

Illegal Gambling & Organized Crime

An Analysis of Federal Convictions in 2014

by

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The Scope of Illegal Gambling & Organized Crime

The scope of illegal gambling is unknown. The last national estimate was made in 1999, and given changes in technology and in the availability of illegal gambling opportunities, the extent has likely increased, but no one has yet measured its extent nationally. A case can be made that individuals placing bets are not a major problem, because there may not be a compelling public interest in how adults spend their leisure time, as long as they are not hurting themselves or others.

A major problem arises, however, when looking carefully at those who are indeed hurting others. There have been numerous documented cases in which providers of illegal gambling (e.g., illegal sports betting, black market machines, Internet sweepstakes cafes, and illegal online betting) have been found to cheat customers on payouts, cheat the U.S. government by not paying taxes on profits, and using illicit profits to support other forms of organized crime activity. In this way, illegal gambling operations support organized crime and victimize others, rather than benefit patrons. So it is the operation of illegal gambling businesses, and their association with organized crime, that threatens their customers through cheating, defrauds the government of tax revenue, and funds other criminal activities.

What has been missing thus far is a systematic analysis of actual cases involving illegal gambling businesses to determine more precisely who is involved, how they operate, and the nature of the threat posed. To fill this void, the analysis reported here examines in detail all federal convictions involving operation of an illegal gambling business during a single year (2014). In this way, the nature and extent of the connection between illegal gambling businesses and organized crime can be documented through facts, rather than perceptions or anecdotes.

Prosecutions Resulting in Convictions

Federal prosecutions resulting in convictions were used in this analysis to assess the extent of illegal gambling operations for several reasons. First, the federal law against gambling is clear, inclusive, and widely used. Under federal law, it is necessary that a person “conduct, finance, manage, supervise, direct, or own all or part of an illegal gambling business.” An illegal business is one that violates state law, and the illegal gambling business must involve five or more persons. Finally, the illegal gambling business must remain “in substantially continuous operation” for more than 30 days or gross more than \$2,000 in a single day. These are the three

elements that must be proven to convict someone of involvement in an illegal gambling business under federal law.

This federal law helps to distinguish gambling as a form of organized crime from gambling that is recreational in nature. This purpose is made clear in the legislative history of the law where Congress intended it to address “illegal gambling activities of major proportions” in order “to reach only those persons who prey systematically upon our citizens and whose syndicated operations are so continuous and so substantial as to be of national concern.”¹

Second, federal law permits both criminal and civil forfeiture of gambling proceeds, which provides state and local law enforcement officials with incentive to pursue cases under federal law, when some kinds of forfeitures are not available under state law.

Third, all federal law enforcement agencies must use the U.S. Attorney, located in each of the 94 federal judicial districts, to obtain indictments, convictions, and sentences in criminal prosecutions. Therefore, whether the case originates with state and local police, the FBI, Secret Service, IRS, Homeland Security, or other federal agency, a federal prosecution must go through the U.S. Attorney's office, which enables the capture of the entire federal prosecution effort. A single year was chosen to get an idea of what the universe of cases looked like over an extended period. Analysis of a group of cases over a longer period, several years, would provide even broader perspective on the nature, operation, and impact of illegal gambling enterprises.

Summarizing the Prosecution Effort

There have been more than 80 persons charged and convicted of participation in illegal gambling businesses during 2014. These cases include federal prosecutions and convictions in 23 states.² The breadth in the scope of the operation of illegal gambling businesses might be surprising given the corresponding scope of legal gambling opportunities in the U.S., which includes 40 states that have some form of legalized electronic gaming device—including traditional slot machines, video poker and bingo—at Indian casinos, commercial casinos, racetrack casinos, or other licensed establishments. In addition, 44 states have lotteries of various kinds. Therefore, there remains a large number of customers interested in gambling that is not available in regulated venues, and these customers are served by illegal gambling operations.

The more than 80 individual convictions for operating illegal gambling businesses were centered around 40 distinct enterprises in 2014.³ These illegal gambling businesses can be grouped into four general types, which are summarized in Table 1.

¹ H.R.Rep. No.91–1549, 91st Congress, 2d Session (1970) and 1970 U.S.C. Congressional and Administrative News, at 4007, 4029.

² This project examines prosecutions under federal law, most of which were jointly investigated by local, state, and federal law enforcement agencies.

³ As will be seen, some of these illegal gambling enterprises are quite large, but resulting convictions (mostly guilty pleas) occur over a period of several years, so it is rare that all participants apprehended in an operation are adjudicated in the same year.

Table 1. Types of Illegal Gambling Operations

Type of Operation	Business front	Number of ILGBs disrupted	Average # people involved per ILGB operation	Number of states where discovered
On-line & offshore betting	Sportsbook, website-driven (Costa Rica)	15	13	10 - CA, CT, HI, LA, NJ, NV, NY, OH, OK, PA
Parlors & in-person games	Illegal casinos, card clubs, slots	10	8	10 - CT, GU, ID, MA, MS, OH, PA, SC, TX, VA
Part of larger OC enterprises	Motorcycle gang, LCN, Russian, Armenian OC	10	33	8 - CA, CT, IN, MA, NY, NJ, PA, TX
Animal fighting & betting	Dog and cockfighting	5	8	5 - AL, GA, OR, TN, WV, VA

1. Illegal On-line and Offshore Betting

It can be seen from Table 1 that online and offshore betting was the most common type of illegal gambling business, representing 38 percent of all (15 of 40) illegal gambling enterprises that resulted in federal convictions during 2014. These were primarily sports-betting enterprises that were operated using websites. Most of these websites were based in Costa Rica, operating outside U.S. jurisdiction in an effort to evade the reach of U.S. gambling laws. The average number of persons identified as being involved in the operating each illegal enterprise was 13, indicating that these were not small enterprises. In addition, these operations were found to work from U.S. locations in 10 different states.

2. Illegal Gambling Parlors and In-person Games

A second type of illegal gambling business involved illegal gambling parlors and games played in-person at establishments that included primarily illegal casinos, private clubs, and illegal slot machines in bars or stores of various kinds. These businesses were noteworthy for relying on patrons coming physically to their location to play cards or slots. They represented 25 percent of illegal gambling businesses resulting in federal convictions. On average, 8 persons were identified as being involved in the operating these illegal enterprises. Some of these locations also has connections to illegal on-line Internet gaming sites located outside the U.S. These illegal gambling businesses were located in 10 different states, many of which have multiple forms of legal gambling available, indicating that there are many games and locations operating outside the scope of existing legal gaming alternatives.

3. Illegal Gambling as Part of a Larger Organized Crime Enterprise

A third category of illegal gambling business involves those that were part of larger, ongoing criminal enterprises. These enterprises involved both traditional and non-traditional organized crime groups that have been found to engage in a wide array of criminal activities that include operation of illegal gambling businesses. In 2014, these ongoing criminal enterprises included

the Armenian Power Gang, Outlaws Motorcycle Club, several families of the New York Cosa Nostra, a New York Chinatown gang, Russian-American organized crime group, the Philadelphia Cosa Nostra group, and a Texas methamphetamine trafficking enterprise also engaged in operating illegal gambling businesses.

Illegal gambling operations by these groups is especially serious, because the profits from illegal gambling are being used to fund other criminal activities, including racketeering, money laundering, extortion and fraud. These were also found to be the largest enterprises engaged in illegal gambling businesses with an average of 33 identified participants in each case. There were 10 identified illegal gambling businesses of this type in 2014, but given the large number of participants in each case, there were more than 300 total offenders identified in these operations, making it the largest number of individuals involved in illegal gambling operations of any type. These operations were disrupted, resulting in convictions in 8 different states during 2014.

4. Animal Fighting and Betting Operations

The fourth type of illegal gambling business discovered was animal fighting and betting operations. These involved either dog-fighting or cock-fighting and attracted significant local followings. Five illegal gambling enterprises that involved animal fighting were discovered in five different states in 2014, attracting customers from surrounding states as well. An average of 8 persons were identified in running each of these illegal businesses, demonstrating they were not small operations.

Features of Illegal Gambling Businesses

This classification of four different types of illegal gambling businesses illustrates how illegal gambling businesses are organized and operate. Further details about these enterprises can lead to an improved response in terms of prosecution and prevention.

Who runs these illegal enterprises?

Table 2 illustrates similarities and differences in the offenders and underlying offenses involved in the operation of illegal gambling businesses. The offenses charged, beyond operating an illegal gambling business (ILGB), most often involves money laundering, RICO (a pattern of racketeering activity indicating an ongoing criminal enterprise), conspiracy, and extortion. In cases involving larger ongoing criminal groups, even more serious offenses occur, such as homicide and drug trafficking. In the case of animal fighting, animal cruelty offenses are also charged.

Organized crime offenses related to illegal gambling

It should be noted that three related offenses are connected to many illegal gambling enterprises. First, the operation of an illegal gambling enterprise generates illegal income and profits. These funds must be laundered through purchases, businesses, or banks to enter the legal economy to evade detection of their illegal source, and this is where money laundering charges are often connected to illegal gambling businesses. Second, extortion is associated with illegal gambling businesses, because the collection of gambling debts sometimes results in threats or force to

collect them. These debts are not collectible through lawful means (because these debts result from illegal gambling conduct and do not have legal standing in court). Third, racketeering⁴ (RICO) is often charged in these cases because illegal gambling businesses are usually ongoing criminal enterprises, and RICO subjects them to extended penalties if two or more felonies are committed within a 10-year period as part of an enterprise. The federal racketeering law also provides for civil penalties and dissolution of the enterprise itself. So it can be seen that money laundering, extortion, and racketeering are the most common offenses to accompany the operation of illegal gambling businesses.

Table 2. Illegal Gambling Businesses: Offenses and Offenders

Type of Operation	Offenses Charged beyond ILGB	Average Age of Offenders (range = 32-79)	Average length of time in business
On-line & offshore betting	Money laundering, RICO, extortion	55 yrs old	7 years
Parlors & in-person games	Money laundering, conspiracy, RICO, extortion	49 yrs old	4 years
Part of larger OC enterprises	RICO, extortion, money laundering, homicide, drugs	53 yrs old	11 years
Animal fighting & betting	Conspiracy, animal cruelty offenses	48 yrs old	4 years

It is seen in Table 2 that, where known, the average length of time those convicted of operating illegal gambling business were involved in the business was between 4 to 11 years. This illustrates the ongoing nature of illegal gambling businesses. These are not short-term operations.

The age of offenders convicted for involvement in illegal gambling businesses ranged from age 32 to 79 during 2014 with an average age ranging between 48-55 years old. Therefore most of those convicted of involvement are middle-aged offenders. These are not the younger offenders, aged 18 to 25, which characterize most street criminals who commit robberies and burglaries.

The Law Enforcement Response

Understanding the nature of the law enforcement response is important as a way to gauge success and ways to improve upon it in the future. This section will examine who is conducting

⁴ RICO stands for Racketeer Influenced and Corrupt Organizations, which is part of the Organized Crime Control Act of 1970 that created racketeering as a separate offense to provide extended penalties for ongoing criminal enterprises.

the investigations resulting in federal convictions, what investigative methods are being used, the average prison sentence imposed, and assets seized through forfeitures.

Table 3. The Law Enforcement Response

Type of Operation	Investigation Methods	Primary Investigation Techniques	Average prison sentence	Forfeiture (average)
On-line & offshore betting	Joint: federal, state, local	Wiretaps, undercover police	2 years	\$500,000 (up to \$20M)
Parlors & in-person games	Joint: federal, state, local	Undercover police, wiretaps, informants	2 years	\$300,000 (up to \$1.3M)
Part of larger OC enterprises	Joint or task force: federal, state, local	Wiretaps, informants	5 years	\$3 million (up to \$68 M)
Animal fighting & betting (dogs & cocks)	Joint: state, federal (+2 w/local L.E.)	Undercover police, informants	3 years	\$500,000 (up to \$900K)

Table 3 summarizes the law enforcement response to illegal gambling businesses. Joint investigations involving state, local, and federal agencies resulted in virtually all federal convictions during 2014. This is because the primary investigative methods used (wiretaps, undercover agents, and informants) involved police at different levels of government. Informants and undercover work often occurs at the state and local level, whereas wiretaps and additional informants are often obtained at the federal level. Therefore, joint investigations have shown great success in prosecuting cases involving illegal gambling businesses.

In terms of case outcomes, Table 3 shows that prison sentences for those convicted of operation illegal gambling businesses average two years. In animal fighting cases the sentences are somewhat higher, due to the cruelty to animals and other offenses (e.g., drugs) often found to occur alongside the dog or cock-fighting. Illegal gambling business cases that occurred as part of larger organized crime enterprises were much longer on average (5 years), because these cases more often involved repeat and career criminals. These cases were also more likely to involve extortionate threats and violence. The longest sentences imposed were two life sentences, imposed in a Cosa Nostra case and a Chinatown gang case because homicides were involved.

Most significant in these cases against illegal gambling businesses was the substantial forfeitures obtained. As Table 3 illustrates, the majority of convictions resulted in forfeitures averaging \$500,000. Cases in which the illegal gambling business was part of a larger organized crime enterprise averaged \$3 million forfeited per case. Seizures in a number of individual cases were substantially higher than this. These large criminal forfeitures demonstrate the huge volume of cash generated by illegal gambling enterprises, none of which is taxed, and much of it was used to fund other organized crime activity, such as money laundering, loansharking, and other crimes. Of course, there is also likely rampant cheating of customers, through rigged games and unfair payouts, but illegal gamblers cannot complain, because they are participating in gambling enterprises operating outside the law where there is no regulation or oversight, and complaints are not welcome.

Recommendations for the Future

Size and operation. The size and operation of these enterprises show that many are large, involving an average of 8 to 33 participants in the operation. In addition, they have been in operation for long periods of time (averaging 4 to 11 years). This points to the large demand for gambling outside the law, and the corresponding development of criminal enterprises to cater to this demand. Their large size and long-term existence suggests that additional illegal gambling organizations exist to cater to the customer demand, and that greater law enforcement focus on illegal gambling businesses would likely uncover more of them.

On-line and offshore betting. On-line and offshore betting is the largest category of illegal gambling business found in this analysis. Many of these involved websites in Costa Rica with management of the bettors and collections done by groups in the U.S. This suggests that existing regulation of on-line gambling is not working effectively. Alternatives must be found to insure that the methods by which gambling occurs are both legal and effectively regulated. The current situation permits illegal operators to skirt U.S. law without a great deal of effort---which is another reason to believe there are many more illegal gambling businesses out there not yet detected.

Joint Law Enforcement Operations. Virtually all the convictions analyzed here were the result of joint investigations by state, local, and federal law enforcement agencies. It would appear that a focus on training other police agencies regarding the use of successful investigative methods and procedures in past cases, plus the establishment of law enforcement task forces that focus on illegal gambling businesses, would uncover more cases of illegal gambling businesses. These task forces would pay for themselves, given the average forfeitures obtained in the cases reported here.

Forfeiture as Punishment and Prevention. As shown here, the sentences for operating illegal gambling businesses are not long, averaging 2 years in prison. However, sentences increase dramatically when extortionate threats or other violence occurs. Perhaps more important is that significant forfeitures in these cases make it difficult for the illegal gambling enterprise to remain in business, or for offenders to get back into business after serving a prison sentence. In addition to large amounts of cash, forfeitures in the cases analyzed here involved seizures of houses, condominiums, stores, sports cars, and a strip mall. Criminal forfeitures might be the most effective way to keep illegal gambling businesses from resuming operations once convictions occur.

In conclusion, this analysis of all federal court convictions for operating illegal gambling businesses during 2014 shows that these businesses operated for many years, a large volume of untaxed illicit profits was generated, and these profits were used to advance other criminal objectives. On the other hand, the large forfeitures obtained can be used to help fund additional law enforcement effort in this area, and these same forfeitures make it difficult for illegal operators to get back into business after conviction. However, as long as the demand for prohibited forms of gambling remains, especially sports betting, it is likely that new illegal operators will emerge to cater to this demand.

Appendices

Summaries of Typical Cases Involving 4 Kinds of Illegal Gambling Business

1. On-line and offshore betting

a. New York Sports Betting through Multiple Offshore Websites

An illegal gambling operation in Rochester, New York was operated by three people, ages 32 to 66, who took sports bets via multiple offshore internet gambling websites. The gambling proceeds were transferred to an associate in Connecticut to conceal the source of the funds. The money was then deposited into a credit line, which resulted in cash withdrawals by the defendants. One of the operators told a bettor that someone would physically harm him, if payment was not made on an extension of credit of \$230,000. This led to a charge of extortion. The offenders received sentences ranging from 3.5 to 9 years in prison in this case, plus forfeiture of \$1.2 million, \$20,000 on deposit in bank accounts, a lakefront house, and \$60,000 seized in cash. This case illustrates the clear connection among the operation of an illegal gambling business, the need for money laundering (to conceal the source of funds), and extortion (to collect debts).

b. Connecticut offshore betting at 44wager.com with tribute paid to Gambino family

Twenty individuals were charged in a large Internet sport gambling business, as well as some in-person, illegal card gambling clubs in Connecticut. Customers placed bets using Internet sites, primarily www.44wager.com based in Costa Rica. The operators collected losses and distributed winnings locally, and payments were sent via Western Union to the website. Tribute (extortion) payments were collected from individuals who ran their own independent sports gambling operations and a card club, where a "rake" was collected from every hand played---permitting them to operate in territory controlled by the Gambino crime family of the Cosa Nostra. Several of the defendants pleaded guilty during 2014, resulting in prison sentences of between one and five years each. In addition, defendants were required to pay a forfeiture amount, ranging from \$40,000 to \$300,000 each. This illustrates overlap between in-person games and on-line betting, and the involvement of established organized crime groups in seeking a piece of the action.

2. Parlors and in-person games

a. Violent gambling and loansharking ring in Philadelphia

Eight individuals of Albanian extraction ran an illegal gambling and loansharking ring, using three Philadelphia bars and a pizza restaurant as fronts. The lead defendants, ages 35 to 49, were found guilty of racketeering, loansharking and extortion. The leaders of the enterprise directed other members of the conspiracy, who served as bookies and debt collectors. The loansharking activity was funded by profits from the illegal gambling business. The group attempted to conceal their activities using coded language on the phone, conducting pat-down searches of

customers, and using cash in virtually all their transactions. The group cultivated a reputation for violence by telling customers that if they did not pay their debts, someone would kill them, break their legs, or physically harm them or their family members. In one instance, a defendant placed a gun to a customer's head and threatened him with a hatchet. The group extended approximately 125 usurious loans for a total of \$1.78 million with associated interest rates of between 104 and 395 percent. They also used an online sports betting website which contributed \$2.9 million in profits to the illicit business. The principal defendants received prison sentences of 12 and 14 years, respectively. This illegal enterprise again shows the overlap between in-person and on-line gambling businesses, and illustrates how the illegal gambling operation provided the financial support for the loansharking and extortion activities.

b. Gambling business in South Carolina with 300 video-poker machines

A gambling parlor in South Carolina had 316 stand-alone video-poker machines, constructed so that the customer inserted cash into it, chose the amount to bet, and then watch the slot machine reels. If the customer won, the machine printed a slip of paper which the customer would take to the cashier for payment. The scheme was aided by a company that provided software to keep track of transactions and payments, receiving a percentage of the gambling profits. The company would set up an entire internet cafe for a site owner for between \$50,000 and \$80,000, depending on the number of machines involved. Three plead guilty, including the company, and the defendants agreed to forfeit \$20 million, illustrating the huge monetary volume in profits obtained from this illegal enterprise.

3. Gambling as Part of Larger Organized Crime Enterprises

a. Armenian Power Gang in California

More than 85 individuals were convicted for a variety of crimes committed by members of the Armenian Power Gang, which was a street gang formed in East Hollywood during the 1980s, consisting primarily of people of Armenian descent. The crime charged included racketeering, bank fraud, identity theft, debit card skimming, counterfeiting, and money laundering. Some defendants were charged with extortion, drug trafficking, and operating an illegal gambling business. The gang set up high-rolling illegal gambling tournaments in secret locations in the San Fernando Valley. One member of the gang was sentenced to 13 years in prison and forced to pay \$3.5 million in restitution. This is an example of illegal gambling businesses being operated by an ongoing criminal enterprise involved in many other crimes and illicit profit-making schemes, all of which is funded in part by the illegal gambling operation.

b. Russian-American organized crime group in New York

The Taiwanchik-Trincher Organization operated a high-stakes illegal sport gambling business that catered to wealthy oligarchs in Russia. It also operated high-stakes illegal poker rooms around New York City. Several U.S.-based defendants laundered \$100 million in gambling proceeds over six years through shell companies in Cyprus and into the U.S. Once back in the U.S., the money was invested in legitimate real estate and investments. One defendant was paid \$12 million as a "thief-in-law" to resolve disputes and make and enforce threats. The defendants were charged with racketeering, money laundering, extortion, as well as operating illegal gambling businesses. As of 2014, 28 defendants had pled guilty, forfeiting more than \$68

million. Here again, it is seen how larger organized crime enterprises use significant illegal gambling profits as a way to commit other crimes and invest these illicit gains into the legal economy.

4. Animal Fighting and Betting

a. Cock Fighting & Betting: Big Blue Club in Tennessee and Virginia

In a Virginia case, which was typical of others of this kind, a private club in Kentucky called "Big Blue" operated for years in which roosters were transported across state lines and spectators and handlers came from 8 surrounding states to participate. Each person was charged a \$20 fee for a membership card, and this club had 5,000 members. Entry fees for birds to fight were \$250 and there were between 40 and 100 total entries per derby. Entry fees for the "World Championship" in 2013 sold for \$2,500 each. The couple and their son who led the ring were sentenced to 10 to 18 months in prison, and the court ordered them to forfeit \$905,000, which was paid in part by seizing all their assets. Three other participants in the ring received lesser prison sentences and forfeitures.

b. Dog Fighting & Betting: Alabama and Georgia

Eights individuals, ages 33 to 56, from Alabama and Georgia were convicted of operating a dog-fighting ring for more than four years. They were convicted of promoting and sponsoring dog fights, which involved buying, selling, and transporting dogs for this purpose, and operating an illegal gambling business so that customers could bet on the outcomes. Dogs were abused, starved, and otherwise mistreated for the purpose of the dog fights. In dog fighting, losing dogs are destroyed to keep the winning blood lines strong. It was estimated that the defendants had injured or killed between 420 and 640 dogs during the course of their operation. A total of 367 pit bulls were seized at the time of the arrest. Customers bet a total of \$5,000 and \$200,000 on a single fight, averaging \$100,000 per fight. Illegal drugs and weapons were also exchanged during these events. Eight defendants were sentenced in 2014 to prison terms ranging from two months to eight years in prison with four of the defendants receiving prisons sentences of three to eight years, respectively. Law enforcement seized \$500,000 from those involved in the dog fighting operation.

About the author

Jay S. Albanese is a professor and criminologist in the Wilder School of Public Affairs at Virginia Commonwealth University. He has conducted multiple research studies examining casino development and street crime, white collar crime, organized crime, and law enforcement, including the first study to account for daily population at risk in assessing crime impacts in casino jurisdictions. He has contributed invited testimony to the National Gambling Impact Study Commission and the New York State Governor's Task Force on Casino Gambling. He is a recognized expert on organized crime, and has written both articles and books on this topic, including *Organized Crime: From the Mob to Transnational Organized Crime* (Routledge, 2015).