

WASH POST  
7/28/81

# Hugel's Political Pluses May Have

By Patrick E. Tyler  
Washington Post Staff Writer

The administration's interest in appointing top officials who have supported President Reagan and his policies may have worked to its disadvantage in the security clearance of Max Hugel, the just-resigned head of the Central Intelligence Agency's clandestine service.

A confidential CIA security file on the background investigation of Hugel, who resigned July 14 after published charges that he engaged in improper or illegal stock trading practices during the mid-1970s, puts strong and repeated emphasis on Hugel's political role in Reagan's 1980 election campaign. Most of the comments come from people who had known Hugel two years or less and political operatives who met him during his nine-month stint in the Reagan campaign.

But CIA investigators failed to discover important leads to the alleged improper practices, either from public records on file at the Securities and Exchange Commission and elsewhere, or from interviews with longtime business associates of Hugel.

Seventeen references in the 31-page file of interview summaries draw special attention to such things as Hugel's "tireless" and "on-the-go" work for the Reagan campaign and his "100 percent Reagan" attitude. Hugel was an aide to William J. Casey, a close personal friend of Reagan and his campaign manager; later Casey became CIA director and recruited Hugel.

CIA security officials interviewed 27 Hugel acquaintances, 17 of whom said they had known Hugel for two years or less. Eight of those 17 interviews were conducted with short-term neighbors who said they really did not know Hugel. Several acquaintances said they met Hugel when he joined the Reagan campaign in the spring of 1980 as an organizer of ethnic voting groups.

One of the longest investigative summaries was from an interview with conservative New Hampshire publisher William Loeb, who met Hugel when he came to Loeb seeking to join the Reagan campaign. Loeb, who was described by the CIA investigator as a "developed informant," confided during the interview that he had introduced Hugel to the Reagan-for-President officials.

After Reagan was elected and plans were made to fill key positions, the summary said, Loeb recommended that Hugel be considered for a position with the CIA.



MAX HUGEL  
... "100 percent Reagan" attitude

In another interview with a Republican campaign official whose name was blacked out of the security report, Hugel was reported to be a "hard-working individual who was well-received by both local and National Republican Committee members."

The CIA investigator who conducted interviews in the Miami area, where Hugel maintains a second home, included the following remarks in the summary of his interview with real estate developer Lawrence A. Gordon, a neighbor and investment partner with Hugel: "Gordon volunteered that subject worked extremely hard on the Reagan campaign and is 100 percent loyal to the Republican party. He said subject worked full time with the campaign and volunteered that subject is an extremely enthusiastic Reagan backer."

In another Miami-area interview, health spa owner Larry Paskow's remarks were summarized in part: "Paskow volunteered that subject is 100 percent Reagan and devoted an enormous amount of time to the Reagan campaign."

The CIA requires that the summaries include data about alcohol, drug and marital problems as well as financial problems or any other circumstance that might make an applicant vulnerable to blackmail. Aside from those areas, the summaries reflect the investigator's own judgment of the most pertinent interview comments about the integ-

riety, discretion and trustworthiness of the applicant.

CIA officials have denied that Casey put any improper pressure on security personnel to short-cut the background investigation of Hugel, which took just seven days from first interview to final clearance. But a former intelligence official who asked not to be identified said that pressure to complete the security check on Hugel quickly was an undeniable factor, given his strong personal sponsorship by Casey.

In hindsight, the rush to complete the investigation prevented agency officials from discovering important leads to the alleged improper business practices that drove Hugel from office and that have intensified interest in Casey's own controversial business past.

Any one of several of these leads likely would have led the CIA last January to Thomas R. McNell and Samuel F. McNell, the two Wall Street stockbroker brothers who have said they were trying at the time to tell Reagan administration officials about alleged improper or illegal stock trading practices they carried on with Hugel in the mid-1970s.

Also, important details about Hugel's personal life and his business associations that might have prompted a more extended investigation fell through the gaps in sometimes perfunctory interviews of Hugel's friends, neighbors and business colleagues, the CIA records show.

Had CIA security officials gone to the public reference room of the SEC at 1100 L Street NW in Washington, they would have found in the regular corporate filings of Brother International Corp. numerous references to the special relationship between Brother, under Hugel, and McNell Securities Corp. and its president, Thomas McNell.

But McNell was not interviewed by the CIA. His allegations that Hugel secretly bankrolled McNell Securities in an effort to boost Brother International's stock did not surface until they were published in *The Washington Post*.

Other leads relating to Hugel's past business activities and his personal life included:

- The current chief executive of Brother International, Roy Y. Nakagawa, volunteered to a *Post* reporter last month that Hugel was forced to resign the top post in the company in 1975 after a series of poor business decisions and the worst loss in the company's history.



# Crimped CIA Check



**WILLIAM LOEB**  
... introduced Hugel to campaign aides

In the interview, when Nakagawa was asked about McNell's relationship to the firm, Nakagawa responded, "Maxie had some deal with him [McNell]. He was a stockbroker. Then something happened and they ended up in a lawsuit." The CIA official who interviewed Nakagawa never asked about McNell.

• Within days of Hugel's resignation from Brother International, the corporation's accounting firm, Arthur Young & Co., also resigned suddenly and without explanation, leading to a suspension in trading of Brother International's stock. This event, widely reported in the business press, was noted in public filings at the SEC. A CIA official interviewed an Arthur Young executive during Hugel's background check this year, but the accounting firm's resignation did not come up.

• The president of Centronics Data Computer Corp., Robert Howard, told a Post reporter this month that he was aware that a business relationship between Hugel and the McNells ended acrimoniously. He said he thought Hugel had been "duped" and "conned" into questionable business arrangements by the McNells before Hugel came to work for Howard in 1975 as executive vice president. This subject did not come up in the CIA interview of Howard.

• Security personnel failed to discover that the firm where Hugel was last employed as executive vice president, Centronics, had a consultancy relationship with the CIA.

reputed Cleveland organized crime figure Moe B. Dalitz and his Las Vegas casino properties. The relationship has been reported in prominent business journals. In addition, Centronics was partly owned by Caesar's World, a casino firm, until 1974, when Hugel arranged for his former firm, Brother, to buy up 200,000 shares of the Caesar's World holdings in the company. Caesar's World has been the object of lengthy federal investigations relating to alleged connections between its executives and organized crime figures.

Howard, the Centronics president, told a CIA investigator in January that he regarded Hugel as "the most capable administrator that he has ever known and would highly recommend subject for a position of trust and responsibility with the U.S. government."

But in an interview with The Post earlier this month, Howard said his former vice president was "naive."

"Max was very, very unsophisticated and unknowledgable and he thought he was a lot smarter than he was," said Howard.

It was clear last week that the flaws in this particular security clearance were being closely examined.

"I'm as chagrined as everyone else about this thing," Robert Gambino, who was head of the CIA's closely knit and highly secretive Office of Security until last year, said in an interview. "I'm sure folks at the agency have been marching up to a few committees looking to determine procedural mistakes and making sure it doesn't happen again."

Gambino, who restructured over the last five years many of the rigorous procedures designed to test the character, trustworthiness and loyalty of agency employes and officers, added: "I know one thing, this will strengthen the hand of the director of security because if there is pressure from upstairs in the future and they're tempted to short-circuit the procedures, this will be a visible reminder that you can't do that — the job is too important."

At the very least, intelligence officials think that the episode will lead to tightening of security procedures to ensure that political and other pressures do not affect the clearance process for high-level CIA appointments in the future. At the most, they think that the Hugel affair could lead to diminished authority of the CIA director to select his top deputies without White House approval or the advice and consent

# Hugel's Plan In Mauritania Drew Protest

By Lou Cannon  
Washington Post Staff Writer

The proposed CIA operation planned by former clandestine operations chief Max Hugel that provoked a rare written protest from the House Intelligence Committee to President Reagan dealt with Mauritania, not Libya, administration sources said yesterday.

The sources declined to disclose the nature of the operation except to give the location as Mauritania, a poor, Moslem and military-ruled west African nation that earlier this year was the target of a pro-Moroccan coup.

White House deputy press secretary Larry Speakes yesterday denied the accuracy of a Newsweek report that said the Central Intelligence Agency had planned "a large-scale, multiphase and costly scheme to overthrow the Libyan regime" of Col. Muammar Qaddafi.

"... The briefing described by Max Hugel in the current issue of Newsweek never took place," Speakes said at the daily White House briefing.

He declined to give any more information, saying: "We don't go into the business of discussing our intelligence."

The White House departed from its usual no-comment policy in an apparent effort to assist beleaguered CIA Director William J. Casey, whose judgment was questioned by the Newsweek article. Casey's judgment was even more strongly questioned by the House committee. According to sources, members of Congress of both parties thought the plan, whatever it was, ill-prepared and "bizarre."

Hugel has resigned, following allegations of improper business activities. But the members of the committee have little confidence in Casey and wanted to be on record with a direct protest to President Reagan.

Under federal statutes dealing with congressional oversight of covert activities, the president must make a finding that such activities are necessary for national security.

Then the CIA director is obligated to inform the House and Senate Intelligence committees. While the committees cannot approve or disapprove such actions, their comments could lead to a change in