported 12 liters of Captain Morgan in inventory. (Ex. 2071) That resulted in 414 liters which were unaccounted for. (Ex. 2069, 2070) The Bar paid \$14.54 for a liter of Captain Morgan during this period. (Exs. 2049, 2070, 2069) After applying a 20% shrinkage factor to the missing inventory, the wholesale value of the unaccounted for Captain Morgan during this period was \$4,815. (Ex. 2068) This unaccounted for inventory after shrinkage would have generated additional gross revenues of \$23,620. (Exs. 2069, 2070)

**D. SHAM COLLECTIVE BARGAINING AGREEMENT**

The Local through Slawson, Sr. in 2005, entered into a sham agreement with an employer. It was done to allow the company to deceitfully claim for commercial reasons that it was unionized when it hawked its products to union members, its target market. The arrangement with the employer which explicitly excluded collective bargaining from its terms, continues. Slawson promoted the company's services to Local 120 members, stressing it was a union company and sending out mailings for the company on Local letterhead. He also had the Local use the Company's services. The contract was renewed in 2009 for a five year term with no changes. This was done without a proposal meeting or a ratification vote by the effected members as the Local Bylaws required. The employer has been paying members' dues.

**1. Background**

On May 11, 2004, at a general membership meeting, Slawson Sr., introduced Buck Luymes, an employee of American Pride Home Services ("APHS"). (Ex. 104) Slawson, Sr. pronounced American Pride a "100% union company." (Ex. 104; Ex. 1 at 84-85) Luymes proceeded to market the company's services to the member. (Ex. 104) Earlier that day, Luymes

was present at a Local 120 Executive Board meeting. (Ex. 181; Ex. 1 at 79-82) This was the first introduction of American Pride to Local 120. Slawson arranged it so the company could pitch its products. (Ex. 20)

A month later, the minutes for the June 23, 2004 Local 120 Executive Board meeting reported that American Pride was one of the companies the Local was organizing. (Ex. 182) Subsequently, the December 16, 2004 Executive Board minutes reflected that Local 120 had successfully organized American Pride. (Ex. 188) Slawson was unable to explain what happened to the previous union that allegedly had represented the American Pride employees. (Ex. 1 at 55-56) No Local records showed what the earlier union was or how Local 120 displaced it and Local 120 organized the American Pride employees.

After Slawson Sr. had given his sworn statement to the IRB, in a letter to the Chief Investigator dated October 18, 2012, in response to an IRB document request to Local 120 for documents relating to its replacement of a prior union representing American Pride which Slawson, Sr., had proclaimed to be a union company prior to the Local 120 organizing the company's employees, Slawson, Sr. affirmed, "Local 120 did not decertify or otherwise replace any prior union at American Pride." (Ex. 445)

## **2. American Pride Contracts**

There was an undated "Working Agreement" between Local 120 and American Pride Home Services in effect from January 5, 2005 until December 31, 2008. (Ex. 5000)<sup>127</sup> Slawson, Sr. signed on behalf of the Local. (Ex. 5000) Kevin Goldade and Thomas Gilbert signed as President and CEO of APHS, respectively. (Ex. 5000) The agreement did not describe either

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<sup>127</sup> Slawson, Sr. testified that there was no difference between a working agreement and a collective bargaining agreement. (Ex. 1 at 58-59) He described the American Pride agreement as a collective bargaining agreement. (Ex. 1 at 58)

what APHS was or what entities were included. (Ex. 5000) Under the Agreement, Local 120 was to be the sole representative of all American Pride employees, except supervisory employees with specified powers. (Ex. 5000 at 3 (Article 1, Section 1) Printers working for American Pride in Washington State were Local 120 members. (Ex. 5004) These printers were allowed to simultaneously belong to another union as well as to the IBT through Local 120, according to Slawson. (Ex. 1 at 90-93)

The first Agreement with the Local was for a four year term from January 5, 2005 through December 31, 2008. (Ex. 5000) The preamble of this Agreement stated a reason for the Agreement was to provide employees of APHS with “good compensation and decent working conditions.” (Ex. 5000 at 3) Yet, in Article 2, Section 1, the Agreement provided, “There will be no interference with, coercion or restraint regarding the ‘Company’ policies and compensation to its ‘Employees’.” (Ex. 5000 at 3) Indeed the agreement Slawson, Sr. entered into with the employer specifically stated, “This relationship does not include collective bargaining.” (Ex. 5000 at 3) The company had both commissioned and salaried employees and full time and part time employees. (Ex. 5000; Ex 19 at 10) The Agreement in Article 16 specifically excluded wages from its scope. (Ex. 5000 at 8) The Agreement also did not provide for any employer pension fund contribution, vacation days or paid sick days. (Ex. 5000)<sup>128</sup> Nor did it regulate daily or weekly work hours. (Ex. 5000)

Article 6, entitled “Seniority and Discipline Action Guidelines for Appropriate Conduct” provided no benefit for seniority. (Ex. 5000 at 6) The Article’s language provided, *inter alia*, “[w]here appropriate, a policy of progressive employee discipline will be followed by

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<sup>128</sup> The Agreement also provided in Article 12 that, “reasonable requests for leave of absence shall be granted. Requests shall be reasonable for: 1) maternity, 2) compelling personal reasons, 3) sickness 4) Union leave.” (Ex. 5000 at 8) There were no details as to amount of unpaid sickness or maternity leave an employee could take.

supervisors.” (Ex. 5000 at 6) There was no detail as to when such a policy would be appropriate. In any event, the concluding sentence of the Article negated the Local’s right, if any, to insist on progressive discipline. It provided, “Notwithstanding this progressive disciplinary procedure policy, the Company reserves the right to administer discipline in such manner as it deems appropriate to the circumstances and may, in its sole discretion, eliminate any or all of the steps in the discipline process.” (Ex. 5000 at 6-7 (emphasis added)) Indeed, termination of an employee for allegedly not performing to company standards was explicitly left to the sole discretion of the company. (Ex. 5000 at 6, Art. 6 § 3.2) As a consequence, Slawson, Sr. committed the Local to providing no protection with respect to employer discipline of members who were American Pride employees, along with providing no collective bargaining on their behalf.

The sole apparent benefit the contract provided to members working at APHS was an illusory one that the company would pay 75% of the employee’s portion of a premium for medical insurance coverage, if elected, for each eligible full time person who purchased health insurance or Medicare supplement insurance. (Ex. 5000 at 8) Article 13, Section 2, provided all full time employees, if they chose to be, were eligible for this benefit, “61 days after their hiring packet, including a background check, is completed.” (Ex. 5000 at 8) There was no definition of full time employee. (Ex. 5000) Part-time employees received no benefits. There was no definition of “hiring packet” or any guidelines on when such packet and background investigation should be completed. There was no description of what the insurance coverage was required to include, including whether family coverage fell within the provision or any other detail. (Ex. 5000)

Paul Nelson (“Nelson”) was a part-time employee at American Pride who stopped being paid by them in 2009. (Ex. 19 at 10) He was charged the same dues as a full-time employee when he was part-time at the company, even though under the contract Slawson, Sr. signed, he and other part-time workers received absolutely no benefits. (Ex. 5000; Ex. 504) After he retired, the Company was still paying his dues at least through August 2012, which was the last month the IRB obtained dues information. (Ex. 504)

The dues language in the contract was unique in Local 120 contracts. (Ex. 11 at 24) The Working Agreement between the Employer and the Local made the amount of dues to be paid per member a matter of contract between the two parties. Dues to the Local under this agreement were \$55 a month for a commissioned employee and \$35 a month for a salaried employee. (Ex. 5000 at 4, Article 4) The initiation fee for a member under the agreement was one month’s dues. (Ex. 5000 at 4, Article 4) When asked why the dues amounts as opposed to a pure check off provision was in the contract, Slawson, Sr. testified that it was probably done at the request of members so that they would not forget the dues amount. (Ex. 1 at 70-71) The explanation was not credible. At his sworn examination, Slawson, Sr. was asked if he knew of other Local 120 contracts that had the amount of dues in the contract. (Ex. 1 at 69) He suggested that the amount of dues might also be found in the Local’s Bakery contracts. (Ex. 1 at 69) The Chief Investigator requested those contracts from the Local. (Ex. 442) In response, the Local produced an agreement between Wonder/Hostess of Minneapolis and Locals 160 and 120 in force from June 9, 2002 through June 11, 2005. (Ex. 5002) That contract, while recognizing check-offs for dues, did not include the monthly amount of the dues to be paid, as did the American Pride contract. (Ex. 5002 at 1) Local 120 also produced pursuant to the IRB request an agreement between Metz Baking Company and Local 120, effective from May 12, 2003

through May 12, 2007. (Ex. 5016) Again, there was a check-off provision but there was no provision, as in the American Pride contract, listing the amount of the dues to be paid. (Ex. 5016 at 23-24) The American Pride dues provision was exceptional at Local 120. (Ex. 11 at 24)

A business agent, Thomas Ohlson (“Ohlson”), whom Slawson assigned to American Pride, testified Slawson told him the employer would pay the dues. (Ex. 11 at 23) The language in the agreement was consistent with that. Local records indicated that an American Pride member, Nelson, who had been retired for several years, was paying dues. Unknown to him, American Pride continued to pay his Local 120 dues after he was no longer employed. (Ex. 503; Ex. 19 at 11)<sup>129</sup> Indeed, Slawson, Sr. recently had a conversation with Gilbert of American Pride in which the company confirmed paying employees’ dues. (Ex. 5012)

After the first contract was signed, two other Local 120 business agents saw it and both of them recognized it was a sham contract that provided no benefits to the members. (Ex. 11 at 26) Later, at the February 17, 2005 membership meeting, Ohlson would introduce as the American Pride steward Buck Luymes, the American Pride salesman who had pitched the members in 2004. (Exs. 104, 110)<sup>130</sup>

On April 20, 2009, for the period covering January 1, 2009 through December 31, 2013, the Local entered into a new five year “Working Agreement” with American Pride Home Services. (Ex. 5001) Other than the duration which was changed from four years to five, all terms, including the amount of dues, and the specific exclusion of “collective bargaining”

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<sup>129</sup> As of July 31, 2012 there were only three dues paying members of American Pride. (Ex. 5003) One was Nelson, the retired member above and one was in Washington state. (Ex. 5003) After the sworn examinations of the Slawsons, the Local sent a letter to Gilbert of American Pride confirming the company had been paying dues of the employees for several years. (Ex. 5012) According to Slawson Sr.’s letter, Gilbert stated that the company paid dues for employees who no longer worked at the company because he thought the employees might come back. (Ex. 5012)

<sup>130</sup> In the minutes Luymes was spelt as Lyman. (Ex. 110) According to IBT Records, neither under Buck Lyman or Luymes was he a Local 120 member. (Ex. 5004)

remained the same as in the previous Agreement. (Exs. 5000 and 5001) Slawson, Sr. also signed the second Agreement on behalf of the Local as did Business Agent Ohlson. (Ex. 5001) Gilbert signed for APHS. (Ex. 5001 at 8) Between the two contracts, the Local committed itself to not engaging in collective bargaining and not involving itself in employer discipline of its members for a total of nine years. (Exs. 5000 and 5001) Since it was the sole representative of the employees, the Agreement could be used to keep out unions which actively might represent the members. The contract continues in effect. (Ex. 5001)

### **3. American Pride Home Services**

The company's website available in 2012 listed two APHS offices: 10267 University Avenue, N.E., Blaine, MN 55434, described as the Midwest Regional Office, and 7023 N.E. 175<sup>th</sup> St., Kenmore, WA 98028, described as the Western Regional office. (Ex. 5015) On its website, APHS represented that, "All employees of the American Pride Family of Companies are members of Teamsters Local Union 120." (Ex. 5015) The family of companies was undefined. (Ex. 5015) The services provided included: insurance, printing, mortgage brokering and closing services in connection with real estate transactions. (Ex. 5015) In a letter Slawson, Sr. signed on Local 120 letterhead soliciting Local 120 members in 2007 to buy group term life insurance through American Pride, Slawson Sr. also described American Pride as a "100% Union company" and defined it as "American Pride Home Services LLC and its subsidiaries, including American Pride Financial Group, LLC". (Ex. 5005)<sup>131</sup> Additional American Pride entities included American Pride Real Estate LLC and the now defunct American Pride Title. (Exs. 5017, 5018) The companies had different addresses. (Exs. 5017, 5018) Thomas Gilbert, Kevin

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<sup>131</sup> A previous solicitation letter on Local letterhead was sent for American Pride in 2005. (Ex. 1 at 34-35, 94-95) There may have been a third. (Ex. 1 at 34-35, 94-95) In a conversation with a bank representative in connection with the Local's loan application in 2007, Gilbert told the bank official the importance to his company of the revenue that was generated from Local 120 members. (Ex. 1041)



Goldade and Dean Hoff owned each company. (Ex. 5006) American Pride also provided printing services which in 2006, 2007 and 2008, the Local would use to print its newsletter. (Ex. 1 at 90) Slawson, Sr. also testified American Pride printers were included under the contract. (Ex. 1 at 90-91)

A Dun & Bradstreet Business Background Report in 2012 noted American Pride Home Services, LLC as having one office in Minneapolis, Minnesota. (Ex. 5007) It was described as a mortgage broker with 20 employees including officers. (Ex. 5007) Thomas Gilbert, Kevin Goldade and Dean Hoff were listed as managing directors. (Ex. 5007)<sup>132</sup> Gilbert was listed as the company's top executive. (Ex. 5007) The company's business started in 2003. (Ex. 5007) This report did not include the other American Pride companies that Slawson represented to the members were covered by the agreement with Local 120, such as American Pride Financial Services. (Exs. 5007, 5005)

In his personal bankruptcy filing of May 2012, Kevin Goldade, one of the principals of American Pride Home Services, specifically listed four American Pride entities: American Pride Home Services, LLC in Blaine, Minnesota, American Pride Real Estate, LLC in Minneapolis, Minnesota, American Pride Title, LLC listed as being defunct and without an address, and American Pride Financial Group, LLC in the State of Washington. (Ex. 5006)

Nelson, a former Teamster Local 320 business agent who worked for American Pride, testified as to how the Company's marketing strategy was aimed at union members. (Ex. 19 at 7-8) Indeed, on its website, American Pride Home Services, stressed the affiliation with Local 120. It proclaimed:

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<sup>132</sup> The report generated on August 7, 2012 noted the information had not been fully revised since October 14, 2009. (Ex. 5007)

“*Union*

*American Pride. Union Proud.*

*American Pride is a 100% union label company. All employees of the American Pride family of Companies are members of Teamsters Local Union No. 120. Why do labor unions across the country use and continue to refer their members to American Pride? Because at American Pride we care and it shows. Here you will find a level of client care and service unparalleled and unmatched anywhere in the industry. American Pride is a B4 UNION company, which promotes Be Union, Buy Union, Build Union, Borrow Union. Union members have a choice when it comes to keeping their money and business in the union family.”* (Ex. 5015)

Slawson, Sr. appeared to have had close ties with American Pride. He frequently promoted American Pride within the Local, more often than any other company. (Exs. 104, 112, 132, 133, 181, 5005; Ex. 9 at 23; Ex. 5 at 30-31; Ex. 20; Ex. 11 at 33; Ex. 1 at 34-35, 94-95) For example, the minutes of the General Membership meeting of April 14, 2005 noted that:

Brad [Slawson, Sr.] gave a report on the benefits of the Minnesota Teamsters Credit Union and American Pride Company and the offerings they provide for the membership and their families. Brad encouraged those present to join and use the services offered. Brad reported that American Pride is made up of all Teamster members which belong to Local 120.

(Ex. 112 at 3)

On September 8, 2005 at the membership meeting, Buck Luymes was a guest speaker on American Pride’s Life Insurance program for members of Local 120. (Ex. 114 at 1-2) Two years later in September 2007, Slawson, Sr. would pitch American Pride insurance to the members at another meeting. (Ex. 132 at 2) Slawson, Sr. admitted he never compared the insurance American Pride offered with that available from other companies. (Ex. 1 at 95) Slawson, Sr. also at the same meeting had American Pride employee, Jeff Churchfield, make an additional solicitation to the members to buy the American Pride insurance. (Ex. 132 at 3)

In 2005, Slawson, Sr. used Local 120 letterhead to solicit members to use American Pride services. (Ex. 1 at 34-35, 94-95) Again in 2007, Slawson solicited members on Local 120 letterhead to purchase term life insurance through American Pride, which he identified as a Local 120 employer. (Ex. 5005) There was no Executive Board approval to use Local 120 letterhead and its membership list to solicit business for a commercial enterprise. (Exs. 221-224) There may have been a third mailing. (Ex. 1 at 34-35, 94-95) Slawson, Sr. also made a proposal in 2005 to have American Pride provide real estate investment services to the Local Funds. (Ex. 5014)<sup>133</sup> American Pride acknowledged the association with Local 120 was economically important to it. (Ex. 1041)

During the Local's planning and construction of a new building, Slawson had frequent closed door meetings at the Local 120 offices with Gilbert. (Ex. 11 at 35) Slawson, Sr. without the Executive Board approval as Local 120's Bylaws required, used American Pride Title both as a mortgage broker for the Local and to disperse over four million dollars from the Local's construction loan and mortgage accounts at a bank to the construction company and other contractors on the new building project in 2007 and 2008. (Ex. 1015, 1031; Ex. 300 at 11)<sup>134</sup> This included both the loan and \$750,000 from the Local's general fund. (Ex. 1015, 1027, 1073) Neither the Local nor American Pride had a document showing how it was to be paid for the

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<sup>133</sup> Slawson, Sr. claimed there was no difference than what he had done for American Income Life, another insurance company pitching insurance to members in approximately 2011. (Ex. 1 at 94-95, 35) However, the company American Pride never gave the Local anything. (Ex. 1 at 35; Ex. 19 at 8) American Income Life made a \$5,000 donation to a Local 120 golf outing. (Ex. 1 at 35)

<sup>134</sup> Despite being requested, the Local and American Pride both were unable to produce a document that memorialized this business relationship. There was no document provided memorializing how American Pride would get paid for its services. At some point, Gilbert continued acting for the Local even though a different company, First US Title, was disbursing the Local's loan money. (Exs. 1027, 1016, 1073) The Slawsons claimed they were unaware of the change. (Ex. 1 at 103; Ex. 2 at 58; Ex. 10 at 32)

disbursement services. (Ex. 1015)<sup>135</sup> Slawson, Sr. misrepresented to the Executive Board that American Pride was providing the mortgage for the Local. (Ex. 221) Slawson allowed American Pride to maintain records of financial transactions in the multi-million dollar loan that were never received at the Local (Ex. 10 at 43) Prior to the Bank approving the loan, Slawson and Gilbert misrepresented to the Lender, which had concerns over the Local's cash flow being adequate to over loan payments, that the Local membership had increased by 9,000 members in 2007, when it had not. (Exs. 1041, 1068, 1069)

#### **4. Local Contract Procedures Not Followed with Respect to American Pride**

The Local's Bylaws required that prior to negotiating a contract the Local's representative meet with the members to discuss the issues. (Ex. 300 at 39) When a proposed contract was reached, the Bylaws required a ratification vote by the effected members. (Ex. 300 at 40) At the Local, the business agent involved in the negotiations maintained records for both the proposal meeting and the ratification vote (Ex. 9 at 5-6; Ex. 1 at 52-54, 67; Ex. 11 at 6-7) The Local was unable to produce proposal meeting or ratification records for both the first and second American Pride contracts.

Slawson described a proposal meeting as an "absolute requirement" at Local 120. (Ex. 22 at 44-45) With respect to the initial contract, there was no proposal meeting with the affected members to discuss the upcoming negotiations and their concerns. Both Slawson, Sr. and Ohlson, the only two Local 120 employees to be involved with American Pride at the time, testified they did not attend any. (Ex. 1 at 68; Ex. 11 at 14-16) As noted, there were no Local

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<sup>135</sup> There was a document stating American Pride was paid \$21,606.80 in connection with closing costs on the mortgage. (Ex. 1031) There is nothing to show what American Pride was paid for work after that.

records establishing any meeting occurred.<sup>136</sup> Slawson, Sr. knew one had not occurred for the second contract. (Ex. 1 at 74; Ex. 11 at 26-30)

In connection with the ratification vote on the first contract, at Slawson's request, Ohlson accompanied him to a meeting held at the American Pride offices in Blaine, MN. (Ex. 11 at 15-16) Slawson then met with approximately 15 employees for the first time for a ratification vote. (Ex. 11 at 15; Ex. 1 at 67) Gilbert and Goldade, the owners, were also present throughout the vote. (Ex. 11 at 16, 19) Having owners monitor members' discussion and vote on a contract was contrary to Local practice. (Ex. 11 at 16)

Ohlson, the business agent Slawson, Sr. assigned to American Pride, occasionally visited American Pride office in Blaine after the initial meeting. (Ex. 11 at 30) These visits were for no purpose. (Ex. 11 at 30) The Local 120 membership roster for American Pride employees over the years showed members in distant states, including Washington and Wisconsin. (Ex. 5004) No contact was made with these members. (Ex. 5004; Ex. 11 at 30-31)

The Local's standard procedure was that before a contract expired the Local would send a letter to the employer informing it that the Local wanted to bargain for a new contract. (Ex. 9 at 20-21; Ex. 11 at 7; Ex. 5 at 13) Slawson, Sr. signed the Local's opener letter, dated September 30, 2008, that was sent to Gilbert at American Pride. (Ex. 5008) Ohlson and Slawson, Jr. were copied on the letter. (Ex. 5008)

As the contract came up for renewal in 2008, Ohlson asked Slawson, Sr. what he should do. Slawson, Sr. told Ohlson the contract terms would be the same and to call Gilbert. (Ex. 11 at 26-27) Gillbert said it would be the same contract. (Ex. 11 at 28) The only difference between the first contract and the second one four years later was that the duration was increased

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<sup>136</sup> Such records should have been kept. (Ex. 11 at 9; Ex. 2 at 25)

to five years. (Exs. 5000, 5001) As a result, the same contract terms were included in a contract signed with a longer duration period. Again, there was no proposal meeting with the members to hear their demands or discuss issues. (Ex. 11 at 15-18) There was no ratification vote on the second contract. (Ex. 11 at 15-18) In neither the first nor the second contract process was any member part of the negotiating committee. (Ex. 11 at 13, 15-18, 26-29) This also was contrary to Local practice. (Ex. 5011; Ex. 2 at 22-24)

Slawson, Sr. denied he introduced American Pride to the Local (Ex. 1 at 52, 55) He also claimed he discussed organizing American Pride and the 2005 contract with Thomas Keegel, Local 120's then principal officer in 2005, who at that time also was the International Secretary Treasurer. (Ex. 1 at 52, 55) Keegel was spending most of his traveling. (Ex. 1 at 72) Slawson claimed he discussed with Keegel the issues arising from organizing American Pride's commissioned employees. (Ex. 1 at 71-72) He also claimed he showed Keegel prior to entering into it, the actual contract that excluded collective bargaining from the union-employer relationship. (Ex. 1 at 71-72) Keegel, according to Slawson, approved going ahead with the contract. (Ex. 1 at 71-72)

Keegel recalled that Slawson, Sr. was the one who introduced American Pride to Local 120 to provide the company a platform to sell its products to members at union meetings. (Ex. 20) The Local's records also confirmed that. (Exs. 104, 181) Keegel denied discussing organizing American Pride and reading the proposed contract Slawson Sr. agreed to on behalf of the Local. (Ex. 20) The minutes and Ohlson's testimony support Keegel's sworn statement. (Ex. 20; Ex. 11 at 15-16, 19-21; Exs. 104, 181)

In an alternative version, Slawson also claimed that everything with American Pride was done by Ohlson alone, despite Slawson claiming he gave the contract to and discussed it with

Keegel. (Ex. 1 at 71-72) Slawson admitted attending the ratification vote on the first contract. (Ex. 1 at 67) He claimed he might have been too busy to read the contract he signed. (Ex. 1 at 60) He also stated that despite the copy of the document the Local produced to the IRB as the contract which only had his signature on it, the business agent's signature was whited out on the original signed contract. (Ex. 1 at 59; Ex. 5000) Pursuant to the Chief Investigator's request, the Local produced the original document on October 18, 2012. (Exs. 444, 445) This document was submitted to an expert forensic document examiner whose credentials included over 15 years as a forensic document examiner in the NY Police Department laboratory. (Ex. 5017) The expert after physically examining the document as described in his report, concluded that there was evidence that a signature was once on the document above Slawson's and that information on the date line had been removed. (Ex. 5017)

Slawson also claimed there was nothing unusual about the multiple mailings he did to the members on behalf of American Pride or allowing the Company to attend several membership meetings to sell its services to members. (Ex. 1 at 34-35, 86, 89, 94-96) He compared the respective solicitations of members to use American Pride Services to one mailing the Local did for American Income Life in approximately 2011. (Ex. 1 at 34-35) That company made a donation of \$5,000 to a Local event for that one time mailing. (Ex. 1 at 35) On the other hand, American Pride gave nothing to the Local for the more frequent marketing Slawson, Sr. did on its behalf. (Ex. 1 at 35; Ex. 19 at 8)

Slawson also claimed that American Pride was no different in asserting its work force was unionized than was ULLICO, the union owned insurance company, or American Income Life, both whose marketing targeted union members. (Ex. 1 at 86; Ex. 5010) In fact, neither ULLICO nor American Income Life portray their workforces as unionized. (Ex. 5010)

Moreover, unlike American Income Life and ULLICO which were actual insurance companies, American Pride was an insurance broker.

In 2009, when Slawson signed the second sham arrangement with American Pride, he was both the principal officer of the Local, a Joint Council 32 Trustee and an International Representative. (Ex. 323, 319, 5019) That contract continues in force. (Ex. 5001)

## **5. Analysis**

Section 4 of the Local 120 Bylaws makes a specific goal of the Local, “[t]o safeguard, advance and promote the principle of free collective bargaining.” (Ex. 300 at 3) On Local 120’s website, under “Organizing”, it described the matters a union typically negotiated on behalf of employees with an employer. The Local stated:

Organizing

Stronger Voice

Union members have a voice in determining what they want in terms of wages, hours and working conditions. Contract negotiations are at the core of the labor movement. They occur when employees join together to negotiate workplace issues with their employer. The end result is a contract that spells out in black and white all of the terms both parties agree to, from pay rates and benefits, to a grievance procedure, time off and more. Union members generally elect a bargaining team made up of a few of their coworkers to join expert negotiators from the Teamsters Local 120 in negotiations with management. Once the bargaining team reaches a tentative agreement with management, they present the proposal to their coworkers for a vote. This is called ratification process. The contract only goes into effect if a majority of the employees approve the tentative agreement. Contract specifics will vary from one worksite, or employer, to the next, but generally include provisions on:

- Wages, hours and benefits;
- Health and safety
- Non-discrimination;
- Contract length;
- Discipline;



- Seniority;
- Union Security;
- Grievance procedures; and
- Arbitration.

In non-union worksites, management alone dictates the terms and conditions of employment. No discussion. No negotiation. Decision are simply made without regard to the employees who bear the consequences.

(Ex. 5011)

Ironically, the final sentence of that description, “[i]n non-union worksites, management alone dictates the terms and conditions of employment. No discussion”, also describe the two agreements Slawson, Sr. entered into with American Pride covering its employees for nine years. In violation of the Local’s Bylaws there was no discussion with members as to what the members’ concerns were before either the initial contract or the second one were negotiated. (Ex. 300 at 39) A process Slawson declared was essential. (Ex. 22 at 44-45) Gilbert drafted the first contract; there were no negotiations. (Ex. 11 at 15) The members did not even have a pretextual vote on the second contract. (Ex. 11 at 26-27, 29-30)

In the National Labor Relations Act, 29 U.S.C. § 152(5) a “labor organization” is defined as, “any organization of any kind...in which employees participate and which exists for the purpose, in whole or in part, of dealing with employers concerning grievances, labor disputes, wages, rate of pay, hours of employment, or conditions of work.” Not one of the issues the statute provided a labor organization would deal with employers about concerning employees was covered by Slawson, Sr.’s agreements with American Pride. Whatever Slawson had been doing in binding Local 120 to these agreements, it was not to have it act as a labor organization.

These Local 120 agreements fell far short of both meeting Local 120’s proclamation of the benefits of IBT membership and the actions of a labor organization as defined in the NLRA.

Indeed, collective bargaining specifically was excluded from the contracts' scope. The only possible benefit provided under the contracts was an employer contribution of 75% to the premium for an undefined health insurance policy for which a full time employee became eligible after an undefined time, if the employee elected to receive it. (Exs. 5000, 5001) Full-time employee was another undefined term which given the lack of contract definitions on the work week, was meaningless. There were no guidelines as to when any employee working for a commission was a full time employee unlike in the Local's Bakery contracts. (Ex. 5002 at 5; Ex. 5016 at 4; Exs. 5000, 5001) There was suspiciously no detail as to the health insurance, including whether it would cover families. The agreement did not memorialize whether the employer was required to contribute to insurance that provides major medical, dental and vision coverage. There were no guidelines on acceptable deductibles. There was no final date as to when the employer must provide the benefit to a new employee. Nothing about the illusory benefit was "spelled out in black and white" as the Local 120 website proclaimed would be in a contract the Local negotiated. (Ex. 5011) In addition, the company was allowed to reopen the insurance contribution clause if "a change in federal law or taxation alters the economic impact of the contribution for insurance." (Ex. 5001 at 7) There was no guideline on the degree of change that triggered that right. (Ex. 5001 at 7) The contract had no arbitration provision for resolution of disputes or of discipline. (Exs. 5000, 5001)

Article 14 of the Agreements provided, "Since most employees are on a commission position. The "Company" reserves the right to alter and change the commission schedule as necessary to mitigate any economic or industry change that occurs from time to time." (Ex. 5000 at 8; Ex. 5001 at 8) The contracts did not provide any protection on maintaining current commission rates or any guidelines as to calculations. (Exs. 5000, 5001) Part-time workers had

the same dues schedule and received nothing under the contract for being members. (Exs. 5000 at 4; Ex. 5001 at 4; Ex. 19 at 9-10; Ex. 5003)

In sum, there were no benefits the contract provided, no minimal guidelines on compensation even for salaried employees, no provisions concerning rate changes on commissions, no seniority rights, no limit on daily or weekly hours, no procedures to protect an employee from arbitrary employer disciplinary decisions, including termination, no grievance procedures and no provision for arbitration. The Agreement explicitly allowed the Company in its sole discretion to impose discipline, including termination. Astonishingly, the relationship between the Union and the Company explicitly did not include collective bargaining but did include the amount of employees' dues owed to the Local. Dues amounts were part of the contractual agreement between the employer and the Local. In addition to the terms of the contract, the failure of the Local to follow its procedures for members to participate in proposals with respect to collective bargaining agreements and that the employer paid the employee's dues also evidence this was a sham contract.

**E. THE PRESIDENT OF THE LOCAL ATTEMPTED TO USE UNION RESOURCES TO ATTEMPT TO GAIN SOMETHING OF VALUE FROM VENDORS FOR HIMSELF**

In June 2008, Slawson, Jr., then Local President, ran at the Minnesota Democratic Farmer Labor Party (DFL) Convention for delegate to the Democratic National Convention supporting Barack Obama. (Ex. 4000; Ex. 2 at 119; Ex. 3 at 14) In connection with his personal campaign for delegate, Slawson, Jr. used two vendors who also did business with the Local to create campaign buttons and leaflets. (Ex. 3 at 14, 27) Slawson, Jr. for several years did not pay the invoices the vendors sent him for these services. (Exs. 4001, 4002)<sup>137</sup> Instead, he instructed two

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<sup>137</sup> These invoices remained unpaid as of May 2012. (Ex. 4004)

Local 120 employees to tell the vendors that in return for stopping seeking payment from him for his debts, he would send the vendors additional Local business. (Ex. 3 at 17-19; Ex. 9 at 26-35) Eventually, Slawson, Jr. instructed one of the vendors to alter the invoice previously sent to him and to send the altered invoice as a bill to the Slawson Unity State which ran in the Local election in 2008 for which slate the vendor also did work. After the IRB made inquiries concerning these unpaid debts, Slawson, Jr. solicited a Local employee to present a false story. When he testified about the use of the vendors and his instructions to employees during the IRB investigation, Slawson, Jr. made false statements under oath.

### **1. The Delegate Campaign**

In June 2008, at the DFL convention in Rochester, Slawson ran for delegate to the Democratic National Convention in support of candidate Obama. (Ex. 3 at 14)<sup>138</sup> This was a late decision made at the state convention, after he was approached by other party members. (Ex. 3 at 24-25) As a result, he needed campaign material to be produced quickly. (Ex. 3 at 24-25) He discussed this with Rhys Ledger (“Ledger”), the Local’s Director of Organizing and Government Affairs, who was also at the Convention. (Ex. 3 at 14) Ledger solicited two vendors, who did work for the Local and were at the Convention, about producing the material. (Ex. 3 at 24, 27) The first, 7 Corners Printing (“7 Corners”), gave a cost quote for printing campaign material and the second, Tschida Printing (“Tschida”), gave one for making campaign buttons. (Ex. 3 at 24, 27-28) Because of the brief time in which the material had to be produced, the vendors charged above normal prices. (Ex. 3 at 26-27) Ledger explained the higher prices to Slawson. (Ex. 3 at 26) Slawson confirmed that he understood these were personal expenses. (Ex.

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<sup>138</sup> The Convention was held in Rochester, MN from June 6 through June 8, 2008. (Ex. 4000) Slawson lost the election for delegate. The invoice from Tschida Printing was from June 9, 2008. (Ex. 3 at 39-40; Ex. 4002)

3 at 26-27) Ledger placed the orders with the vendors. (Ex. 3 at 27-28) He informed the vendors that Slawson and not the Local would pay. (Ex. 3 at 26-27)

Consistent with Ledger's representation that Slawson, Jr. would pay, the vendors subsequently sent invoices personally to Slawson at the Local. (Ex. 4002, 4003; Ex. 9 at 27-28)<sup>139</sup> These went unpaid. Slawson instructed Ledger to go to Tschida Printing to tell the principal that Slawson was not going to pay his debt but, instead, he would cause the vendor to receive additional work from the Local. (Ex. 3 at 17) According to records Tschida provided, this personal debt was for \$560.68 for an invoice dated June 9, 2008. (Ex. 4002) Ledger went to Tschida, but claimed he did not tell the vendor about Slawson's proposed arrangement. (Ex. 3 at 17-20) He discussed with the vendor the available new business of printing the Local's newsletter. (Ex. 3 at 18) Slawson, Jr. controlled which vendors received Local business. (Ex. 3 at 15, 31-32) Tschida in 2010 began to print the Local's newsletter. (Ex. 4004) The June 2008 invoice to Slawson, Jr. for the work at the convention remained unpaid as of May 2012, nearly four years later. (Ex. 4002)

Kristine Hakala ("Hakala"), who was an administrative assistant for Slawson, Jr. at Local 120, testified that she received and opened Slawson's mail from 2008 through 2010. (Ex. 9 at 29) She saw the invoices from the two vendors for the DFL convention services for Slawson that were addressed to Slawson personally. (Ex. 9 at 28-30) Because they were his personal expenses, they came to her rather than to the Local bookkeeper. (Ex. 9 at 29) She placed these with his other mail on his desk. (Ex. 9 at 29) On several occasions, Slawson, Jr. instructed her

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<sup>139</sup> Invoices from 7 Corners and Tschida for work they did on behalf of the Local were normally addressed to the attention of Local 120. (Ex. 9 at 27-30; Ex. 4002) The invoice for \$560.68 for work at the DFL Convention dated June 9, 2008 was the only invoice Tschida sent to Local 120 that was addressed to Slawson, Jr.. (Ex. 4002; Ex. 9 at 28-30) Although there was a 7 Corners invoice addressed to Slawson, Jr. at the Local, (Ex. 9 at 27-30; Ex. 4003), it was not produced.

to call 7 Corners, where she knew one of the employees well. (Ex. 9 at 32) He told her to tell the vendor to stop sending the invoice and that in return for not paying his obligation, Slawson would ensure 7 Corners would get additional Local business. (Ex. 9 at 30) She recalled that on occasion Slawson, Jr. gave this instruction to her and to Ledger for separate vendors, 7 Corners and Tschida, when the three were in Slawson's office. (Ex. 9 at 30-33)<sup>140</sup> She did not follow Slawson's instructions. (Ex. 9 at 30-34)

The 7 Corners business records corroborated Hakala's testimony. These included an email from Hakala to Brenda Pogue Boardman ("Boardman") at 7 Corners dated July 14, 2008, in which Hakala stated that she heard 7 Corners did Slawson, Jr. a "big" favor at the convention and as a result the company should expect the Local's business. (Ex. 4007) The second was a letter dated December 18, 2009, over eighteen months after the convention, from Boardman to Hakala noting 7 Corners had been having difficulty collecting the money Slawson owed it for the work for the convention. (Ex. 4003) Boardman wrote that pursuant to Slawson's request the owner of 7 Corners created an altered invoice with a different name "on the job." (Ex. 4003) Boardman solicited Hakala to help ensure the outstanding old debt reflected in the new altered invoice was paid by year end. (Ex. 4003)

Boardman wrote essentially a collection letter seeking Hakala's help in getting payment on Slawson's debt from the 2008 convention before year end 2009:

We still had this past due invoice for Junior that was from him trying to become a delegate last September at the Rochester DFL Convention.<sup>141</sup>

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<sup>140</sup> Ledger did not remember this. (Ex. 3 at 24-25) Slawson, Jr. testified as to a conversation in his office when he told Hakala and Ledger together to deal with what he categorized as Tschida's misdirected invoice. (Ex. 2 at 124-127)

<sup>141</sup> The Rochester DFL convention was held in June 2008. (Ex. 4000) However, as shown below, the altered invoice was created in September 2009. (Ex. 4001) Despite being covered by a subpoena to it (Ex. ---), 7 Corners never produced the invoice for work at the convention "for Junior" that was referenced in Boardman's letter.

I guess after sending this to you guys for payment, he called Dan W<sup>142</sup> and asked him to change the name of the job to submit it to be paid that way.

Can you see if you can get this paid so we can receive the funds in 2009?

(Ex. 4003)<sup>143</sup>

The document properties [metadata] for the 7 Corners letter addressed to Hakala indicated the document was created on December 18, 2009 at 2:36 pm. (Ex. 4005) The company stored it under the computer file name “Teamsters Local 120-Inv. #13004.” (Ex. 4005) The author was “Customer Service.” (Ex. 4005) There was one change to the document on December 18, 2009. (Ex. 4005)

The following facts also further established Slawson’s attempt with the acquiescence of the 7 Corners’ owner to have his personal bill improperly shifted to his election slate, the Slawson Unity Slate. A 7 Corners’ document that listed invoices to the Slawson Unity Slate showed a ticket date of November 24, 2008 for five different orders 7 Corners completed for the Slate. Four of the invoices were dated December 2, 2008. (Ex. 4006)<sup>144</sup> The fifth invoice 13004, had an invoice date of September 28, 2009. (Ex. 4001) The description on that invoice was for “Slawson Unity Slate–Teamsters Local 120, Pat “PJ” Walker and Paul Slattery.” (Ex. 4001) It was allegedly for 1000 posters. (Ex. 4001) This last one was invoiced ten months after the order was placed. (Ex. 4001) The Multi-Ticket invoice number of 13004 was the same as the computer file name which contained the correspondence about the invoice altered at Slawson, Jr.’s request. (Exs. 4001, 4003, 4005) The other four all had the Multi-Ticket invoice number

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<sup>142</sup> Dan Winter is the owner of 7 Corners. (Ex. 4008; Ex. 9 at 25)

<sup>143</sup> 7 Corners did not produce to the IRB an invoice that would have reflected work done for Slawson, Jr. at the convention as noted in Boardman’s letter. (Ex. 4003) It did produce the newly created invoice discussed below which changed the name as Slawson requested. (Exs. 4003, 4001)

<sup>144</sup> The Local election was in December 2008. (Ex. 114)

11648. (Ex.4006) The file name for the suspicious “Slawson Unity Slate-Teamsters Local 120”, invoice number 13004 was “Teamsters Local 120, invoice 13004.” (Ex. 4001)<sup>145</sup> This matched the metadata from Boardman’s letter to Hakala seeking collection for the work done at the convention. (Exs. 4001, 4003, 4005)

The other four Slawson Unity printing jobs with ticket dates of November 24, 2008, were invoiced on December 12, 2008, less than thirty days after the services were ordered . (Ex. 4009) Only the suspicious job, 13004, was invoiced on September 28, 2009, ten months after it was allegedly placed, and long after the 2008 election but consistent with when Boardman indicated Slawson asked Winter to alter the invoice. (Exs. 4003, 4001) There was another job for the slate with a November 26, 2008 ticket date that was invoiced on December 1, 2008, again less than thirty days after performance and months before 13004, allegedly placed earlier, was invoiced. (Exs. 4006, 4010) Moreover, in response to a court-issued subpoena, 7 Corners Printing provided a list of invoices of jobs it performed for the Local and for slates in union elections. (Exs. 4006, 4010) The 13004 invoice number was not in sequence with the other invoices from November 2008. (Ex. 4001) However, it was in sequence with other invoices created in 2009. (Ex. 4006)<sup>146</sup>

Slawson’s debt to both vendors remained unpaid for years. (Exs. 4013, 4002) On April 2, 2012 the IRB filed an application with the court overseeing the consent order to obtain subpoenas for the vendors’ records relating to the unpaid invoices. (Ex. 4012) Once filed, that application was a publicly available document. Following the filing of the request for the

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<sup>145</sup> All five have consecutive ticket numbers [col. 6] from 59726 through 59730. (Ex. 4006) The one for 13004 has the number 59729. (Ex. 4001)

<sup>146</sup> For example, invoice 12956 had an order date of August 2, 2009 and invoice 13123 had an order date of September 25, 2009. (Ex. 4014) Invoice 13004, with an invoice date of September 28, 2009, fell between these dates with order date of November 24, 2008. (Ex. 4001)



subpoenas, Slawson, Jr. requested Ledger to obtain from the two vendors, Tschida and 7 Corners, any documents the vendors produced to the IRB in response to the subpoenas. (Ex. 3 at 21-23) Slawson, Jr. also told Ledger in Slawson's office that there was no issue for the IRB because, contrary to what Ledger knew was the fact based on an explicit earlier discussion with Slawson, Slawson now claimed his candidacy was for the Local's benefit and the expenses incurred were Local expenses and not personal ones. (Ex. 3 at 21-23) Ledger understood that Slawson was telling him this so that Ledger should give this false explanation if he were questioned about these debts. (Ex. 3 at 21-23)

At his IRB sworn examination on September 26, 2012, Slawson, Jr. testified that he was at the DFL convention in Rochester with Ledger and Hakala. (Ex. 2 at 119)<sup>147</sup> Executives of the DFL approached him to run as a delegate to the DNC on behalf of Obama because of all Local 120 had done for the party. (Ex. 2 at 120) Slawson would be a labor representative. (Ex. 2 at 120) He agreed. (Ex. 2 at 120) When he returned to the convention the next morning, he saw on a table along with campaign literature for other candidates, Slawson buttons and pamphlets. (Ex. 2 at 122) He assumed these materials were paid for by the DFL or the PAC. (Ex. 2 at 121-122) He had no discussions during the convention with anyone concerning vendors' bills. (Ex. 2 at 120-125) As head of the PAC, if he truly thought the PAC paid for them without his knowing it had, he certainly would have asked a question. (Ex. 2 at 124-125) He did not. (Ex. 2 at 124-125)

He further testified that later, he received a bill from Tschida. (Ex. 2 at 125) He was surprised to receive it. (Ex. 2 at 125-126) He called Ledger and Hakala into his office. (Ex. 2 at

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<sup>147</sup> According to Hakala's testimony and Local 120 records, she was not working at the Local then. (Ex. 4011) She was at the convention but not to assist Local 120 and did not interact there with Slawson, Jr.. (Ex. 9 at 25-26)

125-126) He told them both that the PAC or the DFL should handle it. (Ex. 2 at 125-126) He had no further discussion about until the IRB investigation. (Ex. 2 at 129) From the time of the convention until the IRB investigation, he claimed he had no knowledge 7 Corners created any material on his behalf for the convention. (Ex. 2 at 125-126) Slawson, Jr. testified he never had any discussion with Dan Winter, the head of 7 Corners, about altering an invoice addressed to him. (Ex. 2 at 129) The sender's contemporaneous documents contradicted that. (Ex. 4005)

The vendors' records corroborated the witnesses who testified under oath that Slawson, Jr. attempted to gain a personal benefit, forgiveness of debt, through promising union money would be spent on the vendors' services. (Ex. 3 at 17-19; Ex. 9 at 30-39; Exs. 4001-4014) He later attempted to cause a personal debt to be paid out of his Slate's campaign donations. (Ex. 4003; Ex. 3 at 25-26) Moreover, the incidents with both vendors are consistent with evidence of Slawson, Jr.'s submission of other false explanations to secure Local payment for personal expenses. (See below at 115-117). The absence of any mention of Slawson's failed campaign for delegate in any Executive Board or membership minutes or any PAC document all evidence this was a personal, not union matter. (Exs. 100-294; Ex. 3 at 26-27) In addition, he engaged in new misconduct when he testified falsely under oath at his IRB sworn statement obstructing the IRB's investigation. For example, the contemporaneous Boardman letter directly contradicted his sworn testimony that he did not know 7 Corners had done work for him at the convention. (Ex. 4003; Ex. 9 at 27-28; Ex. 2 at 124-126)

## **F. FAILURE TO PROPERLY ACCOUNT FOR EXPENSES**

### **1. Sporting Events**

Between 2007 and 2011, the Local spent \$214,755.51 for tickets to sporting events. (Exs. 3000-3013) These included season tickets to the Minnesota Twins baseball team ("Twins"), the Minnesota Vikings football team ("Vikings"), the Minnesota Wild National Hockey League

team (“Wild”) and the University of Minnesota hockey team (“Gophers”). (Exs. 3000-3013)

The Twins season tickets totaled \$113,677.00, the Vikings tickets \$10,710.00, the Wild tickets \$76,885.51 and the Gophers tickets \$13,484.00. (Exs. 3000-3013)

The cost of the tickets to all of the sporting events each year was as follows:

<u>Year</u>	<u>Cost</u>
2007	\$ 34,733.01
2008	\$ 38,318.50
2009	\$ 55,973.00
2010	\$ 44,491.00
2011	\$ 41,241.00
Total	<u>\$214,755.51</u>

(Exs. 3001-3014)

In 2009, the Department of Labor conducted an audit of Local 120. (Ex. 1 at 39-40; Ex. 325) Slawson, Sr. stated that during the audit a Department of Labor agent discussed the sporting tickets with him and Costello, the Local’s lawyer. (Ex. 1 at 41-43) Slawson, Sr. stated that after the audit he sat down with all the officers and business agents “to make sure that we always followed the rules on sporting tickets”. (Ex. 1 at 43) Slawson, Sr. testified that he recognized sporting tickets “are a hot button item, so we want to make sure it’s done right, that nobody is going to get all the tickets, and make sure that they are distributed amongst our membership . . .”. (Ex. 1 at 43) He further stated that the member who used the tickets to go to the sporting event had to be identified in the records. (Ex. 1 at 44) He also understood that all Local expenses needed to have an identified union purpose. (Ex. 1 at 41; Ex 325)

Slawson, Jr. testified the Local had four season tickets for the Twins games, four season tickets for the Wild games and two season tickets for the Gophers games. (Ex. 2 at 132) The Local also purchased four season tickets for the Vikings games in 2007. (Ex. 216; 3007) Each year the Executive Board approved the purchase of the season and post season tickets to the

various sporting events. (Exs. 216, 218, 219, 225, 228, 232, 235, 240, 242, 244, 245, 249, 250, 254, 257, 260, 263, 272, 274, 282, 289, 294)

Slawson, Jr. acknowledged it was his responsibility to keep the tickets and record the use of the tickets. (Ex. 2 at 131-134, 140; Ex. 1 at 44). Slawson, Sr. said that the Local employees recognized that any Local expenditure required that the Local record the five W's: Who, What, Where, When and Why. (Ex. 1 at 41) For the tickets the What, Where and When were automatically shown. The Local had to keep track of who actually used the tickets and that the tickets were used for a valid union purpose ("the Why"). (Exs. 3015-3031) Slawson, Jr. testified that he knew that the tickets were Local assets and that the tickets must be used for union business. (Ex. 2 at 138) He also testified he would have his staff prepare calendars for all the teams and these would be used to track the use. (Ex. 2 at 133; Exs. 3017-3033)

Slawson, Jr. testified he distributed the tickets to the games in several different ways. One was for anyone who was interested in having the tickets to a specific game to come to his office and let him know what game the person wanted the tickets for. (Ex. 2 at 133) Another way was to divide the tickets among the business agents and then "just [have them] pass them out". (Ex. 2 at 133) When the tickets were given to the business agents in the past he would not record the name of the individual who purportedly received the tickets from the agent. (Ex. 2 at 134-135) He stated that for the last two or three years, however, he had instructed the business agents that they had to give him the name of the individual who actually received the tickets. (Ex. 2 at 134-135) When Slawson, Jr. gave the tickets to a business agent he would write the name of the business agent on the calendar. (Ex. 2 at 133-136) In his absence, his secretary would do this. (Ex. 2 at 133-134; Exs. 3015-3031) When the agent then gave the tickets to a steward or to a member, the business agent was to come to Slawson Jr.'s office and write down

on the calendar the name of the individual to whom the business agent gave the tickets. (Ex. 2 at 135-136; Exs. 3015-3031) This system was deficient and would not show all the users of the tickets. Slawson, Jr. acknowledged the business agent only gave Slawson, Jr. the name of the individual who received the multiple tickets. (Ex. 2 at 134-135) Slawson, Jr. noted that the majority of the time when he gave the tickets to the business agent, the business agent would know then to whom he was going to give the tickets. (Ex. 2 at 135-136) When that happened, Slawson Jr. would put the name of the recipient of the tickets in the calendar, but not all ticket users would be named. (Ex. 2 at 135-136; Exs. 3015-3031)

Another way tickets were distributed was to have drawings for the tickets at membership meetings. (Ex. 2 at 133-134; Exs. 127-176) This was a rare occurrence. A review of the membership meeting minutes for the period from January 2007 through May 2012 disclosed that in only six instances were tickets to Twins games given to members at meetings.<sup>148</sup> In each of these instances, the name of the member who received the tickets was noted in the minutes. (Exs. 157, 158, 166, 167, 174, 176) The minutes did not reflect there were any raffles or awarding of tickets to members for any of the other teams. (Exs. 127-176) In addition, Slawson claimed sometimes the tickets were donated to charity. (Ex. 2 at 133-134; Exs. 3015, 3028, 3018, 3025, 3020) The charity would then sell the tickets to raise funds for the charity. (Ex. 2 at 134)

Another alleged use of the tickets was to give some to a member when he signed up for the PAC. (Ex. 2 at 136-137; Exs. 3015, 3023, 3017, 3024, 3026) Slawson Jr. also stated he gave tickets to Ledger, the Strategic Campaign Director, for lobbying purposes. (Ex. 2 at 136-137) Slawson Jr. testified that if Ledger gave the tickets to someone, either Ledger or he would put the

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<sup>148</sup> These meetings included April 15, 2010, May 23, 2010, April 10, 2011, May 26, 2011, March 18, 2012 and May 20, 2012. (Exs. 157, 158, 166, 167, 174, 176)

name of the individual who received the tickets in the calendar. (Ex. 2 at 137) In addition, he testified the Local gave tickets to each staff member to attend one game a year. (Ex. 2 at 139-140)

The calendars of sporting events Slawson Jr. maintained were reviewed for the years 2007 through 2012. (Exs. 3015-3031) In a number of instances there were not any names listed as to who used the tickets.<sup>149</sup> Most importantly, in almost all instances there was no union reason recorded as to why the person who received the tickets was given tickets at members' expense to a sporting event. (Exs. 3015-3031) Slawson, Jr. testified as to several occasions when the name of the individual who used the tickets was not listed on the calendar, but only the name of a business agent or the name of a Local 120 office, i.e., "Fargo" office was printed on the calendar. (Ex. 2 at 140-141) Slawson Jr. acknowledged that in those instances he did not know the ultimate recipient of the tickets and there was no Local record of the users. (Ex. 2 at 140-141; Exs. 3015-3031) In many instances only the last name or first name was listed. In addition, many of the names were illegible. (Exs. 3015-3031)

**a. Minnesota Twins Baseball Tickets**

Local 120 purchased four season tickets to 81 Twins home games each year. (Exs. 3001-3008) The costs of these tickets were:

<u>Year</u>	<u>Cost</u>
2007	\$ 6,600.00
2008	\$ 19,763.00
2009	\$ 37,142.00
2010	\$ 26,836.00
2011	\$ 23,336.00
Total	<u>\$113,677.00</u>

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<sup>149</sup> In 2007, there were seventeen blank spaces on the calendar. In 2008, there were 10 blank spaces on the calendar. In 2009, there were 6 blank spaces on the calendar. In 2010, there were 3 blank spaces on the calendar. In 2011, there were 10 blank spaces on the calendar. In addition, in many instances there was only a first or last name listed and in many instances the names could not be read. (Exs. 3015-3031)

(Exs. 225, 235, 240, 249, 250, 257, 260, 282, 3001-3006)<sup>150</sup>

Local 120 held membership meetings each month except for June, July and August each year. (Exs. 100-176) The baseball season began in early April and ended in late September or early October. Each year the Local purchased four tickets to each of the 81 games the Twins played at home for a total of 324 tickets. (Exs. 3001-3006; 3015-3020) A review of the membership meeting minutes for the period from January 2007 through December 2009 disclosed that no tickets to Twins games were given to members at meetings in those years. (Exs. 127-153) A review of the membership meeting minutes for the period from January 2010 through May 2012 disclosed that Twins tickets were given out to two members at each of six meetings. (Exs. 154-176) In 2010, tickets to Twins games were given to two members at the April 15 and May 23, 2010 meetings. (Exs. 157 and 158) In 2011, tickets to Twins games were given to two members at the April 10 and May 26, 2011 meetings. (Exs. 166-167) In 2012, tickets to Twins games were given to two members at the March 18 and May 20, 2012 meetings. (Exs. 174, 176) Of the 1,620 tickets purchased over five years, at most, forty-eight tickets were given out at membership meetings, assuming a winning member was given four tickets.

According to the Local's minutes, no tickets for the other teams were ever raffled off. (Exs. 127-176, 3015-3031)

**b. Minnesota Vikings Football Tickets**

At the March 16, 2007 Executive Board meeting, the Board voted to purchase season tickets to the 2007 Vikings home football games. (Ex. 216) On April 2, 2007, the Local issued

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<sup>150</sup> In 2009, the Twins participated in post season play. They played one game at home before they were eliminated. On September 28, 2009, the Local issued check number 51185 in the amount of \$5,955 to the Twins for post season tickets. (Exs. 3001, 3002) When the Local purchased the season tickets for the 2010 year, the Local received a set-off from the Twins for the 2009 post season tickets which they had purchased and not used. (Ex. 250, 3002-3006)

check number 37115 to the Minnesota Vikings for \$10,060. (Ex. 3007) In 2007, the most expensive season ticket to a Viking football game was \$1,160. (Ex. 3032) The Local paid \$4,640 for the tickets and additional \$5,360 for four VIP Tent ticket packages for each game that included “Vikings alumni autograph opportunities, live music, cheerleader visits, a special Viking novelty gift, parking, and a lower level game ticket”. (Ex. 3033)

In 2007, the Vikings played nine home games. (Exs. 3015, 3021) The calendar the Local maintained indicated the date and time of the game, and the team the Vikings played. (Exs. 3015, 3021) The calendar also listed the name of an individual who allegedly received all four tickets for that game. Assuming he went, the names of the other three individuals who attended the first eight games were not listed. For the last game, the Local listed “ABF Blaine”. (Exs. 3015, 3021) The calendar did not list the names of any individual who attended this game. (Exs. 3015, 3021) The union reason for any of the tickets being used was not recorded. (Exs. 3015, 3021)<sup>151</sup>

At the November 20, 2009 Executive Board meeting, the Board voted to purchase two Viking Tent packages for the November 29, 2009 game between the Vikings and the Chicago Bears. Each tent package cost \$325, for a total of \$650. (Exs. 250, 3008) The Executive Board minutes stated that the tickets were to be used “for the possible merger with Local 749, Sioux Falls, SD”. (Ex. 250) Entertaining an officer from another Local, if that was what was meant, would not have been a proper union purpose. The Local did not furnish any records showing who used the tickets for this game.

The total cost of tickets to the Vikings football games in 2007 and 2009 was \$10,710. (Exs. 3007-3008) There was no record of any Vikings football tickets being given to or raffled off to members at any of the membership meetings in 2007. (Exs. 127-135)

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<sup>151</sup> The Board voted not to purchase season tickets to the Vikings games for 2008. (Ex. 228)



**c. Minnesota Wild Hockey Tickets**

Local 120 purchased four tickets to Wild hockey games. (Exs. 3009-3010) Slawson Jr. testified that the Local had purchased tickets to the Wild for the last five years. (Ex. 2 at 132) The Wild played forty-one games each year in Minneapolis. (Exs. 3015, 3022-3026) The cost of these tickets each year was as follows:

<u>Year</u>	<u>Cost</u>
2007	\$ 15,775.01
2008	\$ 16,177.50
2009	\$ 15,323.00
2010	\$ 14,635.00
2011	\$ 14,975.00
Total	<u>\$ 76,885.51</u>

(Exs. 218, 232, 242, 244, 254, 289, 3009, 3010)<sup>152</sup>

In 2011, the Local paid \$14,975 for season tickets to Wild hockey games. (Exs. 3009-3010) The Local made eight payments of \$1,497.50 each between March and November 2011 and a final payment of \$2,995 in December. (Exs. 3009-3010) Slawson, Sr. testified under oath that the Local had a “loss” every month in 2011. Because of the financial condition he claimed he had been forced in April 2011 to lay-off a business agent approximately a month after it received the season tickets. (Ex. 22 at 37, 38, 41)

The calendar entries for the Wild games failed to identify the business purpose for any game. (Exs. 3015, 3023-3026) All the end users of the tickets were not identified. (Exs. 3015, 3022-3026) There were no minutes reflecting any Minnesota Wild hockey tickets being given to

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<sup>152</sup> In 2010, the cost of four season tickets to Wild hockey games was \$14,635.00. (Exs. 3009-3010) The Wild gave ticket holders different payment options. The Local elected to pay the cost of the 2010 season tickets in two equal payments of \$7,317.50 each. (Exs. 3009-3010) On March 19, 2010, the Local issued check number 53546 in the amount of \$10,677.50 to the Minnesota Wild. (Exs. 3009-3010) The Local paid the first installment of \$7,317.50 for the season tickets and \$3,360 for playoff tickets. (Exs. 3009-3010) On June 18, 2010, the Local issued check number 55086 in the amount of \$3,957.50 to the Minnesota Wilds to pay for the second installment. (Exs. 3009-3010) The Local had the \$3,360 which they paid for the playoff tickets applied to the cost of the season tickets. The total cost the Local paid was \$14,635.00. (Exs. 3009-3010)

or raffled off to members at any of the membership meetings between January 2007 and May 2012. (Exs. 127-176) Yet, the calendar that the Local maintained indicated that tickets to Wild games were given out at March 22, 2009 and April 10, 2011 membership meetings. (Exs. 3024, 3026, 242, 166) <sup>153</sup> Suspiciously, no names were listed. (Exs. 3024, 3026, 147, 166) The March 2009 and April 2011 membership meeting minutes did not list any Wild tickets being given out to any member. (Ex. 147, 166) The Local minutes were detailed in listing anything given away, including Teamster jackets. (Exs. 127-148, 150-176) If the tickets were actually given away, the Local's practice would have been to list them.

**d. University of Minnesota Golden Gophers Hockey Tickets**

Every year, from 2007 through 2011, the Local purchased two season tickets to the Gophers hockey games. (Ex. 3011-3013) The Gophers played between twenty-one and twenty-four home games each of these years. This usually included two exhibition games. The cost of these tickets each year was as follows:

<u>Year</u>	<u>Cost</u>
2007	\$ 2,298.00
2008	\$ 2,378.00
2009	\$ 2,858.00
2010	\$ 3,020.00
2011	\$ 2,930.00
Total	\$ 13,484.00

(Exs. 3011-3013)

In June 2011, the Local paid \$2,930 for season tickets to the Gopher hockey games. (Ex. 3011-3012) Again, that was when as Slawson Sr. testified during a lawsuit that the Local had

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<sup>153</sup> There was no membership meeting on March 22, 2009. The March 2009 membership meeting was held on March 15, 2009. (Ex. 147)

been “losing money” and he had been forced to lay-off a business agent because of “economic reasons”. (Ex. 22 at 37, 38, 41)

The calendars for the Gopher hockey tickets only listed the name of one individual for each game for these years. (Exs. 3027-3031) In addition, there was no recording for what the union purpose of any of the tickets were used. (Exs. 3015, 3027-3031) The 2011 calendar listed on January 7, 2011 that tickets to the Gopher hockey game were raffled off at a membership meeting. (Exs. 3015, 3027-3031) A review of the 2011 membership meeting minutes did not indicate that any Gopher hockey tickets were given to any member. (Exs. 3031, 163-171) Again, meeting minutes were characteristically detailed in listing anything that was given away.

## **2. False Claims to Have the Local Pay the President’s Personal Expenses**

On at least two occasions Slawson, Jr. submitted false justifications for expenses the Local paid on his behalf. Slawson, Jr. caused the Local to pay for a \$194.50 bill incurred on August 14, 2011, at 1:21 a.m. Sunday morning, at the Teamster Club in Fargo, ND. (Ex. 3098; Ex. 2 at 115-117) The bill for alcoholic drinks and food was \$162.50. (Ex. 3098) There was a tip of \$32.00. (Ex. 3098) He listed on his receipt as present: Slawson, Sr., Donny Walz and Brian Nowak, who were Fargo business agents, Kathy Savaginaw, who was the Teamster Club Manager, himself and “various members.” (Ex. 3098) He placed the charge on his union credit card. (Ex. 2 at 115-117; Ex. 3098)

The two business agents he listed as being present were not there. They both stated under oath that they were not there. (Ex. 14 at 12-13, 18-19; Ex. 7 at 38-42) That Saturday, August 13, was the day of the Fargo Air Show. (Ex. 7 at 39-40) Both Nowak and Walz were at their lake homes outside of Fargo that night. (Ex. 14 at 18-19; Ex. 7 at 39-40) Nowak had been with the Slawsons at the Bar the previous night. (Ex. 14 at 18-19)

There was no scheduled union meeting in Fargo for the early morning hours of Sunday in August. There was no union purpose to the expense. The vague description “various members” was something the Local had been specifically alerted to as being inadequate. (Ex. 325) There was no union purpose for the Local to be paying for drinks and food for the Slawsons with the bar manager.

Slawson, Jr. also caused the Local to pay for an expense he charged on December 2, 2011 at the Holiday Inn in St. Cloud. (Ex. 3097) He wrote on the receipt, “Meals and Bevs, St. Cloud Area Mem Mtg, Dave Shrunk & self w various members from Freight and Construction.” (Ex. 2 at 111-112; Ex. 3097) The amount claimed was \$104.48. (Ex. 3097) There was no description of what items were bought, what the union purpose was and who the “union members” were. (Ex. 3097) Again, the Local had been alerted to the inadequacy of such descriptions. (Ex. 325) Business agent Dave Shrunk (“Shrunk”), whom Slawson, Jr. noted as present on the receipt, testified under oath that he was not present with Slawson, Jr. at the Holiday Inn at that time. (Ex.6 at 14-15) Shrunk had been at a meeting with members. (Ex. 14 at 11-13) Slawson, Jr., was also at that meeting. (Ex. 14 at 10) Immediately after the meeting, Shrunk and members went to the Holiday Inn, which he left at 8:50 p.m.. (Ex. 6 at 9-10; Ex. 3016) Slawson was not present at that time. (Ex. 6 at 9-10) To his reimbursement request for his expenses at the Holiday Inn that evening, Shrunk attached a list of the members’ names who were at the meeting. (Ex. 6 at 10-11; Ex. 3106) Slawson, Jr.’s receipt was also from the Holiday Inn bar but for later that night. (Ex. 3097; Ex. 6 at 14-15)

Even if Slawson’s receipt was not false, the Local should not have paid his expenses. On December 4, 2011, when Slawson, Jr. allegedly was using Local money to buy drinks for members according to his receipt, he was involved in a contested election for the President of

Local 120. (Ex. 11 at 67; Ex. 13 at 4-5) Slawson, Jr., a candidate, should not have been using Local resources to buy drinks for voters to promote his candidacy. 29 USC § 401(g)<sup>154</sup> Indeed, the Local seems to have crossed the line on several occasions in using Local union resources to promote candidates in Local and International elections, including Slawson, Jr. allegedly distributing tickets to members directly or through business agents during the election period, the use of Local equipment and coercing Local employees to volunteer their time during working hours at the union offices to assist in campaigning (Ex. 9 at 27-33; Ex. 3 at 34; Ex. 9 at 37-38)

### **3. Other Inappropriate Charges**

Slawson, Sr. testified that the Local 120 officers and business agents had Local credit cards. (Ex. 1 at 17, 18) He stated that he instructed all employees with a Local credit card that it was for authorized union business only. (Ex. 1 at 18) When the credit card bills came in every month, Kristine Rademacher, the Local's bookkeeper, according to Slawson, Sr., "collates them, goes through them, makes sure that the 5 Ws are on every bill, and that the expense is within the guidelines". (Ex. 1 at 18, 21) He stated that the five Ws were Who, What, When, Where and Why. (Ex. 1 at 21) Every month he received a Quickbook report that listed all Local expenses, including employee charges, and he would go through the report "item by item" for every bill the Local paid. (Ex. 1 at 18, 21) Slawson, Sr. stated that every two or three months he would "go through the actual receipts". (Ex. 1 at 18-19)

Slawson, Sr. confirmed that the Local's credit card should primarily be used for meals when the individual was out of town. (Ex. 1 at 23) Employees could use the credit card for

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<sup>154</sup> Title 29 USC 401(g) provides:

No moneys received by any labor organization by way of dues, assessment, or similar levy, and no moneys of an employer shall be contributed or applied to promote the candidacy of any person in any election subject to the provisions of this subchapter. Such moneys of a labor organization may be utilized for notices, factual statements of issues not involving candidates, and other expenses necessary for the holding of an election.

meals in town in “certain situations, such as meeting with an employer and a steward”. (Ex. 1 at 23) While the Local did not have a written policy about using the Local’s credit card for meals in town when only employees of the Local were present, Slawson, Sr. swore that he followed the Department of Labor guidelines in this situation which was that such meals were “frowned upon and should be the exception to the rule versus the rule”. (Ex. 1 at 24)

In May 2009, the Department of Labor conducted an audit of Local 120. (Ex. 325) On May 27, 2009, the Department of Labor sent the Local a letter summarizing its findings. (Ex. 325) In this letter, they stated that they had conducted an exit interview with Slawson, Sr. and Costello, the Local’s attorney, and discussed their findings. (Ex. 325; Ex. 1 at 39 - 41) The second item listed in the letter was “Meal Expense”. The letter stated the following:

Local 120 did not require officers and employees to submit itemized receipts for meal expenses totaling at least \$2,500. Itemized receipts provided by restaurants to officers and employees must be maintained. These itemized receipts are necessary to determine if such disbursements are for union business purposes and to sufficiently fulfill the record keeping requirement of LMRDA Section 206.

Local 120 records of meal expenses did not always include written explanations of union business conducted or the names and titles of the persons incurring the restaurant charges. Records of meal expenses must include written explanations of the union business conducted and the full names and titles of all persons who incurred the restaurant charges. Also, the records retained must identify the names of the restaurants where the officers or employees incurred meal expenses.

(Ex. 325)

The Department of Labor website, under Office of Labor Management Standards (“OLMS”), listed its policy for the use of Union credit cards. (Ex. 334) It stated that union credit cards can only be used for “meals necessary for conducting union business while in a travel status”. (Ex. 334) It further stated that the receipt must include “(a) a written explanation of the specific union business conducted (it is insufficient to simply record ‘union business’ –

you must be more specific than that), (b) the full names and (c) titles of all persons incurring the food and beverage charges”. (Ex. 334)

A review of credit card charges the officers and business agents submitted for the period from September 2009 through June 2011 disclosed multiple instances where officers and business agents used the Local’s credit card for meals near the Local’s office when only other officers or Local employees were present. (Exs. 3034, 3035, 3096)<sup>155</sup> For the four months between September and December 2009, after the Department of Labor audit that year, for example, the officers and business agents had 15 meals in town which totaled \$753.31 when only officers and business agents were present. (Exs. 3034, 3036-3042) In 2010, they had at least 48 meals near Blaine which totaled \$3,077.01 when only officers and business agents were present. (Ex. 3096; Exs. 3043-3067, 3069, 3070, 3071, 3073) Between January and June 2011, they had at least 33 meals in town which totaled \$2,566.32 when only officers and business agents were present. (Ex. 3035; Exs. 3068, 3072, 3074-3095) For some of the charges, out of town employees were present but all included Blaine based employees on the charges, frequently they were late at night and the majority of the charge was for alcoholic drinks. The analysis is based on Local records for expenses paid.

**a. 2009 Credit Card Charges**

Below are two examples.

On September 8, 2009, Slawson, Jr. charged \$42.87 on his union credit card for himself and two other Local officers, Slawson, Sr. and Rademacher at Nicklow’s Cafe in Spring Lake

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<sup>155</sup> In town was determined to mean within 20 miles or one half hour from Blaine, Minnesota where the Local is located. For instance, Coon Rapids is 5 miles or 12 minutes from Blaine; East Bethel is 13 miles or 15 minutes from Blaine; Ham Lake is 8 miles or 11 minutes from Blaine; Minneapolis is 18 miles or 26 minutes from Blaine; Roseville is 14 miles or 16 minutes from Blaine; Spring Lake Park is 4 miles or 11 minutes from Blaine and St. Paul is 20 miles or 25 minutes from Blaine. (Exs. 3099-3105)

Park, Minnesota. (Ex. 3036) All were Blaine based employees. (Ex. 306) Most of the receipt was illegible. (Ex. 3036) The notation on the back of the credit card receipt stated “Meals & Bevs” and “prepare for [?] Mtg” (Ex. 3036) What meeting cannot be deciphered. The credit card receipt indicated that Slawson, Jr. paid the charge at 12:58 p.m.. (Ex. 3036) It is not apparent, when the Local office was nearby, why it was necessary to prepare for a meeting in a restaurant. There was no union purpose for having the members pay for the officers’ lunch. The Local paid the bill.

On October 14, 2009 Slawson, Jr. charged \$78.27 on his union credit card for himself and another officer, Klootwyk, at Majors Sports Cafe in Blaine, Minnesota. (Ex. 3034; Ex. 3038)  
<sup>156</sup> The receipt indicated that the entire charge was for alcoholic drinks, except for \$12.70 for “cross-cut fries” and “chix mozz combo.” (Ex. 3038) Slawson, Jr. noted on the back of the credit card receipt “E Board Mtg”. (Ex. 3038) The credit card receipt indicated that Slawson, Jr. made the charge at 11:52 p.m.. (Ex. 3038) The Executive Board meeting was not held until the next day, October 15, 2009. (Ex. 249) There was no union purpose for this meeting. The Local paid the bill.

**b. 2010 Credit Card Charges**

Below are some examples.

On January 29, 2010, Vice President Klootwyk charged \$132.76 on his union credit card for himself and three other Blaine based Local officers, Slawson, Sr., Slawson, Jr. and Rademacher, at Todd Chester’s Route 65 Pub & Grub in East Bethel, Minnesota. (Ex. 3096; Ex.

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<sup>156</sup> Slawson, Jr. worked out of Local 120’s offices in Blaine while Klootwyk worked out of Local 120’s offices in Iowa. (Ex. 306)



3043)<sup>157</sup> At least \$65.50 of the total cost was for alcoholic drinks. (Ex. 3043) The receipt indicated that food was also purchased. (Ex. 3043) The food and drink order indicated that it was placed at 11:53 p.m. on January 28, 2010. (Ex. 3043) The bill was charged at 12:13 a.m. on January 29, 2010. (Ex. 3043) Klootwyk noted on the back of the credit card receipt “Exec Board Mtg”. (Ex. 3043) There was an Executive Board meeting held on January 29, 2010 at the Local’s office, which ended at 10:15 a.m., and was not held at the bar. (Ex. 252) The Local paid the bill for which there was no union purpose.

On March 26, 2010, Vice President Klootwyk charged \$99.27 on his union credit card for himself and fellow officer, Slawson, Jr., at Chester’s Route 65 Pub & Grub in East Bethel, Minnesota. (Ex. 3096; Ex. 3048) The entire charge was for alcoholic drinks, except for \$15.65 which was for “meat lovers”. (Ex. 3048) The food and drink order indicated that it was placed at 12:46 a.m on March 26, 2010. (Ex. 3048) Klootwyk noted on the back of the credit card receipt “Exec Board Mtg”. (Ex. 3048) The Executive Board meeting had been held at 1:15 p.m. March 26, 2010 at the Local’s offices and not at the bar. (Ex. 254) The credit card receipt indicated Klootwyk made the charge at 1:02 a.m. the following day. (Ex. 3048) There was no union purpose for this charge.

On May 21, 2010, Rademacher charged \$191.52 on his union credit card for himself and three other Local officers, Slawson, Sr., Slawson, Jr. and Klootwyk as well as business agent Donny Walz, at Chester’s Route 65 Pub & Grub in East Bethel, Minnesota. (Ex. 3096; Ex. 3057) The entire amount on the receipt was for alcohol. (Ex. 3057) Rademacher noted on the receipt “Fargo Bar & Gaming Mtg” and “Food & Beverage for 5 people”. (Ex. 3057) There was no

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<sup>157</sup> The Slawson family friend, Todd Chester, was one of the bar’s owners. (Ex. 2 at 49; Ex. 2023) Slawson, Sr. and Rademacher work out of Local 120’s offices in Blaine while Klootwyk works out of the Local’s offices in Iowa. (Ex. 306)

food. (Ex. 3057) There were no minutes of any Bar & Gaming meeting for May 2010. (Ex. 2074)<sup>158</sup> The credit card receipt indicated that Rademacher made the charge at 12:02 a.m.. (Ex. 3057) The Local paid the bill. There was no union purpose.

On August 19, 2010, business agent Richard Erickson charged \$317.37 on his union credit card for himself and four Local officers, Slawson, Sr., Slawson, Jr., Klootwyk and Rademacher, and three other business agents, Baker, Rosenthal and Knudtson at the Ole Piper Inn in Blaine, Minnesota.<sup>159</sup> (Ex. 3096; Ex. 3062) At least \$218.25 of the bill was for alcoholic drinks. (Ex. 3062) The receipt also indicated that two pizzas and nachos were ordered. (Ex. 3062) Erickson noted on the back of the credit card receipt “Martin Costello BA Training” and “union business”. (Ex. 3062)<sup>160</sup> The credit card receipt indicated that Erickson made the charge at 10:27 p.m.. (Ex. 3062) Martin Costello was an attorney employed by the Local. (Ex. 306, 322) The Local paid the bill. There was no union purpose.

On September 8, 2010, Slawson, Sr. charged \$169.97 on his union credit card for himself, fellow Local officer Rademacher and then Local 120 employee Todd Chester at Chester’s Route 65 Pub & Grub in East Bethel, Minnesota. (Ex. 3096; Ex. 3065) The entire bill was for alcoholic drinks, except for \$24.48 for “8 chx wings & deluxe”. (Ex. 3065) He charged the bill at 10:05 p.m.. (Ex. 3065) Slawson, Sr. noted on the back of the credit card receipt “Fargo Bar and Gaming mtg”. (Ex. 3065)<sup>161</sup> The Local paid the bill. There was no union purpose.

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<sup>158</sup> The minutes did not show any formal meeting of the Bar and Gaming Board that day. (Exs. 2074, 2105-2106) The five employees present were all members of that Board. (Exs. 2103-2106)

<sup>159</sup> Klootwyk and Baker worked out of Local 120’s offices in Iowa. (Ex. 306) The others work out of the Local’s offices in Blaine.

<sup>160</sup> “Union business” was expressly noted in the Department of Labor website as an inadequate description. (Ex. 334)

<sup>161</sup> The Bar & Gaming Board had a meeting on September 30, 2010. There were no minutes of any Bar and Gaming meeting on September 8, 2010. (Exs. 2080-2128)

On September 30, 2010, Slawson, Sr. charged \$250.25 on his union credit card for dinner for himself and three other Local officers, Slawson, Jr., Rademacher and business agent Wedebrand, and business agent Erickson at the Ole Piper Inn in Blaine, Minnesota. (Ex. 3096; Ex. 3069) All the Local employees were Blaine based. (Ex. 306) There was no itemized receipt as to what was purchased. (Ex. 3069) The Local records showed the Ole Piper supplied itemized receipts in connection with other charges. (Ex. 3086, 3062) Slawson, Sr. noted on the back of the credit card charge “Bus Dinner, co assigned to new agents”. (Ex. 3096; Ex. 3065) The credit card receipt indicated that Slawson, Sr. paid the charge at 11:15 p.m.. (Ex. 3069) The assignment of agents could have been done at the Local’s offices. The Local paid the bill. There was no union purpose.

**b. 2011 Credit Card Charges**

Below are examples from 2011. On January 6, 2011, business agent Brad Jenkins charged \$121.75 on his union credit card for himself, Local officer Klootwyk and business agent Erickson at the Ole Piper Inn in Blaine, Minnesota. (Ex. 3065; Ex. 3077) Jenkins noted on the bottom of the receipt “no receipt available”. (Ex. 3077)<sup>162</sup> On other occasions, this bar had been able to supply detailed receipts. (Ex. 3086, 3062) Jenkins noted on the back of the receipt “food & beverages” and “Local 120 BA Training”.<sup>163</sup> (Ex. 3077) The credit card receipt indicated that Jenkins made the charge at 1:29 a.m.. (Ex. 3077) The Local paid the bill. (Ex. 3077) There was no union purpose.

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<sup>162</sup> It is assume he meant the itemized receipt was missing. The Ole Piper Inn has issued detailed receipts on numerous occasions. (Exs. 3086, 3062) Why a detailed receipt was not available is unknown.

<sup>163</sup> Jenkins worked out of the Local’s office in South Dakota, Klootwyk worked out of the Local’s office in Iowa and Erickson worked out of the Local’s office in Blaine. (Ex. 306)

On January 12, 2011, business agent William Wedebrand charged \$205.62 on his union credit card for himself and four Local officers, Slawson, Sr., Slawson, Jr., Rademacher and Klootwyk, and four other business agents, Rosenthal, Erickson, Jenkins and Huber, at the Ole Piper Inn in Blaine, Minnesota.”<sup>164</sup> (Ex. 3035, 3074) At least \$136.50 of the total charges was for alcoholic drinks. (Ex. 3074) The bill indicated that a pizza and a wings platter were also ordered. (Ex. 3074) Wedebrand noted on the back of the credit card receipt “contract meeting for Twin Town treatment”. (Ex. 3074) The credit card receipt indicated that Wedebrand paid the charge at 11:01 p.m.. (Ex. 3074) The meeting could have been held at the Local’s offices. The Local paid the bill. (Ex. 3074) There was no union purpose.

On February 22, 2011, Slawson, Sr. charged \$165.26 on his union credit card at Jimmy Johns in Blaine, Minnesota. (Ex. 3035; Ex. 3080) Slawson, Sr. noted on the back of the receipt “food & drinks, lunch, work place realignment all craft, Brad Sr.”. (Ex. 3080) No names were listed. (Ex. 3080) There was no reason for the members to pay for food for Slawson, Sr. and other unnamed persons. The Local paid the bill. (Ex. 3080)

Two charges on the same day at the same bar for the same individuals were not uncommon. For example, on March 24, 2011, business agent Walz charged \$341.20 on his union credit card for himself and three Local officers, Slawson, Jr., Rademacher and Klootwyk, and business agents Jenkins, Nowak and Erickson at the Ole Piper Inn in Blaine, Minnesota.<sup>165</sup> (Ex. 3035; Ex. 3092) There was no receipt which listed what was purchased. (Ex. 3092) On other occasions, the Ole Piper Inn issued detailed receipts as to what was purchased which were

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<sup>164</sup> Klootwyk worked out of the Local’s office in Iowa; Jenkins worked out of the Local’s office in South Dakota and the others worked out of the Local’s office in Blaine. (Ex. 306)

<sup>165</sup> Walz and Nowak worked out of the Local’s office in North Dakota; Klootwyk worked out of the Local’s office in Iowa; Jenkins worked out of the Local’s office in South Dakota and the other three work out of the Local’s office in Blaine. (Ex. 306)

used to support Local charges. (Ex. 3086, 3062) Walz noted on the back of the credit card receipt “food & beverage” and “General Membership/ Central States Mtg”. (Ex. 3092) The Local had a general membership meeting between 7:00 p.m. and 8:25 p.m. on March 24, 2011. (Ex. 165) The credit card receipt indicated that Walz made the charge at 12:36 a.m. on March 24, 2011. (Ex. 3092) The Local paid the bill. There was no union purpose for this expense. The Department of Labor had alerted the Local to the necessity of providing details as to what the Local was spending money on. (Ex. 334) There appears to have been a pattern of not submitting itemized receipts for late night purchases at the Ole Piper. (Exs. 3092, 3069, 3077)

On this same date, March 24, 2011, at 2:11 a.m. also at the Ole Piper, Klootwyk charged \$104.37 on his union credit card for himself and fellow officer Slawson, Jr., and business agents Erickson, Jenkins, Nowak and Walz all of whom were on Walz’s earlier receipt. (Ex. 3035; Ex. 3086)<sup>166</sup> Klootwyk noted on the back of the credit card receipt “Exec Board Mtg”. (Ex. 3086) The receipt indicated that the entire bill was for alcoholic drinks, except for \$15.75 for a pizza. (Ex. 3086) There was an Executive Board meeting on March 24, 2011 from 10:10 a.m. to 2:40 p.m. at the Local’s offices and not at the bar. (Ex. 272) There was no union purpose for the Local paying this bill.

**G. Slawson, Sr. and Slawson, Jr. Repeatedly Violated the Local’s Bylaws**

Slawson, Sr., the Local’s principal officer and Secretary-Treasurer, and Slawson, Jr., the Local’s President, have systematically violated the Local’s Bylaws they had sworn to follow. Slawson, Sr. and Jr. caused the Local to violate Bylaw provisions in connection with the land purchase and the construction of the Local’s building. These Bylaw violations included the

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<sup>166</sup> Klootwyk worked out of the Local’s office in Iowa; Jenkins out of the Local’s office in South Dakota; Nowak and Walz out of the Local’s office in North Dakota and Slawson, Jr. out of the Local’s office in Blaine. (Ex. 306)

failure to obtain membership approval for the purchase of the land; the failure of the Executive Board and members to approve the initial mortgage and construction loan in the amount of \$3,382,966; the failure to obtain Executive Board and membership approval for borrowing an additional \$295,500; the failure to get Executive Board approval of Slawson, Sr.'s selection of experts; the use of strike fund monies in connection with the construction of the building and the failure to keep financial records at the Local showing how the Local's money was spent for the construction of the Local's building.

In addition, Slawson, Sr. violated the Bylaws when he hired other experts, such as Chester at the Bar, without the requisite Executive Board approval. He also failed to get Executive Board approval to set the terms and conditions of employment of some Local employees. Slawson, Sr. and Jr. also violated the Bylaws when they took stipends for being on the Bar and Gaming Board without the Local Executive Board's approval. Slawson, Sr. further violated the Bylaws when he removed an elected business agent and took away his salary and medical benefits without complying with the Bylaw procedures.

**1. Bylaw Violations Regarding the Land Purchase and Construction**

**a. Purchase of Land**

Section 14(B) (8) of the Local 120 Bylaws provides the following:

The Principal Executive Officer, together with the President shall have the authority to lease, purchase or otherwise acquire in any lawful manner for and on behalf of the organization any and all real estate or other property, rights and privileges, whatsoever deemed necessary for the prosecution of its affairs, and which the organization is authorized to acquire, at such price or consideration and generally on such terms and conditions as it thinks fit, and at its discretion pay therefore either wholly or partly in money or otherwise, up to Ten Thousand Dollars (\$10,000) for any one asset. The Local Union Executive Board shall have the authority to make such expenditures over Ten Thousand Dollars (\$10,000) up to a maximum of Forty Thousand Dollars (\$40,000) for any one asset. General membership approval shall be required for such expenditures in excess of Forty Thousand Dollars (\$40,000) for any one asset.

(Ex. 300 at 11) <sup>167</sup> Slawson, Sr. acknowledged membership approval was needed for expenditures over \$40,000. (Ex. 1 at 25) As described above, the members did not approve the terms and conditions of the Local's purchase of land and construction of the building which cost in excess of \$40,000. (Exs. 100-176) The land was purchased in November 2007. (Ex. 1031)

As described above at 19, there was a vague membership resolution in February 2006 granting the Executive Board the power to enter into a mortgage as high as 10 million dollars to buy land and build a building that the Joint Council would also use. (Ex. 119) At the time of the February 2006 membership vote, there were no mortgage terms to consider and no definite asset. Being without any knowledge of the terms of any loan or of the land being purchased, the members could not exercise the judgment the Bylaws required. Moreover, the membership could not delegate its responsibility under the Bylaws to the Executive Board. To change a Bylaw requirement, the Bylaws would have had to have been amended, which cannot be done without complying with the requirements of the IBT Constitution for amending Local Bylaws. (Ex. 302, IBT Const. Art. VI, Section 4(a)) Furthermore, the proposed plans were changed because in late 2006 the Joint Council decided not to join Local 120, so even the sketchy information before the membership had substantially changed. (Ex. 1 at 155)

Slawson, Sr. needed specific membership approvals for the mortgages actually entered into. (Ex. 300 at 11) To give any informed decision regarding the "terms and conditions" of the real estate transaction as the Bylaws required, the members at a minimum would have needed to know the cost of the land, what land and its size, the amount borrowed, the amount of any down payment, the interest rate, and the length of the mortgage. For the purchase of the land and

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<sup>167</sup> The Bylaw file from the IBT had a letter from the General President to Slawson, Sr. stating that the amounts in this Bylaw provision should be \$5,000 and \$10,000 instead of \$10,000 and \$40,000. (Ex. 336)

borrowing the funds to construct the building which took place in November 2007, the members and the Executive Board were never provided with the information necessary to make the decision the Bylaws required them to make before the Local could enter into such transactions.

Slawson, Sr. knew the requirement for membership approval for the purchase of the land, yet he chose to ignore it. (Ex. 1 at 25) Indeed, at the December 5, 2006 Executive Board meeting, which was after the February 2006 membership vote described above, Slawson, Sr. discussed the possible purchase of the Blaine land and told the Executive Board that, “any official action taken on a purchase will be voted on by the membership.” (Ex. 212)<sup>168</sup> Despite his recognition of the requirement, this was not done. When the land was actually purchased in November 2007 (Ex. 1031), there was no membership approval.

**b. Loans**

Pursuant to Section 14(B)(3) of the Local 120 Bylaws, the Local’s Executive Board has the authority to “[l]oan and borrow monies **directly and indirectly** for such purposes and with such security, if any, as it deems appropriate, and with such arrangements for repayment as it deems appropriate, all to the extent provided by law.” (Ex. 300 at 10 (emphasis added)) This Bylaw provision was violated when Slawson, Sr. and Slawson, Jr. caused the Local’s Building Holding Company to secure loans with the Local as guarantor for the purchase of the land and the construction of the building.

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<sup>168</sup> The December 5, 2006 Executive Board meeting minutes reported that Slawson, Sr. stated, . . . it looks like the Blaine location will work. Brad stated the cost of the new building will be slightly higher than the projected rent of our existing location. Brad has made intent to purchase the property to hold it; however this does not mean we are fully committed. Brad stated any official action taken on a purchase will be voted on by the membership.

(Ex. 200)



For example, the Local's Executive Board did not approve the terms of the November 9, 2007 Mortgage Note and Construction Loan Agreement for \$3,382,966 Slawson, Sr. entered into and for which Slawson, Sr. bound the Local as guarantor. (Exs. 1040, 1035) This Loan was secured with Slawson, Jr.'s reporting in the Building Holding Company minutes that the local had approved it. (Ex. 1055) Similarly, the Local's Executive Board did not approve the terms of the July 31, 2008 "Amendment to Mortgage Note" and "Amendment to Construction Loan Agreement" Slawson, Sr. entered into which increased the maximum amount of the loan to \$3,678,466, an increase of \$295,500 and for which Slawson, Sr. caused Local 120 to be the guarantor. (Exs. 1113-1114) In addition, without the requisite Executive Board approval, for this increase in the loan, Slawson, Sr. pledged as additional collateral a total of \$122,718 in two Local 120 accounts. (Exs. 1114, 1117, 1118) Slawson, Sr. signed the initial mortgage note and construction loan agreement, the amended mortgage note and construction loan agreement and the guarantys for both the original loan and the amended loan. (Exs. 1055, 1113, 1114, 1117, 1118) (These are fully discussed above, at 36-37, 53-56) The Bylaw provision requiring Executive Board approval covers the borrowing of "monies directly and indirectly." (Ex. 300 at 11) Slawson, Sr. failed to comply with this Bylaw provision. This would also have required membership approval since it was in connection with the construction of a building. (Ex. 300 at 11) Section 14(B)(8) also was violated. (Ex. 300 at 11)

**c. Strike Fund**

Pursuant to Section 33(B) of the Local's Bylaws in effect in 2007 and 2008 titled "Fraternal Benefits",

There shall be set aside the sum of Two (\$2.00) Dollars per month of each members [sic] dues for the purpose of financing this strike fund, and such sum set aside shall be used exclusively for the payment of strike benefits and strike expenses as the Local Union Executive Board shall determine. The strike fund shall be frozen at Two Hundred and Fifty Thousand (\$250,000) Dollars and the

Two (\$2.00) Dollars per month going into the strike fund shall then remain in the general fund to be designated for the purpose of negotiations, organizational work and good and welfare of the membership. When the strike fund goes below Two Hundred Thousand (\$200,000) Dollars the Local Union shall resume setting aside the sum of Two (\$2.00) Dollars per month of each members [sic] dues into the strike fund until it again reaches Two Hundred Fifty Thousand (\$250,000) Dollars.

(Ex. 300 at 42) As of May 31, 2008, the Local had a total of \$266,927.05 in four accounts which were described in Local and bank records as strike fund accounts. (Ex. 318)<sup>169</sup> In a violation of the Bylaws which did not appear directly connected to the building project, on June 16, 2008, Slawson, Sr. directed that \$50,000 be transferred from the Local's strike fund account at Central Bank to the Local's general fund. (Ex. 1121)<sup>170</sup> It was transferred. (Ex. 1121)

In addition to the improper \$50,000 transfer out of the Local's strike fund account at Central Bank, as described above, in July 2008, Slawson, Sr. also authorized the transfer of monies from two strike fund accounts into the Local's general fund as part of the \$410,000 wired to Bank Mutual. (Ex. 1027, 1028) As of June 30, 2008, the Local had \$216,927.05 in its strike fund accounts. (Ex. 316) On July 2, 2008, \$70,000 was transferred from the Local's strike fund account at Central Bank to the Local's general fund. (Ex. 1108) On July 2, 2008, Slawson, Sr. authorized all money from the Local's strike fund account at Smith Barney to be wired into the Local's general fund. (Ex. 1109) On July 3, 2008, \$119,130.87 was transferred from that Smith

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<sup>169</sup> One of the four strike fund accounts was at Smith Barney and had a balance of \$118,373.45 as of May 31, 2008. (Ex. 318) In Smith Barney account records, this account was described as "General Drivers, Helpers and Truck Terminal Employees Local No. 120 -Strike Fund" (Ex. 1109) One of the other strike fund accounts was at Central Bank and had a balance of \$122,312.23 as of May 30, 2008. (Ex. 318, 1121, 1122) The Central Bank account statement identified this accounts as "Minnesota Teamsters Local #120 Strike Fund". (Ex. 1121) The monies described in this report were taken from these two strike fund accounts.

<sup>170</sup> On June 16, 2008, the Local's bookkeeper sent Slawson, Sr. an email which stated:

Jerry Hentges, President of Central Bank called me and indicated that our checking account was negative most of last week and as of tomorrow it will be at a negative \$34,000.00 We may have enough money posted by tomorrow to cover that amount, if not Jerry suggested we transfer money out of the strike fund account. I'm sure the bank won't cover our overdraft charges much longer.

(Ex. 1121) In response, Slawson, Sr. wrote, "Move \$50,000 into it as we will need it anyway." (Ex. 1121)

Barney account to the Local's general fund. (Ex. 1107) In a letter dated October 11, 2012 after his IRB sworn examination, Slawson, Sr. acknowledged that this strike fund money totaling \$189,130 was part of the \$410,000 wired to Bank Mutual. (Ex. 1028) After the July 7, 2008 \$410,000 wire transfer, the balance in the Local's general fund was negative \$42,786.59. (Ex. 1110) The use of strike fund money for the building construction violated Section 33(B) of the Local's Bylaws which required that strike fund money "... shall be used exclusively for the payment of strike benefits and strike expenses as the Local Union Executive Board shall determine. . . ." (Ex. 300 at 42)

During his sworn examination, Slawson, Sr. claimed that any strike fund monies that were used for something other than strike related expenses were immediately replenished. (Ex. 1 at 179-181) In response to an October 2, 2012 letter from the Chief Investigator for all information regarding this alleged replenishment (Ex. 442), by letter dated October 11, 2012, Slawson, Sr. claimed that the strike fund money used as part of the \$410,000 was replenished because, apparently solely in his mind, he designated other general fund money as strike fund money. (Ex. 1028) In this letter, Slawson, Sr. claimed that four accounts were "set aside for the strike fund". (Ex. 1028) There were no documents supporting his claim. According to the letter, "as Secretary-Treasurer and Principal Officer of Local 120, Brad Slawson, Sr., has personally monitored and maintained the existence of the above-described accounts and CDs, and their respective balances, as being set aside for the strike fund." (Ex.1028) The four accounts Slawson, Sr. claimed were "set aside for the strike fund" continued to be described in Local records as general fund money. (Exs. 1028, 1123, 1124)<sup>171</sup>

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<sup>171</sup> For example, excerpts from the Trustees reports for June 30, 2009 and June 30, 2010 showed these accounts were listed as general fund accounts. (Exs. 1028, 1123, 1124) Moreover, for two of these same accounts, an account at Union Bank for \$66,197.09 and account number 601 at the Teamster Credit Union in the amount of

As of July 31, 2008, after the improper use of the strike fund monies, the total balance in the Local's strike fund accounts was \$28,739.31. (Ex. 317) This was under the \$200,000 threshold below which deposits into the strike fund of \$2.00 per member per month were to be made pursuant to Paragraph B of Section 33 of the Bylaws. (Ex. 300 at 42) Nevertheless, the Local did not start funding the strike fund accounts at that time. (Ex. 1122, 1107, 1108)

The Bylaw provision provided that strike funds could only be used for the payment of strike benefits and expenses "as the Local Union Executive Board" determined. (Ex. 300 at 42) Here the funds were used for an improper purpose and the Slawsons never secured Executive Board approval.

Several months after the money was transferred out of the Local's strike fund accounts to fund the construction of the building, the Local's Bylaws were amended to remove the above referenced Paragraph B of Section 33. (Exs. 145-147; Ex. 301)<sup>172</sup>

**d. Lack of Financial Records**

Local 120 Bylaw Section 10(A) required the Secretary Treasurer to keep itemized records "showing all money received and spent." (Ex. 300 at 5) Section 10(C) required the Secretary Treasurer to keep important records. (Ex. 300 at 5) Section 10(D) required the Secretary Treasurer to "keep a correct account of all monies paid to and paid out by the Local Union . . .".

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(continued...)

\$56,521.32, that Slawson, Sr. claimed he had designated strike fund accounts (Ex. 1028), on July 31, 2008, Slawson, Sr. signed deposit control agreements giving Bank Mutual "a first lien security interest in these accounts" as collateral for the increased construction loan. (Exs. 1117, 1118)

<sup>172</sup> The Bylaw amendment was read to the members at the January, February and March 2009 membership meetings. (Exs. 145-147) At the March 15, 2009, the members voted to eliminate Paragraph B from Section 33 of the Bylaws. (Ex. 147) The Bylaw amendment was submitted to the IBT for approval as Article VI, Section 4 of the IBT Constitution required. (Exs. 301, 302) On March 23, 2009, the IBT approved the Bylaw amendment removing Paragraph B from Section 33 of the Bylaws. (Ex. 335) The amendment removing Paragraph B from Section 33 of the Bylaws became effective on that date. (Exs. 302, 335)

(Ex. 300 at 6) In connection with the over four (4) million dollars spent on the land and construction of the building, the Secretary Treasurer failed to meet his obligations under Article 10. He did not keep the itemized records of money spent as required. Nor did he keep correct account of monies paid. Nor did he keep all important records at the Local as required.

For example, the Local did not have records of how Stone spent over \$3,000,000 of the Local's construction loan money after it received it from American Pride or First USA Title. An examination of the Local's records would not show how that money was spent.<sup>173</sup> As described above, under the Stone contract, the Local had the authority not only to audit Stone's payments and Stone's final accounting but also to get copies of its records. (Ex. 1001 at 7) As discussed above, the Slawsons chose not to direct that such an audit be done or the records be requested.

In addition, the Local and the Building Holding Company did not have a copy of the Construction Loan Agreement dated November 9, 2007 which Slawson, Sr. signed. (Ex. 420 at 3)<sup>174</sup> Similarly, the Local did not have Stone's cost sheet which showed how the \$3,091,514 amount in the Stone contract was calculated. (Ex. 1086)<sup>175</sup> The Local also did not have the Disbursing Agreement between the Building Holding Company, Bank Mutual and American Pride which set forth how the Local's construction loan monies were to be disbursed. (Ex. 1015)<sup>176</sup>

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<sup>173</sup> The records regarding how Stone spent the Local's construction loan money were obtained by subpoena from Stone. (Ex. 1099)

<sup>174</sup> A copy of this Construction Loan Agreement was obtained from Bank Mutual by subpoena. (Ex. 1040 and 1074)

<sup>175</sup> This cost sheet was obtained from Stone by subpoena. (Ex. 1099)

<sup>176</sup> A copy of this Disbursing Agreement was obtained by subpoena from Bank Mutual. (Exs. 1015, 1074)

Section 3(B) of the Bylaws provided that “All books, records and financial documents shall be kept at the principal office of the Local Union.” (Ex. 300 at 1) Slawson, Sr., the principal officer, violated this section. He allowed American Pride, a firm he retained without Executive Board approval, to provide expert advice in securing a mortgage and distributing draws from the Local’s construction loan, to keep records and financial documents in its possession. (Ex. 1031; Ex. 1 at 74-77; Ex. 10 at 22-23, 31) He did not have those records pertaining to over four million dollars of Local funds kept at the Local as required. (Ex. 10 at 31, 40, 54, 61)<sup>177</sup>

As discussed above, for the wire transfer of \$410,000 to Bank Mutual, the Local had no records for the distribution of this money other than an incomplete wire transfer request. (Ex. 1027) Slawson, Sr. and Slawson, Jr. authorized this transfer. (Ex. 1027)

**2. Slawson, Sr. Hired Experts without the Executive Board Approval the Bylaws Required**

Local 120 Bylaw Section 8(A) provided that the principal officer can select experts or providers of special services to assist the Local. (Ex. 300 at 4) The principal officer’s selection of the expert or provider of special service was subject to Executive Board approval. (Ex. 300 at 4)<sup>178</sup> Contrary to this Bylaw provision, the Executive Board did not approve the agreements for expert services the Local entered into with Staubach, Ryan and Pope. Nor did the Slawson, Sr. obtain the requisite approval for the Local to use the services of American Pride or attorney Katrina Joseph.

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<sup>177</sup> Lyle Slawson testified that the Local did not always receive from American Pride the records regarding American Pride’s disbursement of the draws. (Ex. 10 at 43)

<sup>178</sup> This Bylaw provision provided that the Local’s principal officer, “. . . shall also select the attorneys, accountants or other special or expert services to be retained by the Local Union, subject to the approval of the Local Union Executive Board.” (Ex. 300 at 4)

For example, on March 10, 2006, Local 120 entered into a Memorandum of Understanding with Staubach. (Ex. 1029)<sup>179</sup> Slawson, Sr. signed the agreement with Staubach on behalf of the Local without any Executive Board approval. (Ex. 1029)<sup>180</sup> On June 18, 2007, the Local entered into an interim agreement with Ryan pursuant to which Ryan was to “. . . provide Design/Build services for the construction of your new office facility in Blaine.”. (Ex. 1060) Slawson, Sr. signed this agreement. (Ex. 1060)<sup>181</sup> There was no Executive Board approval for this contract. On August 20, 2007, on behalf of the Local, Slawson, Sr. signed a contract with Pope Architects. (Ex. 1030) There was no Executive Board approval for this contract. (Ex. 213-225) Similarly, there was no Executive Board approval to use American Pride as the Local’s mortgage broker, to disburse funds from the Local’s construction loan or to manage the Local’s relationship with Bank Mutual. (Ex. 213-231)

In March 2010, Slawson, Sr. hired Chester as an expert in connection with the Bar. (Ex. 2020; Ex. 1 at 209-210) The Local Executive Board did not approve hiring Chester as an expert. (Ex. 257) At the June 30, 2010 Executive Board meeting, Slawson, Sr. reported, “We have hired a consultant for the Teamsters Club in Fargo. . . .” (Ex. 257) Chester was not identified. (Ex. 257) Chester had actually been employed as a consultant in February. (Ex. 2020)

Moreover, Slawson, Sr. violated Section 16(D) of the Bylaws by not having the Executive Board set the terms and conditions of employees he hired. (Ex. 300 at 14)<sup>182</sup> For

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<sup>179</sup> The memorandum of understanding was dated January 26, 2006, but was signed on March 10, 2006. (Ex. 1029)

<sup>180</sup> Staubach was paid a total of \$122,081 from the Local’s construction loan. (Ex. 1034)

<sup>181</sup> The maximum amount to be paid to Ryan under this interim contract was \$30,000. (Ex. 1060)

<sup>182</sup> Section 16(D) of the Local’s Bylaws provides in pertinent part:

The Local Union Executive Board may from time to time provide the terms and conditions of employment for officers, employees and representatives of this organization including, but not limited to,

example, in violation of Section 16(D) he hired Chester as a Local employee and set the terms and conditions of his employment, including giving him the benefit of health insurance as a part time employee, a benefit full time Bar employees did not receive. (Ex. 1 at 212) He did the same when setting the terms and conditions of employment for Katrina Joseph, a lawyer he hired in February 2006 as associate counsel to Local 120. (Ex. 202) There was no Executive Board approval for this hiring as the Bylaws required. (Ex. 202) Attorneys are expressly covered by Section 8(A) of the Bylaws. (Ex. 300 at 4)

**3. Slawson Improperly Removed Thomas Ohlson, an Elected Business Agent**

Slawson, Sr. violated Section 13(B) of the Local Bylaws by removing an elected business agent from office without having preferred written charges against the business agent and such charges having been found proven by the Executive Board. (Ex. 300 at 8; Ex. 302 (See Article XIX, IBT Constitution)<sup>183</sup> In April 2011, Slawson, Sr. stopped the Local from paying Ohlson for three weeks while he and his son determined if Ohlson would be paid or work for free. (Ex.

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(continued...)

such fringe benefits as vacations with pay, holidays, sick leave, time off for personal leave and, in connection therewith, any disability or sickness, health and welfare and retirement benefits and activities and facilities relating thereto, any may from time to time provide changes thereto, as well as additional compensations and allowances.

(Ex. 300 at 14) Section 14(A)(2) provides that the Executive Board shall “[p]rovide the salaries, expenses and allowances for officers and Business Agents in accordance with Section 16 of these Bylaws. . . .” (Ex. 300 at 10)

<sup>183</sup> Section 13(B) of the Local 120 Bylaws provides:

(1) In order to remove an officer or Business Agent from office, charges must be preferred against him in writing and such charges must be proven. Charges may be for violation of his obligation or some act in connection with the organization which would render him unfit as an officer or Business Agent

(2) The provisions of Article XIX of the International Constitution shall govern the removal of an officer or any other elected representative of the Local Union.

(Ex. 300 at 8)



22 at 33) Slawson removed elected business agent Ohlson from his position without any charges being filed. (Ex. 22 at 31-35) Slawson, Sr. has attempted to pass off the removal as a “lay off” dictated by economic reasons. (Ex. 22 at 31-35)

As of May 9, 2011, Slawson, Sr. ordered Ohlson’s salary ended, his health insurance cancelled, ordered the return of his Local keys, credit card and cell phone and cancelled his Local car insurance. (Ex. 22 at 33-36, 39-40) The salary and benefits were not Slawson’s to change. The Executive Board had the power to set Ohlson’s salary. (Ex. 300 at 10, 14) Slawson, Sr. claimed he did not remove Ohlson when he stopped paying him and ordered him not to come to work. (Ex. 22 at 33-37, 39-40) He claimed it was a “lay off.” (Ex. 22 at 31, 40-41) Slawson, Sr. claimed this was for economic reasons because the Local was losing money. (Ex. 22 at 38-40) This claim was pretextual. In 2011, the Local spent \$41,241 on sporting tickets whose distribution was uncontrolled. (Exs. 3001-3014) In 2011, the year Ohlson was fired, the Bar and Gaming Board, including Slawson, Sr., paid itself \$67,500 out of Local funds causing the Local to have to subsidize those operations. (Exs. 1001, 2011) In any event, Slawson did not have the power to change Ohlson’s terms of employment, stripping him of salary and benefits. That power was the Executive Board’s. (Ex. 300 at 14)

#### **4. Stipends to Bar and Gaming Board Members Who Were Local Employees**

Some Local 120 officers and business agents, including Slawson, Sr. and Jr., violated Section 14(B)(2) of the Bylaws when they received money from the Bar for serving on the Local 120 Bar and Gaming Board.<sup>184</sup> The Bar and Gaming operations were a wholly owned subsidiary of the Local. (Exs. 304, 322, 323, 328) These payments were in addition to their Local salaries.

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<sup>184</sup> Section 14(B)(2) provides that the Executive Board shall “[p]rovide the salaries, expenses and allowances for officers and Business Agents in accordance with Section 16 of these Bylaws. . . .” (Ex. 300 at 10)

(Ex. 2001) These stipends were voted to the Bar Board's members by themselves in violation of the explicit provision of the Local's Bylaws that the Executive Board needed to approve the salaries of officers and business agents. (Exs 2106-2107; Ex. 300 at 10, 14) As fully explained at pages 64-66 above, the Bar's assets were the Local's. (Exs. 304, 322, 323, 328) Its expenses and revenues were blended into the Local's financial statements. (Ex. 2000)

The stipends were awarded to its members by the Bar and Gaming Board, which Board was never created by any actions of the Local 120 Executive Board. (Exs. 214-291) At the same time they were paying themselves stipends out of Bar and Gaming revenues, the Bar was borrowing money interest free from the Local. (Exs. 2014, 2018) For example, the Local paid Tillich's salary, Chester's salary, back taxes and the POS system. (Exs. 2014, 2020) At the end of 2011, the receivables owed to the Local by the Bar and Gaming operations totaled \$357,783. (Ex. 2018) The Bar and Gaming Board members served at the pleasure of Slawson, Sr.. (Ex. 13 at 13-15) The money paid from Local funds to the Bar and Gaming Board members increased as the Bar's annual losses increased. (Exs. 2000, 2001, 2011) Indeed, raises were given in the stipend for this money losing operation even during the period Slawson, Sr. swore under oath the Local was in bad financial condition causing him to search desperately for ways to control expenses, including "laying off" an elected business agent in violation of the Bylaws. (Ex. 22 at 146-152)

From 2007 to 2012, Slawson, Sr. was paid an additional \$68,100 from Local funds without Executive Board approval. (Exs. 2001, 2012, 2077) In that period, Slawson, Jr. received \$72,700 without Executive Board approval. (Exs. 2001, 2077, 2012) As detailed in Schedule attached as Exhibit 2011, during this period the members of the Bar and Gaming Board without Executive Board approval improperly received a total of \$335,832. (Ex. 2011)

## **5. Bylaw Violations in Connection with the American Pride Working Agreement**

Pursuant to Section 27(A) of the Local Bylaws, prior to negotiating a collective bargaining agreement, a Local representative is required to meet with the members to determine bargaining proposals. (Ex. 300 at 37; Ex. 22 at 44-45) <sup>185</sup> In addition, pursuant to Section 27(C) of the Local Bylaws and Article XII, Section 1(b) of the IBT Constitution, a contract ratification vote of the effected members must be conducted. (Ex. 300 at 37; Ex. 302) <sup>186</sup> In connection with the agreements the Local entered into with American Pride, both these provisions were violated.

As detailed above at 92-93, with respect to the initial American Pride agreement entered into in 2005, there was no required proposal meeting. Moreover, in connection with the current agreement between the Local and American Pride, there was no requisite membership vote to ratify the agreement.

## **III. CONCLUSION**

Based upon the foregoing, it is recommended that Local 120 be placed in trusteeship.

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<sup>185</sup> Section 27(A) of the Bylaws provides, "Whenever a collective bargaining agreement is about to be negotiated, modified or extended at the request of this Local Union, the principal executive officer shall call a meeting at which the membership shall determine and authorize the bargaining demands to be made." (Ex. 300 at 37)

<sup>186</sup> Section 27(C) of the Bylaws provides, "Ratification of agreements or amendments shall be subject to vote in the same manner as provided for in connection with bargaining demands as set forth in section 27(A),..." (Ex. 300 at 37)