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**Banker Friend of Nixon  
Is Target of U.S. Inquiry**

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WASHINGTON, Sept. 9—C. Arnholt Smith, the California multimillionaire who has been one of President Nixon's closest personal and political associates for more than a quarter of a century, is now the subject of intense scrutiny by Federal investigators, who have become increasingly interested in Mr. Smith's dealings with organized crime figures.

Within the last year the San Diego entrepreneur's sprawling business empire has come under fire from the Securities and Exchange Commission, the Internal Revenue Service, the Federal Bureau of Investigation and the Controller of the Currency.

Most recently, a Federal grand jury has undertaken an inquiry related to Mr. Smith. The banker and industrialist made a 10-minute appearance under subpoena on Aug. 20 before the grand jury in San Diego and, according to a source with knowledge of that session, invoked his Fifth Amendment right against self-incrimination.

It is not clear what is the focus of the grand jury's inquiry, but sources familiar with the whole range of the investigations of Mr. Smith's affairs said it was separate from those previously initiated.

In the midst of his mounting difficulties, Mr. Smith made a move that is generating even more heat on him and the Westgate-California Corporation, the conglomerate he controls, whose interests include the third largest packer of tuna in the nation and taxi companies with monopoly or near-monopoly situations in every major California city and Phoenix.

On July 25 it was announced that a San Diego lawyer, John Andrew Donnelley, had been

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named to the Westgate board of directors. Mr. Donnelley is representing Westgate in a lawsuit filed against the conglomerate by the S.E.C. He is acting as co-counsel with Mudge Rose Guthrie & Alexander, the New York law firm of which Mr. Nixon was once a senior mem-

ber. Mr. Donnelley has for years been a subject of much interest to Federal enforcement officials, especially those agents who are part of the fight against organized crime. He has been linked, both as a business associate and a legal representative, to organized crime figures for at least 25 years.

In addition, a number of highly reliable Government investigative sources have told The New York Times that Mr. Smith and his enterprises have a long history of dealings with organized crime. Records supplied to The Times support the statements of these sources.

Information from the sources and the records show that a senior vice president of the Smith-controlled United States National Bank, Lewis Lipton, is well-connected in the Southern California underworld. United States National has resources well in excess of \$1-billion and operates 63 branches in California and one in the Bahamas.

Mr. Lipton, a former New Yorker who once used the name Felix Aguirre, was a restaurateur in San Diego until Mr. Smith brought him into the bank for the loans and accounts Mr. Lipton would hopefully be able to create through his connections.

#### Owned by the Mafia

With the help of Mr. Lipton, according to the sources and records, a coin-operated-machine company owned by the Mafia established a line of credit some years ago at the bank and has been a beneficiary of hundreds of thousands of dollars in loans from United States National.

In the mid-nineteen-fifties Mr. Lipton's brother, William R. Lipin, an accountant and United States National stockholder, co-signed on three loans, totaling \$10,300, made by the bank to the late Frank Desimone, a Los Angeles lawyer, who was the Mafia boss in Southern California at that time.

The third loan was for \$6,300 and was made on May 8, 1957, six months before Desimone attended the now-famous meeting of Mafia hierarchy at Apalachin, N.Y. Immediately following the so-called "crime conference," Desimone dropped from sight dodging a subpoena from a New York Federal grand jury. In April, 1958, he was located and was served the subpoena by Federal narcotics agents.

#### Payments by Brother

While he was a fugitive,

Desimone became delinquent on the \$525 monthly payments on the 1957 loan. Mr. Lipin made several of the payments and then arranged, through Salvatore Bompensiero, younger brother of Frank Bompensiero, a Mafia leader in San Diego at the time, to have Desimone's payments kept up.

The Southland Amusement Company, Inc., the vending machine concern that has had a successful business relationship with the United States National Bank, is typical of operations that attract the Mafia because of their large cash flow and potential for "skimming" profits before taxes.

Southland agrees to arrange for and guarantee loans from United States National to bar and restaurant owners in need of financial assistance, in return for the owners' allowing Southland to install its jukebox, cigarette machines and pool tables. Southland then sees to it that the loans are repaid out of the owners' part of the proceeds from the machines.

#### Present Officers

"These are good, low-risk loans for the bank," said one Federal agent who has followed the matter for years. "There is nothing illegal about it, on the surface anyway, but these guys at Southland are able to assure themselves locations through the lending power of the bank."

Almost from its inception in the late 1940's, Southland has been controlled by the Mafia.

Its present officers are:

Josephine Dia, the president of the company, wife of a middle-echelon Mafia figure, Leo Dia, and niece of the late Tony Mirabile, Mafia head in San Diego until his murder in 1958;

Charles Gelardi, the vice president of the company and a San Diego produce dealer.

Steven Niotta, the secretary-treasurer, and related by marriage to the Dragna family, leaders in the Mafia in Southern California for years. Leo and Josephine Dia are the controlling stockholders in Southland, and slightly more than 15 per cent of the stock is held by Joseph C. Dippolito, currently the underboss of the Mafia in Southern California.

#### 'Minimal' Account

Through a spokesman, Mr. Smith told The Times he had never heard of Southland. James F. Mulvaney, president of United States National Bank, said in a telephone interview that he had only a vague knowledge of the Southland account, which he described as "minimal," and said he was unaware of the background of the concern's principals.

Mr. Smith's long business and personal relationship with John S. Alessio has long been thought by Federal agents to be the most obvious example of Mr. Smith's connections to or-

ganized crime.

Alessio's wealth was accumulated in large part from his horse and dog tracks on both sides of the Mexican-American border and a bookmaking operation in Mexico (where such activity is legal), which accepts bets on races at United States tracks. It has been strongly felt among Federal agents that Alessio's bookmaking operation would not have survived without the cooperation of the underworld in obtaining the "line," or odds on races in this country.

A Federal investigative report written six years ago carries this entry:

"Mr. John S. Alessio, true name Giovanni Sevano Alessio, is well known to law enforcement agencies. Over the years his activities and associations have resulted in his being included with other known members of organized crime."

#### No Reference to Cranston

Alessio, once a director as well as a stockholder of Mr. Smith's conglomerate, Westgate-California, was released earlier this year from Federal prison, where he served two years of a three-year term for income tax evasion.

But it is the presence of Mr. Donnelley at Westgate that now intrigues Government investigators.

The Times has learned that in addition to his history of association with organized crime figures, evidence indicating that Mr. Donnelley had conspired to violate the law governing the conduct of campaigns for Federal office was uncovered by the I.R.S. in 1970. A special agent's report, approved by the acting chief of the I.R.S. intelligence division in Los Angeles, recommended "future grand jury action or additional investigative effort," but no action was taken.

The report shows that the Government has the following evidence:

In 1968 a Donnelley client, Charles A. Pratt, then president of the San Diego Yellow Cab, Inc. (not then part of Westgate), committed \$2,000 to the ultimately successful campaign of Alan Cranston, a Democrat, for the United States Senate from California. Mr. Cranston later got in touch personally with Mr. Pratt, who reaffirmed the pledge.

Shortly thereafter, Mr. Pratt told Mr. Donnelley that he wished to take the contribution from the corporate funds of the cab company. Even after Mr. Donnelley read his client the Federal law prohibiting a corporation from contributing to a Federal candidate and warned him that what he proposed was "very dangerous," Mr. Pratt was adamant.

Finally, the lawyer agreed to help. On Oct. 31, 1968, Mr. Donnelley sent a personal check for \$2,000 to a Cranston campaign committee. On Nov. 7, Mr. Donnelley billed the cab company for \$2,000, which was paid on Nov. 12. At Mr. Donnelley's suggestion, Mr. Cran-





C. Arnholt Smith

Evidence gathered by the District Attorney's office showed that much of the money came from a Donnelley trust account. The normal procedure was for Mr. Pratt to draw company checks payable to Mr. Donnelley. The lawyer would then draw checks of like amounts on his trust account, payable to persons designated by Mr. Pratt, and would give these checks to the cab company president, who would deliver them.

#### Four Acquitted

The prosecutions were unsuccessful however. Four of the defendants were acquitted, an Appellate Court dismissed the charges against another defendant and the District Attorney's office moved for dismissal against two more.

One defendant pleaded guilty to conspiring to violate California election laws. The judge reduced the charge from a felony to a misdemeanor, fined him \$1,000 and placed him on probation.

By far the most fascinating part of Mr. Donnelley's history, as far as Federal investigators are concerned, is the role he has played in the fortunes of a group of entrepreneurs headed by a former Cleveland racketeer, Morris Barney Dalitz.

Mr. Donnelley has been both an attorney for and a sometime partner in this group since it bought controlling interest in the Desert Inn Hotel and Casino in Las Vegas, Nev., more than 20 years ago.

He held stock in the Desert Inn until Dalitz and his followers sold out in 1967 to Howard Hughes, the billionaire recluse. During part of the time the Dalitz group controlled the Stardust and the Desert Inn, Mr. Donnelley was the executive vice president and managing director of both, and secretary-treasurer of the Stardust. To carry out these duties he lived at the Desert Inn from the latter part of 1962 until the end of March, 1967.

#### Profits Skimmed

Mr. Donnelley held these posts at the Desert Inn, and was active in the casino's management, during the nineteen-sixties when Federal Bureau of Investigation listening devices planted there disclosed that the gambling profits were being "skimmed," and the money delivered to hidden crime syndicate interests. In connection with the extortion trial of a part owner of the Desert Inn, the F.B.I. said that a microphone had been planted in the executive suite at the Desert Inn, that meetings concerning "skimming" took place there, and that two of the persons involved were Dalitz and Mr. Donnelley.

Mr. Donnelley has also assisted Dalitz and his colleagues in establishing a plush resort community in northern San Diego County known as La Costa.

In an effort to determine

why Mr. Donnelley was placed on the Westgate board at this time, lawyers for the Securities and Exchange Commission privately interrogated Mr. Donnelley under oath last Friday in San Diego. None of the other seven directors of Westgate are scheduled to give a deposition in connection with the S.E.C. lawsuit, in spite of the fact that Mr. Donnelley was not on the board during the period of the allegations in the suit.

Government sources, who are not with the S.E.C. but who are knowledgeable about its investigation of Westgate, said that the Donnelley deposition was also designed to spread as much of his background as possible on the official record. The Government would then use this information as leverage with the court in a move to force the lawyer off the board.

#### 'Man on the Inside'

The sources said that Commission lawyers were concerned not just about Mr. Donnelley's placement on the board, but about his selection as chairman of the corporation's audit committee, a body composed of three directors and two company officers. The audit committee is charged with maintaining liaison between Westgate and an independent audit-

ing concern hired by the committee to prepare financial statements for the company covering the years called into question by the securities agency's suit.

S.E.C. officials speculate, according to the sources, that Mr. Smith placed Mr. Donnelley on the Westgate board at the dictates of certain investors or potential investors in the corporation. Under this theory, Mr. Donnelley is "the man on the inside" for these investors in the event the S.E.C. is successful in one of the avowed purposes of its suit, that is to remove Mr. Smith from Westgate.

If Mr. Donnelley represents potential investors to whom Mr. Smith has turned for financial aid, he is now in a position to assess both the promise and the risk of such an investment. That is how the S.E.C. views Mr. Donnelley's role, according to the sources.

"There has to be an overriding reason why Donnelley is on that board," one Federal investigator said. "Smith's got enough trouble, without inviting more by hooking up with a guy like that."

"Whoever it is that wants Donnelley inside Westgate had to do it while Smith was still in a position to railroad it."

The S.E.C. suit, filed in May

and scheduled to go to trial next month, charged Mr. Smith, Westgate, two other individuals and five other companies with the fraudulent use of millions of dollars in assets of Westgate and the United States National Bank.

#### Controlling Stockholder

Mr. Smith is chairman and controlling stockholder of Westgate, which has \$220-million in assets. Although he no longer holds any office at the bank, Mr. Smith remains its controlling stockholder. Both the bank and the corporation are traded publicly.

One condition of an order issued against United States National by the Controller of the Currency last spring was Mr. Smith's resignation as chairman and a director of the bank.

It is known that Mr. Smith feels strongly that most if not all of his troubles stem from a desire on the part of certain staff members in various Federal agencies to demonstrate, in the atmosphere of Watergate, a capability to move against even friends of the President.

#### Funds for Nixon

Indeed, Mr. Smith has enjoyed a warm personal relationship with Richard M. Nixon.

The President has seen the older man's counsel through the years.

And, as an active political supporter of Mr. Nixon, Mr. Smith goes all the way back to the President's first campaign for a seat in the California Congressional delegation. He has contributed hundreds of thousands of dollars to Mr. Nixon's political efforts, and has been instrumental in raising millions more.

Following the filing of a \$22.8-million tax lien against him last month by the I.R.S., which is believed to be the largest ever against an individual for a single tax year (1969), Mr. Smith characterized it as a bureaucratic effort to develop a "little Watergate," and accused the agency of attacking him as "a friend of President Nixon."

The 74-year-old financier observed in an interview with a San Diego newspaper that "it's strange that the people around the President who have been actively supporting him and raising money for him have been targets."

"I can't help but feel that I am on some bureaucrat's list of enemies, and must be the No. 1 plus, or something," he added.

ston's name did not appear on the bill in order to minimize the possibility of a discovery of the true nature of the transaction.

In a telephone interview, Mr. Donnelley told The Times that Mr. Pratt had promised him that he would carry the transaction on his personal account ledger at the cab company, and would reimburse the company when he could. Later, at the time of the Internal Revenue Service inquiry, Mr. Donnelley said he had learned from his client that Mr. Pratt had carried the transaction on the company's books and had made no reimbursement.

The I.R.S. special agent wrote in his report:

"As a result of interviews with Mr. Pratt, a review of the records of San Diego Yellow Cab and John Donnelley, attorney, it appears Mr. Pratt and Mr. Donnelley conspired together to violate three [sections of the U.S. Code] and, in furtherance of that conspiracy, caused an overt act to be committed, specifically the preparation and sending of a bill by Mr. Donnelley to the corporation in a manner designed to hide the real purpose of the expenditure."

Investigations by the revenue agency and the San Diego County District Attorney's office ultimately established that Mr. Donnelley had often been used as a conduit through which Yellow Cab money passed to candidates for public office.

On Oct. 8, 1970, a San Diego County grand jury indicted Mayor Frank Curran, seven other public officeholders and a former campaign treasurer for one of them. The indictments charged that the Mayor and all but one member of the city council had accepted bribes totaling \$27,850 from Mr. Pratt, with the understanding that they would act favorably on the cab company's application for a 22.8 per cent rate increase.