

6 ROCKFORD CHILDREN SLAIN

Father charged; Page 3

CHICAGO Sunday Sun-Times

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Our 'bar' uncovers payoffs, tax gyms

By Pamela Zekman and Zay N. Smith
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It looked like any neighborhood tavern in Chicago. The beer was cold, the bratwursts hot.

But the Mirage, 731 N. Wells St., was never quite what it seemed.



It was a tavern operated by The Sun-Times and the Better Government Assn.

The bartenders were reporters and investigators. The repairmen were photographers headed for a hidden loft.

All were investigating years of complaints from small businesses about the day-to-day corruption they have to endure in Chicago, the city that works if you know how to work it.

The Sun-Times will tell the Mirage's story—with names, dates and amounts—in the days to come.

This newspaper will detail:

- Payoffs of \$10 to \$100 grabbed by city inspectors who ignore health and safety hazards when the price is right.
- Shakedowns by state liquor inspectors who demand whatever is in a tavern's cash register for their silence about liquor violations.
- Tax fraud by accountants who conspire with taverns to cheat on state and federal taxes in a practice so widespread it may be



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This article begins a monthlong series detailing the firsthand experiences of Sun-Times reporters and photographers and Better Government Assn. investigators as they operated a small bar to document pervasive public and private corruption in Chicago.

"How the public gets hurt"—An editorial, Page 7, Views.

- costing Illinois \$16 million in sales tax alone.
- Misconduct and negligence by public employees who loaf on the job, use city equip-

A payoff in the taking

Payoffs to city inspectors were the rule rather than the exception as the Mirage prepared to open under new management. The Sun-Times and the BGA, A Chicago Fire Department lieutenant (who will be named later in this series) was photographed concealing an envelope containing \$10 in a pile of inspection papers. He ignored the Mirage's many code violations, later described as extremely hazardous by the city's top fire-prevention official.

ment for private gain and routinely demand cash under the table for what should be public services.

- Illegal kickbacks, tax skimming and offers of political fixes from jukebox and pinball machine operators—including one former policeman who alone may be failing to report a half-million dollars a year in taxable income.

City inspectors marched through the Mir-

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Inspectors visit with hands out

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age, hands out and eyes averted, ignoring city code violations for \$10, \$50, \$100 on the side. It was the payoff parade come to call.

A fire inspector reached across the bar for a small white envelope with cash inside. He put the envelope on his pile of inspection papers. He folded the papers over the envelope. "Beautiful day," he said, leaving a tavern that for all he knew was a conflagration waiting to happen.

A building inspector was next in line. He took his envelope without a word.

Others followed. It didn't seem to matter which city departments they represented. Most of them wanted to inspect only cash.

Private contractors came routinely to act as payoff go-betweens for city inspectors afraid to accept gifts from strangers.

The Mirage learned the system when it attempted construction including a urinal without a city permit and a food grill without adequate ventilation.

It was the plumbing contractor who talked to the plumbing inspector and reported back: "Everything's all set. I'm going to add \$50 on the bill to take care of him. He says he'll look the other way."

A similar payoff, this time for \$100, worked for the food grill. But there was an added twist. A building inspector offered advice on how to cope with the ventilation inspector and avoid \$2,000 worth of ductwork.

"Maybe I can call him and he can come around and you can try to work it out. Maybe you can make a drop."

A few of the city inspectors appeared to seek no payoffs. But even they were willing to be grossly negligent—at no charge.

The Mirage, one way or the other, never received a thorough inspection of any kind. This took place in a city where the taxpayers spend more than \$15 million a year on salaries alone for inspections to protect the public from health and safety hazards.

Two health inspectors wandered briefly through the Mirage, announcing the serious code violations they saw and putting none down on paper. Neither set foot in the basement, a place so foul that even the vermin seemed to be dying.

An electrical inspector paused long enough to inspect a few beers and chuckle over the overloaded wiring system: "Hey, who put up that (electrical) pipe? Did Rube Goldberg put that pipe up for you? I'd know his work anywhere. . . . But I ain't gonna bother you about it. Don't worry."

Two state liquor inspectors arrived one day to show that shake-downs can work at any governmental level. "Well, you got



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OUR GRAND OPENING at the Mirage, 731 N. Wells, on Sept. 8, attracted a mix of customers who assumed it was exactly what it appeared to be: a neighborhood bar with

good food, cold beer and friendly service. The Mirage's secret purpose was, and would remain, secure. Not even the part-time bartenders knew.



A few of the city inspectors appeared to seek no payoffs. But even they were willing to be grossly negligent—at no charge.

serious trouble right away," said one of them, trying not to smile at the illegal liquor he had found.

The inspector talked at length of all the unpleasant things that would happen to the Mirage when he filed his report. One word led to another. Soon the inspector and the Mirage were wondering together just how much money there was in the cash register that day.

The inspector and his partner settled for \$50. The Mirage was no longer in "serious trouble."

The Mirage made appointments with 10 local tax accountants in a general ethics check. All but two recommended tax fraud.

"You finagle," one explained.

"You what?" we asked.

"You know, cheat."

The Mirage hired six of these accountants. They taught the Mirage how to skim off the top, how to keep two sets of books—and how, in general, to underreport its taxable income by 20 per cent to 70 per cent.

Tax finagling is a common practice among taverns and restaurants in Chicago. It costs the state and federal governments tens of millions of revenue dollars each year.

It is a felony that has become a tradition.

The Mirage, almost as it opened, became a favorite place for hustlers and loafers on the public payroll.

A city garbage crew grabbed \$15 on the side when it agreed to pick up the Mirage's garbage—a job strictly for private scavengers. The crew came back again the next week and for \$10 helped the Mirage clean its basement. It was all done with city equipment, on city time.

A city street crew laid about \$500 worth of the city's asphalt along the east edge of Wells St. so the Mirage's basement wouldn't catch water. This was done, on a moment's notice, in trade for a few free drinks and the promise of a free lunch.

"If anybody asks, we'll just tell them it was a hazard, that there were big potholes or something," said the crew supervisor. "What are they going to do, dig it up and check it?"

A clerk we visited in the County Building demanded a tip—"whatever you think it's worth"—simply for doing his job. We gave him \$5 and he shoved it into his pocket.

City inspectors tipped at the Mirage while supposedly on duty. Model Cities workers took long lunches and chatted about how they are paid to do nothing much but look thoughtful.

City law prohibits kickbacks from jukebox and pinball machine operators to prospective customers. But the Mirage, shopping among 23 such operators, found that all but four seemed never to have read the law.

The operators offered a total of \$11,100 in kickbacks.

"Hi, I'll give you \$1,000 if you take my jukebox" was the salutation of one.

Once the machines were in, the operators, a versatile lot, started breaking state and federal laws. They taught the Mirage how they and "everyone else" work the weekly collections of dimes and quarters, with generous amounts of cash skimmed off the top before the receipts are figured and the taxes paid.

"I'm expensive," said the prostitute with the honey-blond hair.



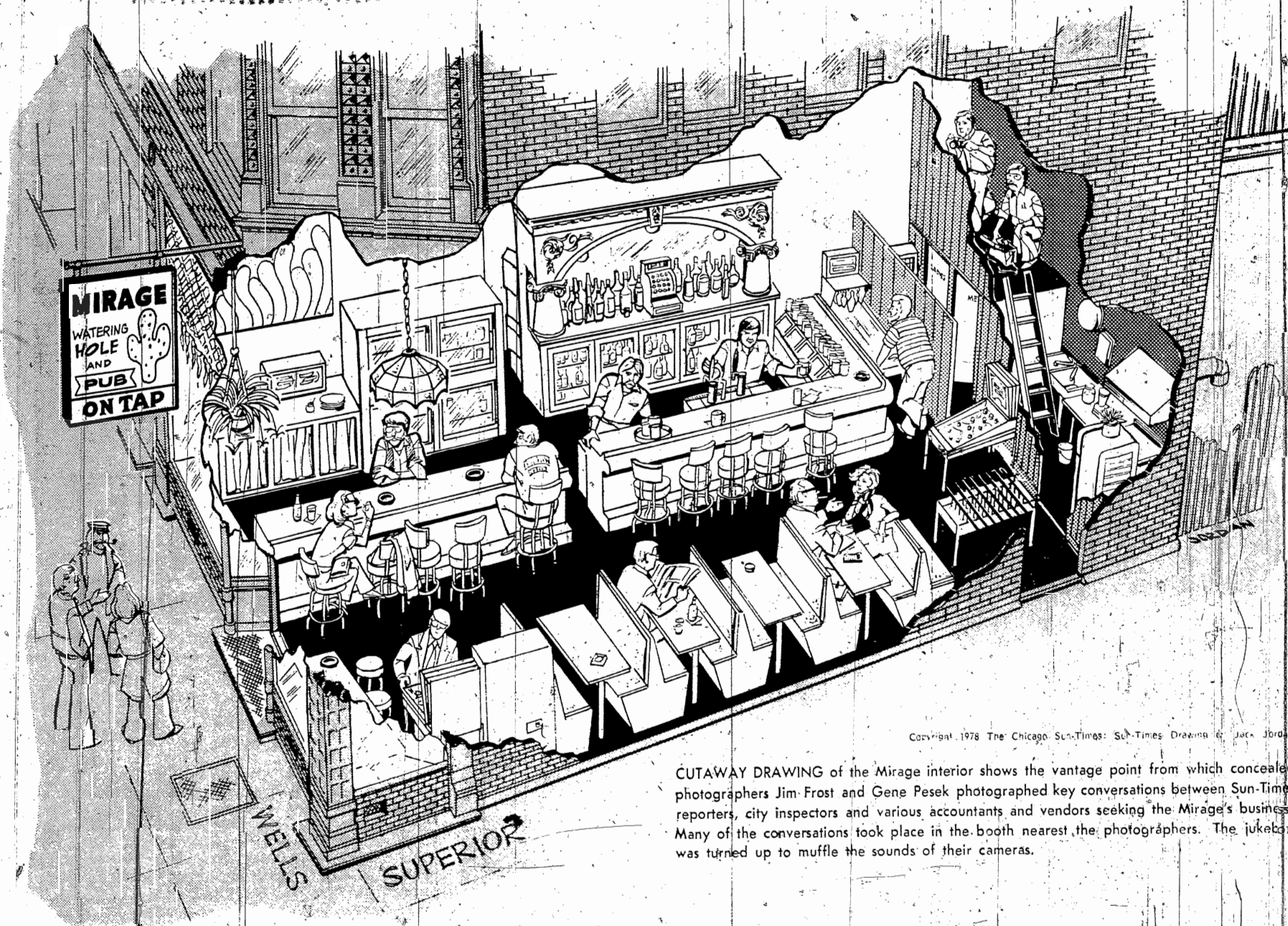
BEFORE IT WAS purchased and renamed, the Mirage was known as the Firehouse. Neither the former owner nor the new owner of the Mirage (which was sold in November) was aware of the investigation, headed by (from left) BGA chief investigator William Recktenwald, Sun-Times reporters Pamela Zekman and Zay N. Smith and Jeff Allen, who played the role of Mirage owner.



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CUTAWAY DRAWING of the Mirage interior shows the vantage point from which concealed photographers Jim Frost and Gene Pesek photographed key conversations between Sun-Times reporters, city inspectors and various accountants and vendors seeking the Mirage's business. Many of the conversations took place in the booth nearest the photographers. The jukebox was turned up to muffle the sounds of their cameras.

It wasn't just a bar; it was a Mirage

The Mirage's customers sometimes wondered:

Why did the bartenders run behind the back bar so much?

Why did you see two or three bartenders clustered around a conversation at one end of the bar when almost everybody was at the other end waiting for a refill?

Why were those same two repairmen in the back room day after day, week after week—and why did the lights seem to go up whenever they were working?

The answers are now evident. Those were Sun-Times reporters and photographers and Better Government Assn. investigators doing what was necessary to ensure the accuracy and credibility of this series.

The bartenders kept going out of sight to write and dictate the hundreds of pages of detailed notes on which this series is based.

The bartenders clustered around a given conversation because the Mirage wanted at least two witnesses to any illegal activity.

The repairmen were photographers, with cameras in their tool kits and prop flashlights in hand, adding visual documentation to every significant event.

The Sun-Times and the BGA developed additional guidelines to ensure that the Mirage, surrounded by corruption, stayed within legal and ethical boundaries.

- Reporters and investigators were careful always to abide by state entrapment laws. No one was entrapped at the Mirage.
- Whenever a law was broken, it was reported immediately to the Illinois Department of Law Enforcement.
- The Mirage, while it kept six fraudulent sets of books, used a seventh and honest set to pay its taxes.
- All illegal gifts of money were returned, although the original cash and checks were saved for evidence.

There was the problem, too, of making the Mirage a convincing and secure illusion. An outsider would have to be the legal owner. No one from The Sun-Times or the BGA could be used because the police run background checks of every new tavern



'Why were those same two repairmen in the back room day after day and why did the lights go up when they were working?'

owner. They want to discourage crime syndicate involvement and enforce a law prohibiting anyone with a felony record from owning a tavern. None of The Sun-Times or BGA people had such records but we did want to conceal our involvement from the police for the time being.

The problem was solved with Jeff Allen, 26, who had managed a tavern in Colorado and expressed interest in doing investigative work for the BGA. Allen managed the Mirage and joined in the investigative work.

Another front was necessary for the Mirage's financial backing. The Sun-Times could not pay directly because the police also run checks on the backing of any new tavern.

A business investor, trusted by The Sun-Times and the BGA, agreed to act as the Mirage's roundabout backer. The Sun-Times gave him a check for \$17,500, which he put into his personal account. He then lent the money to the Mirage.

The original stake was put into a Mirage account at the First National Bank of Barrington.

That stake was used for the \$5,000 down payment on the tavern, which was later sold, and for operating capital. It was augmented by average monthly tavern income of \$6,000 and additional funds from The Sun-Times.

The net cost of the project to The Sun-Times was \$20,500. The BGA supported the project with \$4,500 in salaried auxiliary



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USING AN automatic shutter release on another camera, Sun-Times photographers Jim Frost (left) and Gene Pesek photographed themselves in their hideaway.

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Business as usual: widespread cheating

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"If you want me for five hours, it'll have to be at least a \$300 tip."

All kinds of people visited the Mirage for business and pleasure. There was an old-fashioned whorehouse to the Mirage's south and a modern B-girl operation to the north. The Mirage became intimately entangled with both.

The Mirage made friends, also, with a Cook County deputy sheriff who enjoyed selling beer so much he had hardly any time left to serve subpoenas. And there was the state legislative assistant who sold low-cal beer, gave illegal gifts and fixed parking tickets on the side. "The system works," he said.

There was the Mirage Menagerie—the regulars and irregulars who came through the front door and told what it is like to try for survival in the big city. The Holy Ghost Lady visited only once. But the rest liked to hang around; the Pinball Wizard, the Montana Cowboy, the Reluctant Fire Fighter, the Happy Gun-runner.

The Mirage's customers got along famously, except for one night when they all tried to kill one another. That was the night of the Mirage's one barroom brawl. And one was plenty. "It's a good thing you guys called the police," said a partici-



'Everybody does it. These are the words we would be hearing most often in the coming months. In Chicago, you name it and everybody does it.'

pant experienced in such matters. "Otherwise, somebody probably would have ended up dead."

Then again, nobody ever said the tavern business would be easy.

We started shopping last January for a tavern that could fool all the people all the time. It was an expedition that would last four months and take us to nearly a hundred taverns and restaurants across the city. And there was this unexpected bonus: Tavern owners who might say nothing to a reporter or investigator talked freely with prospective colleagues in the business.

Almost everyone we saw was ready to give us advice on the Chicago-style games we would soon be playing.

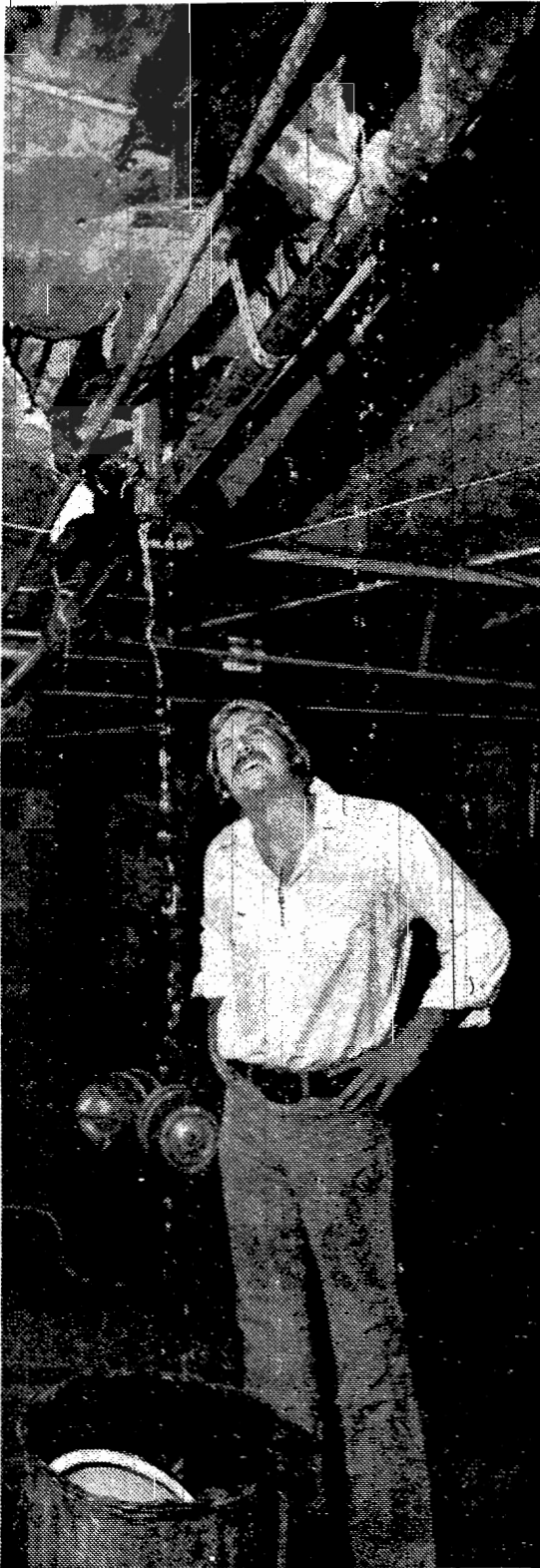
The owner of a tavern on the Near West Side told us how we could get our liquor license in a hurry: "My cousin will be able to help you. He handles the jukebox here and he knows a lot of people in City Hall. As long as you don't have a police record, they can't stop you. But they can stretch it out for a long time, so you have to give them a little something to get it through."

Payoffs? The owner of a tavern in Uptown reminded us to keep our wallets handy at all times: "The inspectors always find something wrong, so I give 'em \$5 and they leave me alone. When the police sergeant came in about my license application, I gave him \$100. It was sort of, you know, good will."

Tax fraud? The owner of a tavern on N. Clybourn Av. told us to be smart like everybody else and find the right tax consultant: "I've got a bookkeeper who knows the score. I'm making \$1,400 a week and reporting \$400. That means \$4,000 to \$5,000 a month tax-free. Listen, when I started in this business, I was broke. Now I got a half million. I make 30 to 40 grand a year. If you looked at my tax returns, you'd think I was on food stamps."

Illegal kickbacks? The owner of a tavern in Old Town said we would have a pleasant surprise when the jukebox and pinball machine operators called: "Some of these companies will offer you money up front—\$1,000 or \$2,000. Others will pay your license for you. It's sort of a bribery—you know, an illegal thing—but they all do it."

Everybody does it. These are the words we would be hearing



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most often in the coming months. In Chicago, you name it and everybody does it.

It was in May that we found the Mirage.

It was called the Firehouse when we first saw it. The owner

It was our very own Mirage

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manpower and the day-to-day work of its regular investigative force.

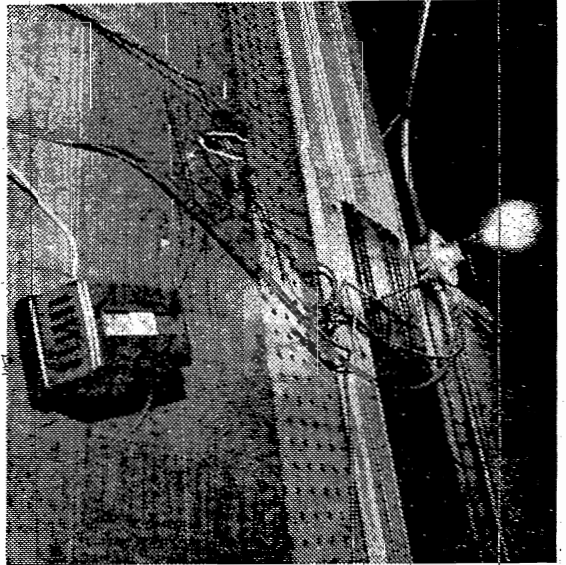
Exposure would have made the project useless. That is why only those essential to the Mirage ever knew what it was about.

The secret was kept at The Sun-Times by reporters Pamela Zekman and Zay N. Smith, photographers Gene Pesek and James Frost, a few editors and the newspaper's legal counsel, BGA Executive Director J. Terrence Brunner, BGA chief investigator William Recktenwald, and investigator Douglas Longhini kept a similar tight lid at their office.

The security umbrella widened slightly when CBS-TV's 60 Minutes learned of the Mirage from the BGA and asked permission to record its progress over the months.

Mike Wallace and his associates went to the Mirage four times last year, under careful cover, for filming and interviews. A 60 Minutes report on the Mirage is scheduled for next Sunday.

No one in the Near North Side neighborhood, including those employed part-time at the Mirage, knew about the illusion or its purpose. Neither did the person who bought the Mirage in November have anything to do with the project.



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THE MIRAGE was a cesspool of violations when it was taken over. Wiring dangled bare across the walls and when Jeff Allen used the bar's sinks the first time, he found they drained directly onto the basement floor.

was asking only \$5,000 down. It was near The Sun-Times and the BGA. It was laid out in a way to satisfy the needs of our hidden photographers. And it was bristling with code violations that could be put to use.

The friendly ex-marine who owned the place said it could be a gold mine for us if we adopted the standard tavern tax-avoidance system. The trick, he said, is to make the business look smaller than it is.

"What you do is take certain bills out—but only bills they don't miss, like potato chips and linen bills and things like that. Then you take out 20 per cent of the receipts. You got to do it to make a living off the place. Everybody in the business does it."

And so, soon enough, we would be doing it, too.

The Firehouse became the Mirage, or at least the start of the Mirage, on July 1. The former owner thought the place was ready to go. "I've been operating the place for five years and I've never had a violation," he said. "Look around the place. What violations do you see?"

We looked around the place.

Pigeons had turned an outside wall white. The basement was a dual-purpose unit — both a cesspool and a garbage dump. Frayed wires, held together with bad splices, dangled all about. The front windows were covered with several layers of old paint. The barstools and booths were covered more with grime than upholstery.

We couldn't turn on the water in the men's room. We couldn't turn it off in the women's room. One of the toilets did not flush. So we used the other toilet to dispose of a bag of marijuana we found stashed beneath the bar.

The floorboards behind the bar were rotting away. The beer taps and a bar sink drained into leaky pipes that created an urban waterfall in the basement.

We opened the ice machine and found a dozen bags of spoiled turkey gizzards.

It was time to sweep, to wash, to spray, to scrape. Time to repair and reupholster. A few hanging plants in the front windows would help. So would a few Marimekko prints on the wall. All this would take more than a month.

And even as we prepared the Mirage illusion for its trial opening, Aug. 17, the advice kept coming in. This time it was our new neighbors who talked shop.

"It seems like everybody's on the take," said the owner of a restaurant down the street. "But you have to be discreet about the whole thing. You can't just come right out and ask how much money do you want. You gotta pull him aside privately and say things like, 'Hey, I'm young. I got a lot of money invested in this place. I just want to do what's right.' Finally, it just works out and he gets the money."

A nearby tavern owner agreed: "Yeah, you have to do it discreetly. You never come out and ask how much is this going to cost me. You say, 'Well, can't we work this out between us?'"

But it was the owner of a neighborhood delicatessen who really came to the point. He said everything we would need to know in a few words:

"The name of the game in Chicago is baksheesh. That's Arabian. It means payoff, bribe. This is the city of baksheesh."

MONDAY: The Mirage meets Mr. Fixit.

JAN 8