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CIA Got IRS to Delay Audit

Intelligence Agency Was Probing Its Ties to Investment Firm

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Early last year, Central Intelligence Agency officials asked the Internal Revenue Service to delay an audit of a Honolulu investment firm so the CIA could investigate its ties to the firm.

After a brief inquiry, the CIA ordered two of its agents to withdraw their money from the firm, which was providing a cover for some covert agents, but took no further action. Six months later, the firm collapsed, costing investors \$22 million in what prosecutors say was a massive fraud.

Investigations by the Securities and Exchange Commission, the Federal Deposit Insurance Corp. and the IRS also failed to uncover the controversial dealings that led to the firm's bankruptcy in the summer of 1983 and its chairman's recent indictment on fraud charges.

CIA general counsel Stanley Sporkin said he ordered the two agents to withdraw their money because it was improper for them to invest in a company that dealt at times with the agency. But Sporkin said that the CIA review was limited and that the agency did not learn of the alleged fraudulent activities until after the firm's bankruptcy.

Several other CIA employees invested in the firm without their superiors' knowledge and lost money when it collapsed, according to in-

telligence sources. They said one employee's mother had invested her life savings.

Ronald R. Rewald, chairman of Bishop, Baldwin, Rewald, Dillingham & Wong, was indicted in August on charges of defrauding about 400 investors, including several retired senior military officers. Rewald also was charged with tax evasion and perjury.

Rewald, 41, is contesting the charges, saying the CIA helped finance and operate the firm to conduct intelligence operations in the Far East. More than a dozen invest-

ors have joined in damage suits against the CIA, which says that it had only "a slight involvement" with Rewald's firm.

Thomas Hayes, court-appointed bankruptcy trustee for Bishop, Baldwin, said in a telephone interview that the CIA had a "deeper involvement" and a "greater closeness" with the firm than the agency has acknowledged.

Hayes said he based this conclusion on classified documents in the case but could not provide specifics because he had agreed not to disclose the contents.

Hayes said he is "suspicious" of the fact that the two CIA agents withdrew their money—\$135,000 in one case—three to four months before Bishop, Baldwin's collapse. "If [the CIA] found out Rewald was a scam and they quietly tried to fold their tent and walk away... then they are guilty of contributory negligence," he said.

Hayes said the CIA's failure to uncover Rewald's alleged fraudulent activities "allowed him to continue the scam; otherwise, this thing could have collapsed a year before it did."

"It took me about an hour to figure out that this was a 'Ponzi' scheme," he said, referring to a firm with no actual investments. "This outfit never kept any books and records. Anyone with a modicum of intelligence—particularly if they're from the SEC or the IRS—it would be incredible if they wouldn't find out something was seriously wrong."

Sporkin, a former chief of enforcement at the SEC, said he determined in early 1983 that it was "a conflict of interest" for the CIA agents to have any financial dealings with Bishop, Baldwin. This followed the CIA request that the IRS delay its tax audit of Rewald.

Sporkin said the CIA's review also convinced him that "we didn't want to have anything to do with someone who was using the agency

as an excuse for not taking care of his problems with the IRS. It was very straightforward. I think it was the right decision."

One of the agents, known by the alias Richard Cavannaugh, has resigned. The other agent, Jack Rardin, who headed the CIA's public office in Hawaii, has been transferred and could not be reached for comment.

Another intelligence official called Rewald's claims of extensive CIA involvement in the firm "sheer fiction. We never had anything to do with the financial operations of the outfit; this idiot provided a cover for some of our guys."

"If we'd known it was a scam, we'd have done a lot of things differently," the official said. "The only charge that could be leveled against the CIA is one of stupidity."

The CIA was not alone in failing to find out what was going on at Bishop, Baldwin, Rewald, Dillingham & Wong. Dozens of sophisticated investors were lured to the firm by promises that they would receive at least a 20 percent return on their money, and initial investors made money.

What they did not know is that none of the other named partners, except president Sunlin Wong, existed; they were simply the names

of old-line Hawaiian families. Wong pleaded guilty to fraud charges last June and is serving a two-year prison term.

The SEC was the first federal agency to examine the company, a registered securities broker. When SEC officials went to Honolulu and asked to see the firm's financial books in 1981, Rewald said most of his records were in California, according to Hayes.

Rewald also told the SEC that he was not selling securities to his clients, but the indictment later charged that this was his principal business. The SEC issued a routine report on the firm in 1982 and sent

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Rewald a letter urging him to keep timely records on the premises, officials said.

"Those kinds of examinations are just not designed to detect a fraud of that magnitude," one SEC official said. "You take a quick look at the books and records to make sure everything is in order."

In the fall of 1982, Rewald's lavish life style attracted the attention of the IRS. Agent Joseph Camplone, who lived in the same Honolulu neighborhood, noticed that Rewald was sending his children to baseball practice in limousines, according to sources familiar with the IRS probe. Rewald also was flaunting his wealth at his posh Hawaii Polo Club, where he entertained foreign dignitaries.

Camplone found that Rewald had reported no taxable income for 1979 and 1980 and had filed no return for 1981. Rewald earned \$111,790 in 1979, \$414,160 in 1980 and \$621,112 in 1981, according to the indictment.

Rewald also told Camplone that his records were on the West Coast, the sources said. But memos written by Rewald show that he tried to have the CIA stop the IRS audit on grounds that it would compromise covert operations.

The subject came up in what Rewald says was a Nov. 29, 1982, conversation that he taped with the CIA's Rardin. According to the transcript:

Rewald: "Jack, has the agency got back to you on my tax problem?"

Rardin: "No, not yet, but I... should have some information today, I think."

Rewald, later: "I don't want any problems with the IRS."

Rardin: "No, I know. Sure don't. We don't, either."

Rewald says he also complained to the former head of the CIA's Honolulu office, Jack Kindschi, then serving as a consultant to the firm. In January 1983, the CIA had the IRS delay the audit for two weeks.

Assessing Rewald's purported

evidence of extensive involvement in CIA-backed arms deals and espionage is difficult because he is under indictment for perjury. At a minimum, however, the firm provided covers for agents such as "Cavanaugh," who was given business cards for a Bishop, Baldwin subsidiary called CMI Investments.

In the spring of 1983, after Sporkin's order, the two CIA agents

withdrew their money from Bishop, Baldwin. According to Hayes, Cavanaugh withdrew his \$90,000 investment and \$45,000 in earnings, and Rardin withdrew his \$2,800 investment.

In a letter to Rewald, reported by The Honolulu Advertiser, Cavanaugh wrote:

"Thanks for getting everything closed out for me. Unfortunately from my view, but at least it clears the air with my home office who are now seemingly satisfied that there is no 'apparent' conflict of interest, but must be Simon pure."

Cavanaugh added: "I also assume that your 'tax problem' with CMI has been taken care of."

Days before Bishop, Baldwin collapsed, Rewald sent Kindschi \$175,000 that the former CIA agent and his mother had invested in the firm. Kindschi's attorney said Kindschi did not ask for the money.

Kindschi and Rardin have returned their money and agreed to stand in line with other creditors. Hayes has sued under bankruptcy law to recover the \$145,000 from Cavanaugh as a premature withdrawal.

Still another federal agency, the FDIC, entered the case in the spring of 1983. Bishop, Baldwin had been claiming in promotional brochures that investors' deposits "are insured by the FDIC to a limit per

account of \$150,000." Skeptical investors sent copies to the FDIC, which insures only bank deposits.

FDIC attorney Roger Hood said he wrote the firm in June 1983 and "told them it's a criminal violation to falsely represent deposit insurance." While he could have referred the matter to the Justice Department, Hood said, a Bishop, Baldwin lawyer assured him that the erroneous claim had been made by "overeager sales people" and that the practice had been stopped.

"At that point, we were willing to see what happened," Hood said. "We had no reason to believe then they were anything other than a reputable firm."

Hood said he "began to be a little suspicious" when he received further complaints that the firm was claiming FDIC insurance. The indictment alleges that Rewald had authorized such claims.

When Camplone resumed his tax audit, sources said, Bishop, Baldwin turned over some records and stopped cooperating. The indictment alleges that Rewald spent more than \$5 million in company funds on cars, women, polo ponies and other personal expenses.

In April 1983, Camplone sought a court summons for the firm's records, but it was delayed about four months. The request was made to the U.S. attorney's office in Honolulu, where sources said it was regarded as routine, and was filed in court on July 25, 1983. Rewald was ordered to produce the records by mid-August.

By that time, the SEC had received new information and was again examining Bishop, Baldwin. Its suspicions about the company's cash situation aroused, SEC officials had given Rewald until Aug. 10 to deposit money in a Honolulu bank to cover all investors' deposits.

State officials also asked to see Rewald's records, and a local television station aired a report on the firm's problems.

On July 29, 1983, Rewald checked into the Sheraton Waikiki Hotel and slit his wrists. He was discovered by a hotel clerk and later recovered.

Weeks later, as investigators picked up the pieces, the SEC obtained an injunction to bar Rewald from trading securities and made the order final in an agreement this month. Trustee Hayes said the SEC was moving a bit late.

"That was just to cover themselves, to improve their statistics," he said. "It's ridiculous. We're a bankrupt corporation."

Special correspondent Walter Wright contributed to this report.