

# MAINE STATE LEGISLATURE

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*Wickusson*

HOUSE OF REPRESENTATIVES

JUL. 22 1940

*Accompanied  
Partial Report of Com.*

*Harvey Pease*  
CLERK

JOINT SPECIAL LEGISLATIVE INVESTIGATING COMMITTEE

Meeting of May 28, 1940

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State House  
Augusta, Maine

JOINT SPECIAL INVESTIGATING COMMITTEE

Hearing - May 28, 1940

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Examination of Mr. Alvin T. Wilkinson, of Ernst and Ernst, Auditors.

Q (By Chairman Tompkins) What is your full name?

A Alvin T. Wilkinson.

Q And your residence? A. Belmont, Massachusetts.

Q And are you connected with the firm of Ernst and Ernst?

A I am.

Q And are you a member of the firm? A. I am.

Q And are you a member of the firm which is now in charge of the state audit? A. I am.

Q I noticed an article in the Bangor News this morning in regard to a statement on page fourteen of your report in which you say, "Other adjustments in our opinion would be required to correctly show the financial condition of the state." By that, what do you mean, Mr. Wilkinson?

A Well, if it should be read in connection with the context, it would be more correct. It should be read in connection with the context, and we go on to refer to our exhibit, I believe it is on page eighty, in which we set forth a summary of certain assets of the state which are not customarily entered on the books and certain additional liabilities, including some reserves which represent merely our opinion as to the possible losses on some of the assets which are included on the balance sheet. In other words, it was our opinion that this balance sheet of June 30th, 1939, does not correctly reflect the financial condition of the state as of that date

for the reason that some of the assets are overstated for the reason that we have cash in closed banks which cannot be liquidated a hundred per cent. We have some accounts receivable which are not collectible a hundred per cent. Now, to offset those assets which are over-stated on the balance sheet, there are other assets to which recognition is not given in the balance sheet so that on page fourteen we were expressing the opinion that the balance sheet by itself did not show the correct financial position but that in order to arrive at a more correct financial position consideration would have to be given to those assets which are not entered on the books, the liabilities that are not on the books and the reserves which would be required.

Q So that any statement standing by itself is always subject to an explanation.     A. That is right, sir.

Q I notice what might possibly have been an error in dates here --

A There is an error in dates.

Q -- on page forty-three.

A There is an error in dates. That is in the third column from the right under the heading "Appropriation Balances, June 30th."

Q Yes.     A. That should be 1938 instead of 1939.

Q It is too bad that hadn't been corrected before. Now, on page forty-three in the column "Transfers" what is the meaning of that column? To what were those items transferred?

A Most of them are transfers within departments. In other words, the Highway Department has quite a number of different appropriation accounts or different accounts which they keep as appropriation accounts and it is customary, apparently, for the departments to transfer within their own department.

I might add that we have checked the legality of all transfers between appropriation accounts and where we had any question as to the legality of such transfers we have secured the opinion of the Attorney General as to the legality of the transfers. You will notice that the total of the transfers on page forty-two equals the totals of the transfers on page forty-three, \$27,545,362.00 on page forty-two and the same amount on page forty-three. Those are transfers in and out of appropriations. I might cite for instance the case of an appropriation within the Highway Department for secondary roads --

Q Pardon me. When you say, appropriation, you mean legislative appropriation?

A Yes. Perhaps I am not picking a good one but I recall some discussion regarding such a transfer. That is the reason I mention it. Some of the towns wanted to build bridges instead of roads and there was a transfer made within the highway fund between the appropriation for roads as against bridges because the towns wanted to spend the money on bridges instead of roads. Now, there are quite a few transfers within the Highway Department, for instance.

Q I notice the total appropriation credit for the Highway Department was \$30,836,570.17 in June, 1937.

A I don't quite follow you on that.

Q Well, on page forty-three in the first column the fifth item from the bottom. A. Yes.

Q Of course, from recollection you can't remember what made up that total?

A Well, that is the total of six columns which appear on page forty-two. We start with the beginning balance of \$4,697,987.71 carried forward from 1937 and then there was a one thousand dollar appropriation by the legislature which appears in the next column, there was two thousand dollars from the contingent fund by the Governor and Council and \$10,597,440.07 from revenues.

Q What would those be?

A Mostly gas tax. I think you could find the revenues by referring to our itemized schedule in the preceding pages. For instance, on page twenty-three, halfway down the page, is a caption, "Credited to Specified Appropriation Accounts." The first item is \$6,161,419.84. That is the greater part of the ten million revenue shown in this revenue column on page forty-two. Then if we go over to the next page we find licenses, State Highway Commission, Registration of Motor Vehicles, \$3,560,121.64. And as we go through these itemized schedules of various classes of income you find that they are different types of income in each one of the classifications almost. For instance, on the next page we have rents credited to the Highway Commission of \$412,984.70 and on the next page, page twenty-seven, we have fees, \$63,480.56. Now the total of those, I believe, will be found to equal the \$10,597,440.07 appearing in that revenue column. Then we go over to the grants, subsidies and assessments and that appears on page thirty-five, Highway Department, \$2,872,740.21 which shows the general source of those, mostly federal aid. The total, therefore, of those six columns on page forty-two is carried across in the total appropriation credit of \$30,836,570.17 that you inquired about on page forty-three.

That was the total available for that department.

Q For the fiscal year 1937-38?

A That is right, sir. Now, out of that they disbursed altogether total appropriation debits of twenty-seven million, leaving a balance at the end of the year of \$3,777,000, none of which was carried across. The balance which appears on the preceding page, forty, is the amount brought forward in succeeding years, \$3,777,445.62.

Chairman TOMPKINS: Has anybody any questions to ask Mr. Wilkinson on that?

Q (By Mr. Varney) Who in the Highway Department, if they are kept in the Highway Department, keeps the appropriations and the accounts showing what has been drawn from the various appropriations?

A The accounts are not kept in the Highway Department. They have been kept in the Controller's Office.

Q And that is all the accounts of the Highway Department?

A I believe so. The highway accounts were formally kept in the Highway Department prior to the Code at which time Mr. Runnells was the chief bookkeeper for the Highway Department and when he was installed as Controller the accounts went right over to the Controller's Office and it is my understanding that under the Code all such accounts should be kept in the Controller's Office for all departments.

Q (By Mr. McNamara ) Could you tell me who did the purchasing for the Highway Department; the Commissioner or the Controller?

A The Commissioner, according to law

Q (By Mr. Donahue) Shouldn't the disbursements and transfers and other credits equal the total appropriation debits?

A They should. Offhand I would say it didn't but it should. There is a difference of about ten million dollars. Instead of being \$1,786,067.72 it should be eleven million. I might say this was proofread in the newspaper office by four of our men who worked all night in order to get this done on time and they were working under extreme pressure and I am sorry to say that that is the second printed error that has appeared in this report. I think you will find, however, that the totals are correct.

Q (By Mr. Dow) Is that figure of eleven million correct?

A Well, I will check that but I am quite sure that is what it is. The disbursement of the Highway Department was certainly more than one million, seven hundred thousand.

Q (By Mr. Richardson) Under that same Highway Department where would all these transfers be, interdepartmental transfers of fifteen million?

A That Highway Department, you will notice that the total transfer to the credits was eleven million, six hundred and forty-nine thousand and the total debit was fifteen million, two hundred and seventy-three. The principal difference between those transfers, you notice the transfers out are more than the transfers in. Most of those are within the department itself from one highway appropriation account to another highway appropriation account, but there are other net transfers there. I know, off-hand, that the credits part of this is money that was transferred to the State Treasurer in payment of interest and principal on the debt of the Highway Department.

Q (By Mr. Varney) Would that also include transfers to the State Police Department for expenses of operating the State Police?



A It might well be; yes.

Q (By Chairman Tompkins) And the appropriation of the Highway Commission?

A You will notice if you look at the State Treasurer's Department which appears three or four items above the Highway Department that the State Treasurer received credits by way of transfers of \$2,743,000 and my recollection is the greater part of those are transfers from the Highway Department to the State Treasurer to pay the interest on the bridge bonds and the maturity on those bonds and some of the Highway Department bonds.

Q (By Mr. Dow) That means that they spent that particular year twenty-seven million dollars in actual expenses?

A No, because I think you have to deduct the transfers except for the amounts that went to the State Treasurer for bonds and interest. I believe if you take the transfers of \$15,273,056.83 and deduct the transfers on the other side of \$11,649,883.09 you get the net transfers out of the department.

Q One is offset against the other, then, is that right?

A Very largely. You would arrive at three million, six twenty-three being the net transfers out and I believe that that twenty-seven million shown as the total appropriation debits, \$27,059,124.55 should be reduced by the \$11,649,883.09 transfers on the other side of the page.

Q They spent approximately sixteen million, then, in round figures?

A Yes.

Q These books were kept in the Controller's Office? A. Yes.

Q Did he make a separate charge to the Highway Commission for that?

A Yes.

- Q And does that appear in your audit as to what they paid for that bookkeeping service, or doesn't it appear?
- A It doesn't appear as a separate item; no.
- Q Your memory wouldn't tell you how big the figure was?
- A Well, I have a distinct recollection that in one year ending June 30, 1938, there was a total of journal charges from the Controller's Office to the Highway Commission of a hundred and thirteen dollars.
- Q Now, that brings me to another question. As an auditor how does that compare with your idea of what the bookkeeping expenses should be in a department of this size?
- A My understanding is that a substantial part of that hundred and thirteen represents journal entries made by the Controller to cover his defalcations.
- Q Well, you answer my question in the negative, then, by saying it is altogether too large?
- A Yes; the agreement originally was forty to forty-five thousand dollars between the two departments. It started at forty in the early days of the Code and later was made forty-five and that, Mr. Barrows told me, was his understanding of what his department was to be charged for the bookkeeping.
- Q How does that figure come in as accounting practice; forty to forty-five thousand? Is that what it should cost?
- A Well, this is only an off-hand opinion. I should think it was allright.
- Q But you think that forty to forty-five thousand is still high?
- A Yes.
- Q (By Mr. Varney) You referred a few moments ago to Mr. Barrows. You meant Mr. Barrows of the Highway Department? A. Yes.

Q (By Chairman Tompkins) On these transfers in the Highway Department, under whose authority were they made, if you know?

A On the authority of the Highway Commission.

Q Did they require executive order?

A Not where they were made within the department. That is what the Attorney General tells, me, that they had the authority to make transfers within their own appropriation account.

Mr. VARNEY: That raises the question in my mind, Senator Tompkins. You asked were they made without executive authority. You meant authority of the Governor and Council?

Chairman TOMPKINS: Right. Executive orders.

Q (By Mr. Varney) May I ask, Mr. Wilkinson, whether they were made on the records of the Highway Commission?

A I am quite sure that my associate who was checking those transfers didn't check to the records of the Highway Commission for any transfers made within the Highway Commission, having first determined from the Attorney General that such transfers were within the discretion of the Highway Commission and as long as the money wasn't going out of the Highway Department it didn't seem to us that it was particularly important, but all transfers between departments we checked for the council orders or legal authority and we did submit a long list of questions to the Attorney General on various classes of transfers on which we had some question and we received his written opinion on the legality of the transfers that we had challenged in our letter to him.

Q (By Mr. Tompkins) You have a copy of that list --

A I have.

Q -- that you could deposit with this committee at some time?

A Would you like a copy of my communications with the Attorney General and his reply?

Q Yes. Now, taking up the state garage, did you find that that was set up as a separate department in the Highway Department, or a separate bureau?

A Well, it has really functioned as a separate bureau within the Highway Department.

Q And what did you find was the method of doing business in that garage department, we will call it?

A Frankly, unsatisfactory; not only with respect to these sales to employees but the records maintained there of the purchases and issues of tires and accessories wasn't good. We made quite a serious attempt to test the accuracy of the purchases and issues by selecting an item which has moved in considerable volume, 616 automobile tires, and we went through all the purchases from July 1st, 1939, to March 31st, 1940, and listed the total number of tires purchased over the seven or eight months and from whom they purchased that particular size of tire. We took an inventory of the tires on hand and then we tried to trace the issues from the sales of those tires so see whether they had all been accounted for but we gave it up as a hopeless task because of the lack of information. Now, we found this: There is a provision made in the Highway Department for a running record of purchases of materials coming into that Highway Garage but the clerk who had charge of those running inventory records was not being advised of all the purchases. The

The explanation that we received as to why he wasn't advised of all the purchases was that when a bunch of tires, for instance, was received they would put certain quantities of those tires in their reserve stock and they would only advise the record clerk of those that were put into the current stock.

Q Pardon me, Mr. Wilkinson, but whom do you mean by "they"?

A Well, Mr. Ledoux - and I am sorry I can't think of the other name - and we discussed it at some length and Mr. Barrows wasn't familiar with this condition that the clerk charged with the responsibility of keeping the running record of the stock --

Q Pardon me. When you say "Mr. Barrows" you mean Mr. Lucius Barrows?

A Yes. He wasn't familiar with the fact that the clerk charged with the responsibility of keeping the running records wasn't getting information which would permit him to properly keep the records.

Q Now, if you know, who made those purchases?

A I can't name the individual. They were purchased within the Highway Department.

Q Who was in charge of the stock in the garage?

A I believe his name is Root.

Q So that whoever received these goods, after they were bought doled out to the clerk, Mr. Root - if that is his name - whatever of the materials they saw fit?

A That is a fair statement.

Q And the rest they put in storage somewhere? A. Yes.

Q Now, in your investigation did you make any notation of who

purchased these goods through the state garage other than the state or state employees?

A I might have something in my file on that. We had quite a voluminous file on the Highway Department.

Q Did you find that many, outside of the employees of the state, or the towns, purchased through that department, to the best of your recollection?

A Well, there were some purchases from outside.

Q What would you say the volume of purchases would amount to in that state garage, in all, for the year?

A I wouldn't even want to venture a guess on that. I have a lot of those figures in my mind but not that one.

Q Yes; of course that is not a fair question, without your records. Did you make any record of the amount of money that was sent to the Controller from time to time; that is, within a month's period, perhaps?

A Oh, we made a very careful examination of the amounts that had been transferred, so they claimed, from the highway garage to the Controller's office but which did not reach the Treasurer. That is one thing we have tried to check out in detail.

Q Well, I didn't put my question very carefully, I'm afraid. What I was trying to get at is this: How many times a week or a month did they remit to the Controller?

A They claimed they sent it over every day or every other day, depending on whether they had fifty or a hundred dollars on hand.

Q And was that mostly in checks or cash?

A Well, my off-hand reply would be that it was about fifty-fifty.

- Q Did you make any attempt to trace any of the checks, or was there no record of those checks so that you could trace them, after they left the state garage?
- A We were obliged to work almost entirely with the fifth carbons in those books and many of them were very hard to read. If you noticed the form which was submitted this morning, there are two little boxes on the form, one for checks and the other for cash and they were supposed to indicate by checking in the box whether the payment had been received by check or by cash. So that when we came to audit these fifth carbons we tried to read the carbon as to whether it was a check or cash and some of them were so difficult to read that we had to do some guessing on it from the character of the item and the person to whom the receipt was issued, and so forth.
- Q If it was a check there isn't any assumption, necessarily, that that check actually reached the Treasurer's office, I don't suppose?
- A Well, we did considerable checking from the statements which were prepared by the clerk in the Controller's office but I wouldn't want to say that all the checks were actually put through because we know of five instances where they weren't.
- Q Have you a record of that five?      A. Yes, we have.
- Q Could we have that record?      A. Certainly.
- Q Now, after these slips reached the Controller with the checks or cash what was their history from that time on?
- A As we get the story, Mr. Runnells would hold these receipts in his desk for a period of two weeks, sometimes a month, and then he would deliver to the clerk in his office, who made out the

income sheets to go to the State Treasurer, some checks and a small amount of cash and tell her to make out an income report to the State Treasurer. We have all those income sheets so that I could answer you more definitely by reference to the sheets, if the question is important.

Q I think it is.

A I think I will find that in the earlier years the reports to the State Treasurer were made more frequently than they were in the later years, particularly the nine months from July 1st, 1939, when they were becoming rather infrequent. Right at the moment those income statements are sealed up in the Treasurer's vault by the Attorney General as they are to be used in the case and whether or not I can get access to it readily --

Q You can't, Now, are these garage sales, did they go through the Purchasing Agent?

A No, the Purchasing Agent had nothing to do with them as far as I know.

Q When the bill for a consignment, we will say of tires, came to the garage, who OK'd the order at the garage?

A My understanding is that the garage noted on the bill, the receipt of the tires and the bill went to the purchasing department of the Highway Commission for verification as to prices and then the invoice went to the Controller's Office for payment?

Q If you know, who in the garage forwarded these invoices to the Highway Department?

A I can't give the man's name, whether it is Mr. Ledoux, there is another man at the Highway Garage and I have been trying to recall his name since you first questioned me as to whom I meant by "they" but I can't recall his name at the moment.



Q Did you, in checking the Highway Department, determine whether or not all purchases were made by the Highway Commission or were some of them made through the purchasing agent of the state?

A I believe they were all made by the Highway Commission?

Q Did you at any time inspect any of the bids, sample bids, in the Highway Commission?      A. We have not.

Q You would have no occasion to?      A. No.

Q (By Mr. Boucher) Mr. Wilkinson, were any charge sales made in that department?      A. Yes, there were.

Q Were they paid for? Have you any record showing that those charges were eventually paid for?

A The procedure with respect to charge sales in the garage was something as follows: to those few to whom the garage felt they had authority to make charge sales a bill would be sent and a copy of the bill sent over to Mr. Runnell's office.

At the garage they kept a loose-leaf - you can call it a ledger - it wasn't in reality a ledger although it was kept on ledger sheets. And they would list down the date and the invoice amount and then when the check came through if it came through the highway garage there would be a notation there, "Paid on such and such a date". The original bill, or rather the carbon of the bill, having gone to Mr. Runnells he kept a folder on his desk with alphabetical pockets and when we searched his desk after his accident we found this folder with carbon copies of what we presumed to be, and later found out to be, very largely the unpaid charge accounts of the highway garage. The story that we got from Miss Kelley was that she believed that when a check came through in payment of one of these charge sales

Mr. Runnells would take his carbon copy of that particular bill out of his looseleaf folder and destroy it and then the check would go through to the Treasurer on an income blank.

Q Did you find any discrepancy between the charge slips at the garage and the charge slips in Mr. Runnells' books?

A Well, you must understand that those that we found in Mr. Runnells' desk were only those unpaid. There was no way of checking those that had gone through in the prior periods.

Q. Perhaps my question wasn't clear. What I am driving at is, did you find charge slips in the garage that weren't mark "Paid" and the copy of which didn't appear in Mr. Runnells' unpaid charges?

A I am not quite sure whether that check was made. I do know that they referred all of those unpaid bills to Mr. Rogers and I know that he has collected some of those unpaid bills and I am under the impression that we rather put on him the task of clearing up those unpaid charges. Now, whether he compared those with the ledger, or whether one of my men did, I wouldn't be sure.

Q Are all those charges against state employees or outsiders?

A Yes: some of both.

Q There were charge accounts both to state employees and outsiders?

A Yes.

Q And you can't prove at this time, at least that all of those charges have been paid or are in the process of being collected?

A I will be glad to check on that.

Q I wish you would. I think that is pretty important.

A You will understand that they don't run into very large money.

Q Several thousand dollars, perhaps.

A No, I wouldn't say so. I don't believe the total of the unpaid charges found in Mr. Runnells' desk would amount to a thousand dollars.

Q Well, what I am getting at is would they agree with the garage charges?

A I will check on that and see what has been done on them. I might add to my previous statement regarding that. I am quite sure that there were checks which came in, either to the Highway Commission in payment of charges from the garage or to Runnells, which didn't go through the clerk who was keeping this ledger, so that he didn't always know whether an account had been paid or not.

Q So that if I understand you right the audit on those charges is not complete. A. That is right.

Q (By Chairman Tompkins) In your examination of the Highway Department's books did you find any other charges outside of the charges for tires? Did you find charges for gasoline or equipment?

A We found charges for all sorts of automobile accessories and my recollection is that there were some charges for a cable and some things like that but not in any considerable amount.

Q But the most of the business that was done through the state garage was automobile accessories? Is that right?

A That is right. That was the bulk of it.

Q No automobiles sold? A. Oh, no.

Q (By Miss Laughlin) Did you find any charges for services to trucks, labor? Was there anything of that sort? A. No.

Q Did you look into that at all? I have been told that outside

trucks were getting full service at the garage without paying for it. Did you find any charges on service?

A No, I didn't, except if the services were rendered and no charges made I would never get it.

Q Have you any list of the outside purchases? A. No.

Q You didn't make any list of purchases? A. No.

Q I understand the Bangor News has that list, but you didn't make it? A. No.

Q I notice on page thirteen after the defalcations that you have an account that goes back to 1931 as being highway garage receipts not accounted for. That is previous to Mr. Runnells' appointment. Who was that done by?

A He was the bookkeeper for the Highway Department and the garage sales were being routed through Mr. Runnells at that time the same as they were later when he became Controller.

Q Did you go back further than 1931?

A We went back to 1930.

Q He was bookkeeper before that?

A I think he was a bookkeeper as far back as 1925.

Q (By Mr. Boucher) Did you find any repair charges, both for repairs or labor, not only on trucks as Senator Laughlin has asked you but on automobiles?

A My recollection is that we did not although there may have been some in this large volume of transactions that we audited.

Q (By Chairman Tompkins) If there were any unpaid charges they would show in your list, wouldn't they, whether they were for accessories or for services.

A Whether I have in my files a list of those unpaid bills or not I am not sure. I know that we had them and turned them over to

Mr. Rogers when he was appointed to let him collect them and he has done a fairly good job of that.

Q Who is Mr. Rodgers? A. He is the new Controller.

Q Could the committee get them from him if they wanted?

A I think he has them.

Q (By Miss Laughlin) But you didn't find any accounts either of state employees or anybody else on the matter of labor? You were just looking at sales of accessories?

A If it came through one of these receipt forms which they used for charges originating in the garage and there were any, we saw them.

Q They must have given service to the state-owned automobiles.

A Yes, but those weren't handled in this form.

Q They didn't have any service accounts of labor to anybody?

A My recollection is not.

Q (By Mr. Thatcher) You have been asked the question if there any automobiles or trucks that passed through this department to outside departments. I will put the question to you in another way. Was there any equipment other than accessories?

A I believe that there were some pieces of equipment sold, as for instances, we found this shovel for \$650.00 that was sold and that was one of these five checks which we placed in the misappropriation. That particular transaction will show up in those checks. The Highway Commission does sell equipment when it is by its own use, passed the stage when they want to use it.

Q I didn't refer particularly to second-hand equipment. I meant new equipment.

A I have no recollection of any new equipment being sold except, as I say, I think there were a few isolated cases like cable

or something like that being sold to the power company here. They needed some cable that they couldn't buy locally and the state happened to have it and sold it to them, but I think cases of sales of equipment of that type were very infrequent. I think they made some also to contractors who were working for the state. There was one item I questioned and I think the explanation was that he was a state contractor and needed to get this particular thing, whatever it was, in a hurry and the state had it and sold it to him, but there was very little of that going through these particular garage receipts which we were working on.

Q (By Mr. Boucher) Did you find any rental of equipment to contractors or others?

A Not going through the garage, but the Highway Department does rent some equipment, I believe.

Q I know they do and I wondered if you had found any record of any rentals.

A On page twenty-six under the State Highway Commission you will find "Renting of Highway Equipment" \$59,931.27 and a part of that is rental to cities and towns but I believe that there are cases where a contractor cannot rent equipment from private owners and the Highway Commission, satisfied that they were not competing with the equipment dealer, have rented out equipment, but the bulk of that is to cities and towns.

Q (By Mr. Donahue) Isn't the principal thing of which we complain against Mr. Runnells' system, that the Controller should receive no cash, also applicable where Mr. Rogers is directing some of these affairs?

A You may have something there but all I know is we turned them

over to Mr. Rogers because he was going into Mr. Runnells' office and the bills were there and I believe he has been trying to collect them.

Q It is true, is it not, that the Controller is not supposed to handle any cash? A. I think you are right.

Q Is Mr. Ledew still employed by the State Highway Department?

A I believe he is.

Q And is Mr. Root also employed at the present time?

A Yes, he is.

Q (By Mr. Richardson) On this reserve stock you spoke of sometime ago did you audit the amount that was left in that reserve stock and did it tally out?

A That is what we were trying to do but we found it impossible because of the lack of records.

Q Then as I understand it if they ordered in a hundred tires and put fifty in reserve stock and sent fifty to the garage and, as has been established, there were defalcations in one end of it, we don't know whether that reserve stock was accounted for in the garage or not?

A The reserve stock was in the garage as well as the other stock. It didn't go to a store room. The hundred tires were all kept in the garage. They only had room for twenty-five on the floor and the other seventy-five would go into storage bins and when they needed another twenty-five they would take them out of the storage bins and no record was made.

Q Now, in explaining how the cash and receipts of the garage came to the Controller you said they came over every day or two days and then added "So they said". Have you any reason to believe that they did not mean exactly what they said.

- A No. That is just my training to be careful in making statements which I can't prove.
- Q (By Mr. Dow) Was the name you were trying to think of, Fowler?
- A Yes, I believe it is.
- Q And from your investigation so far and from your audit what would you say as to whether or not the State Highway books in the Controller's Office had ever been audited by anyone, except possibly Mr. Runnells?
- A My answer is that as far as I have any knowledge they have never been audited.
- Q You found a good part of the defalcations took place between the State Highway garage and the Controller's office? Is that true?
- A There was fifty-three thousand of the garage receipts and then there was a substantial amount of irregular checks.
- Q Well, would it be a fair statement to say that possibly Mr. Runnells, under this situation, wasn't the only one who was stealing?
- A We have found no evidence whatsoever of anyone else being involved.
- Q I don't mean money. I mean equipment, tires, and so forth.
- A Well, we tried our best to run down that garage situation but gave it up as a hopeless task. All the attendant circumstances are such that it would be entirely possible that somebody was getting away with materials out of that garage, but I defy anyone to prove it.
- Q It would be possible for someone to have done that? A. Yes.
- Q (By Mr. Varney) Was there any book kept at the State Highway garage or at the Controller's office which showed the amount of purchases and sales of the highway garage monthly?



- A Of course, all the purchases of the highway garage had to be charged to the appropriation account and it would be fairly easy to determine the total amount of those purchases.
- Q Does that appear anywhere in your audit as a separate item?
- A No, it doesn't appear as a separate item. It is included in the total expenditures of the Highway Commission.
- Q Well, have you in mind what the volume of business amounted to monthly or weekly at the state garage?
- A I was asked that question earlier and I refused at that time to even make an estimate but I will now venture an estimate that the volume of business flowing through that highway garage was between eight hundred thousand and a million dollars a year, but that includes of course all of the materials purchased for other state departments. There are other state departments that were getting materials through there, and cities and towns were getting materials through there. I don't want to give the impression that there was eight hundred thousand dollars worth of retail sales being made there because that would not be true.
- Q Well, I took it from your earlier answer that the retail sales would be in the vicinity of fifty to a hundred dollars a day.
- A I should think somewhere around that neighborhood.
- Q Now, was there any record kept in the Treasurer's Office - I mean any separate record now - which would show the amount of money brought over from the highway garage for retail sales monthly?
- A No, the only record in the Controller's Office is the amount which was deposited with the State Treasurer and credited to the highway appropriation account.
- Q (By Chairman Tompkins) Is the statement true that the Treasurer's books would show nothing?

- A The State Treasurer's books would show in his cash books the amount he received on these income blanks and that credit was posted from the treasurer's books to the credit of the highway appropriation account.
- Q You speak of cities and towns making purchases through the highway garage. What would be the nature of those purchases; tar, or asphalt?
- A Oh, I am sure the cities and towns did buy that but that didn't go through this garage account.
- Q What would?
- A All kinds of automobile supplies and accessories were sold to cities and towns. The city of Augusta bought quite a lot there.
- Q Of what nature?
- A Tires and automobile accessories, as I recall it. Perhaps, I shouldn't have mentioned/<sup>tires</sup>because I am guessing at that but they did make purchases up there and other cities and towns did too where they thought they could save some money.
- Q (By Mr. Boucher) Were these materials sold at a profit by the garage or at cost, to cities and towns.
- A I believe they were supposed to be sold at cost.
- Q (By Mr. Noyes) Mr. Wilkinson, in your audit did you have any way of determining whether or not the highway garage was a paying proposition? A. No.
- Q That is, you took the purchases as made through the garage and the receipts which you audited. Did you strike any balance?
- A No, I didn't. It might be possible to work that out but the garage purchases and receipts were not an appropriation account with other purchases and receipts. A balance would have to be

made, if it is possible to make it, to determine the amount that would apply solely to the garage. That is my recollection of that account.

Q (By Mr. Varney) Did you find whether the state garage or any of the State Highway Commission had submitted any figures to the state budget officer relative to their needs there at the garage?

A I presume that the requirements of the garage were considered along with the other budget requirements. Just how deeply the budget officer went into the highway accounts I am not so sure because they weren't lapsible accounts. There were no appropriations for the Highway Commission. They were working entirely on their own money so I am not so sure that the budget officer paid very much attention to the highway accounts because they didn't come into his appropriations.

Q (By Chairman Tompkins) Mr. Wilkinson, could you give us, if not from memory from your records at least, the amount of money tied up in those garage purchases in a certain time?

A I can get that. Of course, there isn't much tied up at any one time.

Q But if they are selling eight hundred thousand to a million dollars regardless of whether it is to towns or state employees it was rather a sizeable stock, wasn't it?

A Inventory of supplies, garage, \$49,296.23 on page eighty in our list of unrecognized assets.

Q A fairly large stock for any store.

A It is a good sized store; yes.

Q Was there any gasoline handled through that garage?

A None sold to employees or others.

Q Do you know whether they had a gasoline tank?

A Yes, they have a gasoline tank but it is supposed at least to be used only to dispense to trucks and cars of the State Highway Commission.

Q Who has charge of that, if you know?

A I don't recall. We made some test of the gasoline, as a matter of fact.

Q I didn't understand that.

A I say, we made some test of the gasoline purchases and issues to see whether the gasoline was being accounted for.

Q Was it?

A My recollection is that - of course, you get a leakage in any such thing and I wired my Cleveland office for information as to what would be a reasonable percentage because we have a lot of large automobile accounts, oil accounts, and they gave me a percentage, as I recall it, of four to five per cent as being a reasonable expectancy as to loss, evaporation, and so forth, and my recollection is that the figures we worked out were somewhere nearer ten per cent, but we didn't think it was possible to run it down any further than that.

Q Well, in this garage was it like a regular garage where they do repairs and have mechanics?

A You embarrass me. I have never been in the garage.

Q (By Mr. Varney) Is this figure of forty-nine thousand in the garage inventory of supplies include automobiles? A. No.

Q Did you make an inventory of the automobiles?

A We checked with the purchases and accounted for the cars for two years.

Q (By Mr. Thatcher) Where are those cars purchased; all through

the highway department or through the garage?

A Through the Highway.

Q All of the state cars?

A No, I wouldn't be sure on that.

Q Would that be information that you could ascertain and give us?

A Yes, I can.

Q (By Chairman Tompkins) One other question about that gasoline. Your investigation would show the number of gallons that were purchased during the year, I presume.

A For the selected period that we used as a test. I don't believe it was a full year that we took as a sample to test.

Q Would you know from recollection how many gallons? A. No.

Q Could you supply that for us? A. Certainly.

Q (By Mr. Boucher) Can you tell me how many automobiles the state owns? A. Not without looking it up.

Q Will you look that up, please? A. I will.

Q (By Mr. Thatcher) Do you care to add to that what departments they are in?

A The cars very largely are controlled through the Departmental Garage that supplies cars to other departments as they need them. That is not with respect to the Highway Commission and the State Police. I thought that procedure was changed within the last two or three years and that now cars are supplied from what they call the departmental garage which is entirely separate from the highway garage.

Q Well, I have in mind this: the highway department uses cars, the highway police, the fish and game department, and perhaps others. I was wondering if each department had their own cars.

A I will ascertain about that.

Q (By Mr. Dow) As a record of your check on the cars for the last two years could you account for them all?

A My recollection is that there was difficulty accounting for one car but it was finally located.

Q Where it ought to be?

A Yes, I think so. You may be referring to a car prior to that time which was unaccounted for.

Q And is it still unaccounted for?

A I believe it was taken by Mr. Runnells and traded in on a purchase later on of a personal car.

Q Was this car that you found missing properly licensed in the name of the state when you did find it?

A My recollection is that it was.

Q Not to an individual? A. No.

Q Was it being used on state business or didn't you find that out?

A My recollection on it isn't very good but I will check on that if you would like to have me.

Q I don't know. That is, up to the committee. It seems as though it might be interesting. A. Certainly.

Q (By Chairman Tompkins) Are the automobiles used by the highway department bought through the Purchasing Agent or through their own department? A. Through their own department.

Q (By Mr. Donahue) What is the average amount of the payroll for the highway department? Can you tell me?

A No, off-hand I can't.

Q Will you get that information for us? A. Yes, sir.

Q (By Mr. Richardson) Can you tell me if there were any large sales from the state garage? Did any one person buy a great number of things?

A My recollection is that on this list which we made up of maybe fifteen or twenty principal purchases from outside, the principal one was around two thousand dollars in one year, or twenty-one hundred, I believe.

Q You don't remember who that was?

A Yes, it was Blaine Viles of the Augusta Lumber Company.

Q (By Chairman Tompkins) Were the town and city purchases fairly heavy? A. My recollection is that they were.

Q Would they run up into hundreds of thousands of dollars?

A No, not as heavy as that.

Q The total? A. I don't think so.

Q Of course, your records will show?

A No, I don't think we classified as to purchasers. It could be obtained by taking the income blank which I previously mentioned which is still in the Treasurer's vaults, by running through a year and adding up the cities and towns.

Q (By Mr. Thatcher) Those will no doubt be available later?

A Yes.

Chairman TOMPKINS: But I don't think they will be available until after the Grand Jury is done with them.

Q (By Mr. Dow) What would you say as to the cooperation you received in the state garage when you asked for this information? Was it good or bad?

A I wouldn't characterize it either way.

Q You looked around alone and found what you could find?

A Well, we had fair assistance but I wouldn't say it was enthusiastic.

Q (By Chairman Tompkins) What recommendations would you make to correct that garage situation, Mr. Wilkinson, if you were running

this state as a business?

A Well, In the first place, action has already been taken to stop the sales to outside parties. I know of no reason, looking at it strictly from a business standpoint, why that Highway Commission should buy its own things any more than any other department. You have a central purchasing bureau. Why not let it function as a central purchasing bureau. I do believe that there should be, and probably will be under the new Controller, a much better accounting control of the supplies being purchased and used through the garage. There should be. It has been very lax.

Q (By Mr. Thatcher) Do I understand that this change that has been made eliminates the sale to state employees as well as outsiders?

A Yes, it does.

Q (By Mr. Dow) No retail sales at all? A. That is right.

Q (By Chairman Tompkins) And no sales to cities and towns?

A I think they are being continued.

Q (By Miss Laughlin) Who issued the order that there would be no sales to the state employees? A. Governor Barrows.

Q It came direct from the Governor? A. Yes.

Q (By Mr. Dow) How far had you got in this, Mr. Wilkinson, before April 1?

A I testified as to that last Friday night.

Q My memory is poor. That is why I wanted it again. I have forgotten.

A I remembered afterwards in reading my testimony that I think I was wrong. To get the exact date when we started in the highway garage I would have to consult our time reports in Boston and the man who first went over there, but I am quite sure that it was the morning of April 1 that our man first went into that highway



garage. There is a rather interesting sidelight on that, that as I testified the other night, we were sending representatives around to every department to see what was going on, in every Department and to decide how much we wanted to do in the various departments. And Mr. Noonan who is my Portland manager, assigned this particular staff accountant to go over to the departmental garage to see what was going on over there and he got into the highway garage instead of the departmental garage and was immediately struck by these sales, and that was the morning of April 1, because the sequence of events that I mentioned the other night then followed. We talked with the garage one morning, came over here and talked with Mr. Runnells immediately after lunch and were referred to the clerk and when we went back to Mr. Runnells' office he was gone.

Q (By Mr. Richardson) That same question came up in the Bangor Daily News and you probably saw that piece in that paper and if you could give us the exact figures substantiated by your time sheets it would help this committee a lot. A. Certainly.

Q (By Miss Laughlin) On page thirteen in the defalcations there what were those irregular checks received? Were those inter-departmental checks?

A Yes. There were two types of checks. I tried to distinguish between them in this ex parte statement which was made to the committee and Mr. Smith this morning. I make this distinction between the two classes of checks: the first class were those checks drawn by the Bureau of Accounts and Controls and charged to the Bureau of Accounts and Controls. The other class of checks are those checks which were drawn by other departments of the state for payment to the Bureau of Accounts and Controls.

Q I read a statement in the paper that large sums had been paid in cash by the Liquor Commission to the Controller. Does that include these or this that statement in the paper correct?

A As far as I have any knowledge there was no cash payment from the Liquor Commission to the Bureau of Accounts and Controls.

Q No defalcations in that list?

A None that we have found.

Q Do these defalcations on page thirteen cover all the amounts that went to the Controller?

A All that we have up to this time, and as far as I know up to six o'clock tonight we have had no further additions to this list.

Q Did you make any audit of any other department except with respect to these defalcations? A. We have been to every department

Q To see whether there were any payments to Mr. Runnells?

A We have pulled from the files all Treasurer's checks over one hundred dollars issued since the inception of the Code, we have examined those checks, scrutinized them for the years 1932 to June 30, 1936 and then for the three years and nine months from July 1, 1936 to March 31, 1940. We have taken those checks to the Treasurer's records and seen whether those checks were deposited in the Treasurer's books and credited to the Bureau of Accounts and Controls and to every other department of the state.

Q Those checks were covering everything he had been receiving from other departments in cash?

A No, I can't conceive of another department having cash to pay the Bureau of Accounts and Controls.

Q Well, the Liquor Commission would? The statement was in the paper that he had received large sums in cash from that commission.

A Well, of course, there have been a lot of statements in the papers.

Q Well, I wondered if there was any basis for that.

A We naturally were concerned with the Liquor Commission because of the character of the business and the volume of the business and we made a pretty careful investigation of how that Liquor Commission operates. We visited a store and checked the inventory of the store.

Q Did you audit the accounts?

A Yes. These statements that are included in here were audited by us. We went into the transactions between the Liquor Commission and the Bureau of Accounts and Controls very carefully because also in addition to the reasons which I gave before the fact that Mr. Runnells had had considerable to do in setting up that Liquor Commission, the accounting of it, and the fact that the books were kept in his office.

Q The books were kept in his office?

A (By Mr. Fred Berry)..

Q Up to the present time all their books are kept in Mr. Runnells' office?

A That is right, and the Bureau of Accounts and Controls has been charging the Liquor Commission for that accounting service but all those charges from the Bureau of Accounts and Controls to the Liquor Commission have been handled by journal entries, crediting the Bureau of Accounts and Controls, instead of issuing these Treasurer's checks which was the common practice of other inter-departmental charges and credits. I had a complete list of all those journal entries in my file if anyone is interested in seeing them.

Chairman TOMPKINS: For the records we would like to have them.

Q (By Miss Laughlin) On page three under "Cash In The Treasury"

you have there, of course, the federal funds and restricted and unrestricted and so forth. That unrestricted, I understood there were more than three million of cash in the Treasury earmarked for the Highway Department.

A No cash in the Treasury is earmarked for any purpose except for trust funds.

Q And unrestricted means what?

A It isn't earmarked for anything.

Q It could be spent for anything that the state chose? Is that correct?

A That is correct. The state has not followed the policy of earmarking funds.

Q Well, the people voted that all funds from the gas tax and everything connected with automobiles are earmarked for the Highway Department.

A They keep a very accurate account to the credit of the Highway Commission but they don't put the cash aside.

Q Then this cash could be partly belonging to the Highway Commission?

A Undoubtedly it is.

Q Really it isn't unrestricted then. By the law of the state all monies received from gas taxes, automobile registration and so forth are earmarked. But this cash in the Treasury would not be unrestricted?

A Well, if you tried to allocate the cash to specific purposes you would have a deficit in the cash and you would find that true for the reason that the state doesn't collect its tax accounts in full.

Q Well, that fund that you marked "Unrestricted" is really allocated to the Highway Department under the law, isn't it?

A I think it is a question of terminology.

Q It is a question of the law. The law says this money must belong to the Highway Department.

A It will not be spent but does it say it must be kept separate?

Q No, but it isn't unrestricted.

A Well, how can you say, "This dollar belongs to the Highway Department and this dollar to the general funds" unless you earmark it when it comes into the till?

Q Well, if that money is due the Highway Department and it is used for some other purpose there is in effect a deficit in the state's finances, isn't there?

A Until they make it up to the Highway Department. You see there is a lag between the budget monies received and the gasoline tax until the Highway Department gets around to spending it and in the meantime it has gone into the general funds and has been used for any purpose.

Q Well, the fact is that this unrestricted fund really includes money that under the law is due the Highway Department.

A Well, not having read the law I wouldn't like to answer that categorically.

Q Well, the law is that all money received from gas taxes, registration of automobiles, automobile licenses, fees, fines, go into a fund for the Highway Department and by law can not be used for anything else. So if there is still the Highway fund in that fund of over three million dollars it isn't unrestricted because the law says it must be spent on highways and that means, doesn't it, that the money belongs to the Highway.

A It does include under the law what is earmarked for the Highway Department

Q (By Chairman Tompkins) The state cash is handled the same as in a city or town; an appropriation is set up for each department and the money that comes into the Treasurer's office is not earmarked for any department? Is that right?

A That is right.

Q (By Miss Laughlin) That is, you mean the books don't show it?

A That is what I mean. As I pointed out the other night, if you adopted a policy of earmarking cash you would have a new problem in your state administration. You have a large amount of cash which you would have the worry and risk of carrying and distributing around in the banks and in the meantime you would have to borrow money for the general funds until you could collect taxes so you would be paying interest on borrowed money when all the time you had a lot of cash laying around in banks. And here, instead of borrowing from the outside you are borrowing from the Highway Department/<sup>fund</sup>and when the Highway needs the money you furnish it to them.

Q Well, shouldn't that money be kept as a separate fund just as the state keeps the trust fund of the Penobscot Indians, for instance? If the law says it is a separate fund shouldn't it be kept that way?

A If that is the law, the state has not been complying with it.

Q But that money should be shown in the bookkeeping as funds expressly for that department, shouldn't it?

A From an accounting and financial standpoint I would not recommend it. If it is necessary to do it in order to comply with state law, then it should be done.

Q (By Mr. Dow) On page fifty-eight, Mr. Wilkinson, under "Departmental Expenses, Liquor Division" what are those last two items

under that heading, in small print?

A That represents very largely, if not entirely, the charges made by the Bureau of Accounts and Controls to the Liquor Commission for keeping the accounts which I explained were handled by journal entries and I have promised to produce the journal entries for those transfers.

Q Well, the thing that bothered me was why set it up separately in this report? A. We thought it might be interesting.

Q There is a difference you are going to explain to the committee later?

A No, I am going to produce the details of all the charges from the Bureau of Accounts and Controls to the Liquor Commission.

Q One more question. Did you find in your examination of the Liquor Commission that it was the practice to buy liquor only from State of Maine salesmen, or didn't you go that far?

A We didn't go into the sources from which they purchased their liquor but we did inquire as to practices and I found that there are six states which operate liquor stores and these six states are in an association, and by agreement with the liquor manufacturers, if they make a price to one state, they have to make it to all the states. If they make a reduced price today to the State of Michigan, the State of Maine, if they don't hear about it for a month from now, will get a rebate from the date that the new price was first allowed to the State of Michigan. That association apparently is functioning along the right lines and Dr. Boardman<sup>is</sup> vice-president of that association. And he said that as far as the prices were concerned they were paying the right prices. Whether or not they were buying through a liquor salesman from Maine in order that he could get a commission on it, I don't know.

Q But you think the prices are right?

A I am satisfied their prices are allright.

(Mr. Wilkinson excused.)



## EXECUTIVE SESSION

Mr. VARNEY: I make a motion that we cause to be introduced an order in the morning to have this room prepared for the use of this committee and made available for this committee at such times as we may see fit to use it.

The motion was seconded and carried.

Mr. RICHARDSON: I move that the Chairman be instructed to make a suitable statement to the press relative to our plan to hold public meetings when witnesses appear before the committee to give testimony.

The motion was seconded and carried.

Mr. BOUCHER: I move that we ask Mr. Wilkinson to be here at our next Tuesday meeting to continue explaining his report and to answer any questions we may wish to make.


The motion was seconded and carried.

Mr. BOUCHER: I move that the Chairman be empowered to hire a reporter to serve the purposes of the committee.

The motion was seconded and carried.

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The foregoing is a full and true transcript of my shorthand notes taken at the above meeting.



Reporter