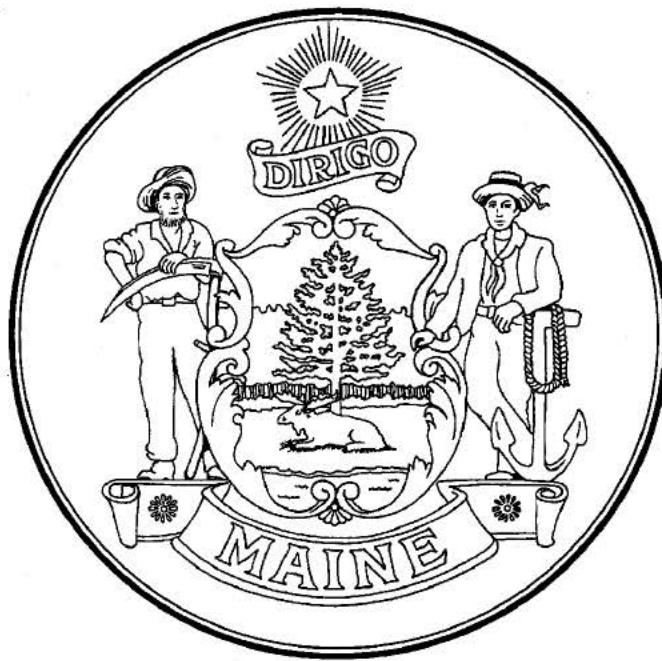


MAINE STATE LEGISLATURE

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Hayford

Hearing before

COMMITTEE FOR THE PURPOSE OF MAKING A STUDY OF THE
FINANCIAL AND FUNCTIONAL ACTIVITIES OF STATE
DEPARTMENTS.

State House, Augusta, June 12, 1940, 2.30 P.M.

HOUSE OF REPRESENTATIVES

July 22 1940
accompanied
Partial Report of Comm.

Harvey Reese
CLERK

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ELBERT D. HAYFORD

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Augusta, Maine, June 12, 1940, 2.30 P.M.

CHAIRMAN TOMPKINS: The Committee will come to order. Mr. Hayford, will you bring your chair up here?

(Ruel C. Hanks was duly sworn as reporter)

ELBERT D. HAYFORD, having been duly sworn, testified as follows:

(By Mr. Webber)

Q. Mr. Hayford, will you state your full name for the record?

A. Elbert D. Hayford.

Q. And you reside in Augusta?

A. I reside in Farmingdale, near Augusta.

Q. How old are you, Mr. Hayford?

A. I am 67.

Q. And you are the former State Auditor?

A. Yes, sir.

Q. Mr. Hayford, when did you first take office as State Auditor?

A. January 30, 1922.

Q. And is that office created by appointment or by election by the Legislature?

A. At that time it was an elective office, the only office in the State except the Governor which was state-wide. The term was two years.

Q. And that, of course, was prior to the enacting of the Code?

A. Yes.

Q. Now, Mr. Hayford, as I understand it, you have asked to come before this Committee and have certain information that

you would like to offer, and I suggest, as a preliminary, that you begin and offer whatever you have, and then there may be questions on the part of the committee and some I may want to ask.

A. In the first place, I would like to say that through all of this trouble I have the consolation, at least, to know that I knew the job was not being properly done, because the Code changed the law very materially.

Under the old law, it was provided that the State Auditor shall audit all of the expenditures that went through the Treasury. That is about the extent of the old law, but it did say that he should examine the Treasurer's accounts, which we considered to be July 1, the fiscal year, which was changed. That we were never able to do fully, but we did make a test check or verification, so to speak, of his cash each month, and went over the trust funds very carefully. But what I meant when I started was that due to insufficient appropriation and lack of personnel the department could only audit about twenty-five per cent of the actual statutory demand.

Now I would first call attention to that. Of course the Code changed the law, broadened it enormously. The administrative code provided that the State Department of Audit should conduct a continuous post audit of all the vouchers, records, accounts, and so forth, in the Department of Finance and all the other departments and institutions of the State, and all State agencies.

Well, you see how broad that was. That meant everything in the State. That is quite different from the old law which said we should audit the vouchers that went through the State Treasury. So I immediately saw, when I familiarized myself with the Code, as I did immediately, as well as I could, that we were not going to be able to do the work, because under the old law, where we did the pre-auditing we had 19 in the office. That included one resident auditor at the University of Maine and his clerk, and it also included four who were engaged in the gasoline tax division, because that was in the Auditor's office from its enactment in 1923 on to 1931, when it was changed, and, under the provisions of the Code, was carried into the division of Taxation under Mr. Holley. So, in the very first report, the first full year after the Code had been enacted, I stated in my report, on Page 3, of the '32-'33 report:

"While much more work would have been accomplished if the office had not made a reduction now totalling 33-1/3% of its personnel, it is fully realized that in order to cut expenses this reduction was necessary."

Of course you will all bear in mind that was the time of the bank holiday and the taxpayer's strike and people were not paying their taxes. We all felt there had to be a cut and that there was no special point in asking for an increased appropriation at that time. But I merely called attention to the fact that we could not do all the work that the law said we should do, because when the Code was enacted Governor Gardiner called me upstairs and said, "Your office force is what now?" I said fifteen, or nineteen, if you count the

gasoline tax division. He said, "We are going to transfer a good part of your help into the Controller's office; they will check these vouchers and carry on the pre-audit over there." So they cut my force down to seven. That seemed ironical in face of the fact the duties were enormously broadened, to cut it from fifteen down to seven, or from nineteen down to seven, if you take into consideration the gasoline tax.

We worked along on that basis for two or three years, and then in my next report, 1934, I said:

"As stated in my previous report the department of audit, through a reduction of its force by about 40%, has had a staff sufficient to carry on but a small part of the duties imposed upon it by statute."

In the 1934-35 report, the next year, I said:

"The present force in the office is available for only a small part of the auditing which the law requires."

In my 1935-36 report, I said:

"As stated in previous reports it is impossible, with the appropriation granted by the Legislature to this department, to perform but a small part of the audits required by the above-cited statute."

And I quoted the Code there. Then in the 1936-1937 report I said:

"The appropriation for the state department of audit was increased \$9,000.00 each year by the last Legislature, so that a beginning could be made in the observance of the law requiring an audit of all the departments of the state government. This work was begun in July, 1937, with the beginning of the current fiscal year."

Now that year, you will recall, the sales tax was enacted and went to a vote of the people. It was turned down very decidedly, and in October the Legislature was called into special session, and, in order to provide what was considered an adequate

program for old age assistance, ~~and~~ the various departments had certain amounts lopped off their appropriations and we were reduced to the extent of \$2000 for that year and the next year, so that it took part of that \$9000 by which they increased our appropriation away from us.

One of the things we wanted to do particularly was to audit the automobile registration bureau, which had not had a complete audit for years. We used to do that years ago, but the great increase in motor cars and the fact the personnel in the office did not keep pace with that, we had to drop it, but we wished to take it up again on January first. Of course some of them register in October, but we expected on January 1st to begin again. It was hardly practical to start with the year, 1937 but we expected to start in 1938. Also we started, soon after July 1, to review the vouchers through the Controller's office. We did not even have the force to do that. Since then we have reviewed the vouchers from the Controller's office and have continued to make the audit of the books and records of the Secretary of State. They are getting behind on that work now down in the office because there is so much of it they cannot keep up with it, so they are dropping back on it, that is they did before I left and probably even more now because they have had a good deal more extra work in the office down there, looking up things on this special audit and so on.

Now twice I came before the budget officer and the Committee on Appropriations and Financial Affairs and called their attention to the fact that we were not doing the auditing

that the law required. On November 1, 1934 -- this is a copy of my report to the budget officer which of course immediately went right along to the Committee on Appropriations and Financial Affairs when the Legislature convened a couple of months later:

"At the time of the adoption of the Administrative Code the force in the Department of Audit was reduced about 40%. While the law provides that the State Auditor" shall conduct a contiguous postaudit of the accounts, books, records and other evidences of financial transactions kept in the department of finance or in other departments or agencies of the State government, it was apparently not expected that he would be required to audit "all bills, invoices, accounts, pay-rolls, and all other evidences of claims, demands or charges against the State government" as those duties were specifically imposed upon the State Controller by Article 11, Section 10, of the Code. Such an undertaking is certainly impossible with the small force now available. There are however, a number of lines that require attention. The fact that in about one hundred cities and towns where audits have been performed by this office shortages have developed in over twenty-five such places, indicates one field where the Legislature might well consider a further extension of auditing. The auditing of the courts imposing fines for violation of motor vehicles, fish and game and sea and shore fisheries laws, averages to be at least one year behind schedule at this time.

"Some \$200,000, collected by the six normal schools is expended by them without audit. The Commissioner of Education has asked the cooperation of the Department in this matter, but so far the small force available has made it impossible to attempt this work in a comprehensive way. A number of other agencies await a time when an increased appropriation and personnel is provided for auditing them."

Under Chapter 2, they are permitted to collect that and expend it without turning it into the Treasurer of State. It was those outside things I was trying to pick up, where I had such a pitifully small force to do the work.

The Port of Portland Authority collects \$50,000 a year, and, under a special statute, keeps it and spends it. We audit that once a year.

These courts that I have just referred to the law says, or did in those days, that they should report and send their

money in quarterly. Some of those judges had not made a report for three years, some of them for two years. We got after that and are getting that straightened out. I do not think that is all up-to-date yet, but the office is making progress on it.

We now audit the six normal schools, at least we are trying to, but we are behind on that work, and Dr. Packard is very pleased with the condition of the normal schools, and I believe will tell you they are in better condition from an accounting standpoint than they have ever been.

Then in 1936 -- this went before the Committee on Appropriations-

"In view of the fact that the laws require far more auditing than this Department is now able to perform, with the force it has, I am this year requesting for each year \$9,550.00 in order that a start may be made on the additional auditing required by the statutes. The law in this connection reads:

'The department of audit shall have authority: (1) To perform a postaudit of all accounts and other financial records of the state government, or any department, or agency thereof, and to report annually on this audit, and at such other times as the legislature may require: (2) To install accounting systems and to perform audits for cities, towns and villages, as required by Chapter 5, Sections 970106, of the Revised Statutes; To serve as a staff agency of the legislature, or any of its committees, or to the governor, in making investigations of any phase of the state's finances. (Ch.216, Article. VI, Sec. 3., Public Laws of 1931).

'It further requires that the state auditor'.....shall conduct a continuous postaudit of the accounts, books, records, and other evidences of financial transactions kept in the department of finance, or in the other departments or agencies of the state government."

'Due to a reduction of the force in the office from 15 to 7, or from 19, counting the gasoline tax division, and a reduction of the appropriation from \$34,000.00 to \$18,000.00, it is impossible to audit all the records in the department of finance. The work there is of such magnitude that it would take almost the entire time of the present force on that phase of work alone.

"We now audit the books of some 40 to 50 cities and towns each year, install the state uniform system of accounts in about 25 cities and towns, audit the income of the department of

agriculture, insurance, inland fish and game; the teachers' retirement association, the six normal schools, the Maine Forestry District, the departmental stationery accounts, some 25 academies each year, and some 16 superior courts, 44 municipal courts and 94 trial justice courts, which collect money due and payable to the state under the laws relative to motor vehicle violations, fish and game violations and violations of the law pertaining to sea and shore fisheries; the bar examiners, board of optometry, board of registration of medicine, board of osteopathy, commissioners of pharmacy and the dental examiners.

'It is therefore believed that an additional \$9,950.00 in view of the mandate contained in the statute, will not be an unreasonable request.

'We also feel that in some of the most urgent cases where complaints are received of improper practices in a town's financial affairs, we should have an appropriation to back up the present statutory authority in order that we may make an examination of such complaint."

That, briefly, is the outline of the situation and sort of a historical review of how the thing stands on the audit and the lack of appropriation and personnel to perform it.

Now in December, 1939, in the first week or second week in that month, when the Governor called for us to check up the matter of these articles appearing in the Bangor News, Mr. Douglas, the Chief Auditor in the departmental division, as we call it down there, and I went up and sat down with the Governor and Mr. Runnells came in and Mr. Deering. We all talked the matter over and the Governor turned to me and asked if I would make a check-up or an examination of the balance sheet as published by the Controller and report to him as to its correctness. Well, we told him that we never checked the various items in that balance sheet, due to the fact we did not have the help to do it, but we would make an examination and report to him as well as we could. Between two and three weeks later we took up the report to him. That

report read:

"This is to certify that this Department has examined the books as kept by the Department of Finance-Bureau of Accounts and Control for the last two fiscal years ended June 30, 1938 and June 30, 1939. The receipts and expenditures as recorded on the books of the State have been checked, and in accordance with the provisions of Chapter 216, Public Laws 1931, this Department reviews all vouchers covering disbursements. Many major items of revenue are also checked by our auditors.

"A test check of transfers or accounting adjustments has been made and in every case proper authority of such entries was found.

"All entries to the Sinking Fund Reserve account have been carefully reviewed and we believe that the balance of this account as of June 30, 1938 of \$722,379.16 and \$185,734.24 on June 30, 1939 to correctly reflect the condition of said account.

"The eighty-ninth Legislature by appropriate action (Chapter 101, Private and Special Laws) authorized the transfer from the Surplus or Sinking Fund Reserve Account of \$549,000.00 to cover anticipated overdrafts in the Health and Welfare Department in the fiscal year ended June 30, 1939. No higher authority for this action can be demanded.

"The books of the State reflect a balanced budget for each of the past two fiscal years with a Surplus of \$386,744.17 for the year ended June 30, 1938 and \$12,355.08 for the year ended June 30, 1939."

That was the preliminary of the original report we took up to the Governor.

CHAIRMAN TOMPKINS: Pardon me, but will you explain what you mean by a test check?

A. A test check means to take certain items at random here and there. It does not mean a complete check, nor does it mean a complete analysis of the account. And I notice in the combing these fellows gave our books, ten or twelve audits, fourteen part of the time, for about eighty or ninety days, they do not claim that theirs is any more than a test check, and they say so repeatedly; and Mr. Wilkinson, the other night, before

the two branches in Convention, when I was present, said it was a balance sheet check or a test check.

The Governor objected to the word "test", and said, "It looks as though you were not doing your job", and struck it out with his pencil. I said that was all it was. He ran his pencil through "major items of revenue are also checked by our auditors", because that, right on the face of it, showed we didn't check it all.

I consulted with Mr. Douglas, and I said, "I want to go as far as I can with the Governor, but I want to sign a correct and honest report, and I do not want to sign anything that is not right." Of course Mr. Douglas prepared the figures and did most of the work. I have other things down there to do besides looking over the books, although I kept in touch with it all the time. I said, "Do you think I can sign that properly, Mr. Douglas?" He said, "Yes." He says now that he objected. Of course it has been reported to me that the Governor tried to get Mr. Hayes, the present State Auditor, to let him out, let him go, and perhaps he is human, the same as the rest of us possibly, and that has tinctured his mind somewhat in regard to this thing, but he agreed to it, I think, I understood he did at any rate.

And there were several other slight matters, some not at all important, and some of course, in view of the after disclosures, have been very important, that the Governor wished changed.

He wanted "The books of the State show no temporary loans in anticipation of taxes." That is all right. I was perfectly willing to sign that. That is true. Of course I am sorry I did sign that report in its revised form. We had such confidence in Mr. Runnells. I believed he was absolutely honest. I knew he carried things with a pretty high hand around here, but I thought he was honest, and I signed this statement that appears in this report.

Now when these checks which Ernst & Ernst discovered were being cashed in the Treasury came up, the Governor and Council called me up there, April 11th. This had just come out at that time, and the Governor called me into his private office there, and five of his councillors were there. He said, "How about this check for \$3680?" -- if that is the amount, and I believe it was, that Runnells' department charged the Maine Unemployment Compensation Commission and which has never been accounted for. I said, "We did not come across that check. This was a test check and we did not strike it. I am sorry we did not hit that check, that is all." Then he said, "How about the fact which they report here that the principal checking account of the State had not been reconciled for a long period of time?" Well, of course we knew that. The day we first met up there and talked, Mr. Runnells and Mr. Deering, before we started on that audit, so that the Governor knew that as well as I, knew it as well as Mr. Runnells knew it, knew it as well as Mr. Deering knew it.

And the Governor shoved the prepared letter on his letterhead, the department letterhead, across the table to me and said, "You are prepared to sign your resignation?" I said, "Well, this is rather a sudden thing and I want to think it over until tomorrow morning." He said, "No, no, you will have no opportunity to think this over, it is either now or have the Legislature assemble for impeachment proceedings." Of course it ran through my mind that the Constitution provides for three branches of government, legislative, executive and judicial, neither of which shall encroach upon the powers of the other, and I said, "Well, I am a legislative officer, I could not sign that anyhow, because it is directed to you as head of the executive department." He said, "What do you mean?" "Well, I said, "the law says in case of vacancy in the office of State Auditor the President of the Senate shall appoint an auditor for the remainder of the term, and if I should resign and that was directed to Hon. Sumner Sewall, President of the Senate, I suppose I could sign it, but I cannot sign it to you." He said, "There is nothing to that at all, it is purely an executive and administrative matter." "Well," I said, "I would like to think it over until tomorrow morning." "No, no," he said, "You can't think it over until tomorrow morning."

Of course I was the first one to be called in on this and it sort of hit me. Mr. Smith had a chance to consult counsel

and get his feet braced for a whole week before they asked him to resign. I was much disheartened and chagrined, only being able to do twenty-five per cent of the work required of my department, but the main point is that the Governor and Council says one may retire on half pay with a good record. I said to myself, if this spoils my record, that is too bad, but I cannot afford to antagonize these men because they are the ones that retire at half pay, and it is optional with them entirely. So I thought of another thing. I have a large family and I put my money into getting my children through high school. I got a rather late start in life with my family of seven children, and I haven't got the money to go out and hire an attorney to fight the case for me. And, in view of all the circumstances, I finally said to the Governor, "Pass it over to me", and I signed it, and that is the story of my resignation.

Q. (By Mr. Webber) Are you retired on half pay, Mr. Hayford?

A. No, I am not.

Q. Just an out and out resignation?

A. There has been nothing done about it.

Q. As you understand it, is it not in a state of abeyance at the present time, where the door is still open?

A. Entirely in a state of abeyance, as I understand it, at the present time. Several people have approached the Governor, not at my behest-- I haven't asked anybody to go and see him -- but I know one who went to see him and questioned him about this and came and told me about it and said he had asked the

Governor if I could not at least have the retirement pay. He said he would have nothing more to do with it, he didn't intend to take any action in regard to it, if anything was done it would have to be by act of the Legislature. That is the latest word I have on it, and that is the way the matter stands now.

Q. Mr. Hayford, what did you do before you came with the State?

A. I practiced law four years in Portland back in 1901, 1902, 1903 and 1904, doing fairly well, and my wife had a failure in health and the doctor said she could not live near the sea, and we made a change and came up here, and I got in one of the departments. That was the first Mrs. Hayford; she is not living now. That was thirty-eight years ago or something like that. And I got a position with the Board of State Assessors on describing the timberlands by lots. That took me into the eight timberland counties, and I prepared the most of the descriptions that now appear in Mr. Holley's report. Before that was prepared, they had some townships and if there was seven or eight thousand acres of water in a township, the law says the State has control of great ponds, and the timberland owner could come in and pay on just the acreage there, because it was all figured up on three or four dollars an acre, and the State Treasurer would offer for sale and sell that surplus that the tax wasn't paid on, and it really ran into quite a

scandal back in 1904-05, because a man came here from New York State and bought thirty or forty thousand acres of that land which it turned out wasn't properly described. It was just about the same as if I deeded you a house lot in Augusta but didn't say which side of the river it was on. That started the Legislature toward looking this up, so I did some conveyances and spent some two years on it. Then the office of State Auditor was created by the Legislature in 1907. Mr. Charles T. Hatch was the first State Auditor, and I went with him and have been in there since, with the exception of two years, 1915 and 1916, when I was not in the employ of the State.

Q. You are a certified public accountant?

A. No, I am not a certified public accountant, in fact none of the men in my office are, except now Mr. Hayes, the head of the department, is a certified public accountant.

Q. Does the Code provide the State Auditor shall be a certified public accountant?

A. It says he shall be a certified public accountant or one--

Q. "Or shall have satisfactory experience as an Auditor of public accounts"?

A. Yes.

Q. Your staff was cut down to seven, and it continued at seven. When you got an increase in appropriation were you able to increase the staff?

A. Oh yes, we built up the staff.

Q. How many did you increase it to?

A. We put on several. I do not have the figures here now, but we did not build our staff up very much until this law was passed relative to compulsory audit of cities, towns, and counties, and then we built our staff up until we had eight men in this division, eight field men, and Mr. Crawford in the office, one on the counties and the others do mostly the municipal work.

Q. That is, you had one man working on audits of county affairs?

A. On audits of county affairs.

Q. And about eight men working on audits of municipal affairs?

A. That is right.

Q. But none of those were C.P.A.'s?

A. That is right, none of them were C.P.A.'s.

Q. You hired all those people yourself?

A. Well, back along at first I did. We selected them ourselves. I left Mr. Crawford to do a good deal of it in recent years, because he was more familiar with it than I, and I deferred a good deal to his judgment, and I think he selected some very competent men, some very good ones.

Q. What is the present staff in that office, if you know?

A. There are, as I say, eight or nine working on the municipal division, which includes one man on the counties, and that leads just two down there to do all the auditing of the State on revenue. Of course we have two men in there who are

who are checking the automobile registration bureau, the various branches and the home office here.

Q. They do that all the time?

A. They follow that part of the time. They find enough time to review the vouchers that go through the Controller's office, look at those two or three times a week, gather up a lot of those, run over them and examine them. If you take out the municipal division, that leaves just four down there to do all the auditing in the State of revenue.

Q. Have any people been added to the department since you left, do you know?

A. Well, the present State Auditor said he wouldn't undertake the responsibility unless the appropriation was increased \$30,000 for this coming fiscal year and ~~SIXTY~~ seventeen additional auditors were assigned to it, to do the work. He wrote a communication like that to the Governor and Council and said if they were not forthcoming that they could consider his resignation as in their hands.

Q. And that, of course, is entirely apart and in addition to the independent outside audit?

A. Entirely additional to that, to the municipal division which is doing this other work.

Q. And I believe you said that you understood that even now they were falling behind on their routine work as required by the Code?

A. Indeed they are; they are falling behind on the courts, way

behind on the normal schools this year.

Q. Where did you get that information from?

A. That happened before I left the office, and I know it must be worse now, because the demands of this audit of Ernst & Ernst of course has taken a great deal of time of the men down there in checking up on these different things, so I know they are further behind now than when I left the 11th of April.

Q. Have you an estimate as to how large a staff and how big an appropriation is absolutely at a minimum required to do the work imposed by the Code?

A. Well, Mr. Douglas, who has an excellent idea of the office and the whole lay-out, because he was with me when we did the preaudit and has remained with the office since, made a very careful survey, and no doubt a copy of that would be available to you if you called for it, in which he stated that after going over it very carefully that it would require seventeen additional auditors to do the work imposed by the statute.

Q. Which would make a total of how many?

A. Well, seventeen and eight, twenty-six, and then there are two working on the automobile registration books and reviewing the vouchers, there is twenty-seven, and then we have three stenographers and typists. That would be thirty people in the office.

Q. And how big an appropriation is estimated for a minimum?

A. He asked for \$30,000, said it couldn't be done for less, but I note that the Legislature made it \$27,000 for this coming fiscal year.

Q. And your last appropriation was how much?

A. The last appropriation was \$20,000 for the department.

CHAIRMAN TOMPKINS: Pardon me, but I think that appropriation of the present special session was in addition to the regular appropriation.

A. That was in addition to the regular appropriation, Mr. Chairman, yes. Let me explain something there, because we mustn't get this mixed up. The law requires that the counties and the towns shall pay for the audits conducted there, so we bill the counties and the towns for our municipal division work. Our municipal men sometimes do other work, for instance, they are travelling over the State and one of them will be way up in Arcostock County and we have him go and do ~~the~~ normal school while he is up there.

Q. (By Mr. Webber) But of course the appropriation always takes this probable reimbursement into account?

A. Yes.

Q. So am I correct in saying it is now estimated that somewhere around \$57,000 a year is necessary?

A. Well, I don't know just what the receipts are this year, I looked that up quite a while ago on the municipal division, but that runs as high sometimes as \$15,000 or \$18,000 a year, and probably will run as high as that this year, but of course that is all in that division and cannot be used for others. I say it would be used, but it is all put into the same appropriation and we can use some of it. I looked this up pretty carefully not long ago, and I found in the last four years we averaged to lapse \$1500 a year, which I think, as I figured it, is only about

five per cent of the appropriation. So we were running pretty fairly close, and of course we did not intend to overdraw. There is a statute which says that one who overdraws his appropriation is liable for the overdraft, I have never known of anyone to be tackled under that statute, but I have always been careful to see my appropriation did not overrun.

Q. Mr. Hayford, this is partly for my own benefit: Can you give us an idea of what you personally did, how you personally employed your time?

CHAIRMAN TOMPKINS: Pardon me, Mr. Attorney, but I would like to get this question answered: The amount of money at the disposal of the Department of Audit, including the amount of money they received from the towns.

Q. (By Mr. Webber) Let us see. You gave a figure of how much as possible return from the towns?

A. Oh, probably eighteen or twenty thousand a year. That is all in the municipal division, and then \$20,000 for the auditing. There is something like \$40,000. You see this present auditor wont undertake it unless he gets \$30,000 more.

Q. More than what?

A. More than all of that, in addition, entirely outside of these figures I named. He wont undertake the work unless he gets seventeen more auditors and \$30,000 additional to what his department has had.

Q. Meaning a total of \$70,000 a year?

A. Yes, if you figure the municipal division as getting about \$20,000.

MR. WEBBER: Does that answer your question?

CHAIRMAN TOMPKINS: That answers it.

Q. (By Mr. Webber) Now to resume, Mr. Hayford, can you give us an idea of about what you did, how you employed your time, what you charged yourself with personally?

A. What I did personally?

Q. Yes.

A. Why, I always handled the report, the annual report. There was quite a bit to that. I looked after that and prepared a good deal of the figures. I handled quite a bit of the correspondence. The last three or four or five years I have been quite active as Secretary of the Emergency Municipal Finance Board of which Mr. Holley is Chairman and Mr. Smith is the other member. We have had many meetings of that and that has taken a good deal of my time.

Q. Right on that, Mr. Witness, did that job descend on you?

A. That is a legacy of the special session in 1933. At that time there was a taxpayers' strike, so to speak, and we didn't know whether we were going to collect the State tax or not, and the flexibility bill was passed, so that the State might use any funds they could get from any source, whether allocated to the Highway or other sources. It was passed so the State could keep functioning if necessary. That situation developed as a result of that.

Q. The bill made you ex officio a member of that committee?

A. Ex officio a member of that board.

Q. You have mentioned making the report, the correspondence and the Emergency Municipal Finance Board. What other things?

A. Well, I always checked the trust funds and the bonds, examined each one to see whether the coupons had been detached that were properly to be detached and made a report of that to the Governor and Council and sent a copy of that report in to the Treasurer of State. Then there was the Farm Lands Loan Commission, that was the result of an act passed in 1917. It seems at that time that the trust funds, known as the Reserve Land Fund, which for many years had not been in existence upon the books of the State except as a law. Perhaps I could explain that a little.

I do not mean anybody stole the money, but they merely mingled it with their other funds. This dates back to 1832 -- 108 years, if I remember correctly. In a few years the State would come to and find it didn't have this money, but that was one of the things that I insisted on for years. I was a voice crying in the wilderness, because no one seemed to pay any attention to it or thought that the State should restore its trust funds. Finally, in 1929, Governor Gardiner called on me for a report and I made a report on the trust funds and the necessity, as I saw it, for their restoration, and a provision was passed that year -- Chapter 189 of the Laws of 1929 -- by which a certain amount of the collateral inheritance taxes was to be set aside for restoration of these trust funds

until such time as they were restored. That was a very fine thing, and those trust funds were set up in the sum of two and a half or three million dollars, and then, of course, about the time we got them set up and going good this bank holiday came along and a lot of these trust funds were in banks that closed their doors, and some didn't open again and some were reorganized and some of the money was lost, but I think there has been a pay-off of about sixty-three per cent, if I remember rightly, in those trust funds which were in closed banks, which isn't so bad, with more to come of course. It is still coming along.

Q. Do you know whether it is any part of anyone's duty to check on the legality of the bonds held in the trust fund account?

A. Well, we tried to check on the legality of them. Now the Reserve Land Fund, for instance, where I was Secretary of the Farm Loan Commission, we were quite restricted there; we could only invest in United States bonds, bonds of this State and bonds of the municipalities of Maine, or in first mortgage loans on approved agricultural lands. Well, the State made some loans under that out of this fund, and as you may all well know, some of them didn't turn out very well. Of course a lot of them have been paid off, but I think they still have about 150 of those trust fund loans down there and the State has accumulated around 50 farms. Once in a while we sell one, but a good many times we do not get more than half what the State had as an investment in it.

Q. Who takes care of selling those farms?

A. We have a man by the name of J. J. Harwood, of this city. I never felt that it was a job that required a full-time man, because it would be too expensive. This Mr. Harwood, who drives a school bus in the school months, goes out once in a while, week-ends or holidays and looks up some of these places, and in the summer he can do a little repairing on some of these buildings and look after some that have the most crying need for repair. So we saved, in that way, putting a man on all the time.

Q. Who determined the prices when sales were made?

A. I would go to the Commission and get a vote. That Commission is composed of the Governor as Chairman, who is a busy man, and does not always get to the meeting, but he sometimes sits with us. The members of that Commission are Mr. Frank T. Washburn, Commissioner of Agriculture, Dr. Packard, Commissioner of Education, the theory being those Reserve Land trust funds draw interest and that goes to education -- I suppose that is the idea he was on it -- and the Forest Commissioner, the man who has charge of the public lands of the State of Maine and the State Auditor as secretary. There were five on that board, and of course we held frequent meetings and passed on the sale price of those places. Of course if we couldn't get what the State had in it we would take less and get what we could out of it. A lot of farms down there I expect will have to be priced down a lot more than they are today to get purchasers.

Q. Did the act creating the Commission give them authority to sell and give deeds on mortgaged property foreclosed?

A. Yes, gave them authority to foreclose, and, as I understand it, to sell. That is as I understand the law.

Q. You might be able to enlighten me on this, Mr. Hayford: I understand that it was possible and did happen that we would say a certain municipal court would send a check payable to the State Treasurer and when the check came back it would be noted that it had been endorsed by the Highway Commission. How was such a thing possible?

A. From the courts?

Q. From the municipal court, mailed to the State Treasury and endorsed by the State Highway Commission.

A. It should not be allowed to go through like that. Of course back years ago when we first began or when I first had anything to do with the auditing of the courts, the Highway Commission approached me -- this must have been as far back as 1926 -- and said here is an auditing proposition, we think you should audit these courts, we don't get reports from these judges. "Well," I said, "I have authority to audit what goes to the Treasury under that old law, but I doubt very much my authority to go out and audit the reports." Well, they employed somebody over there to do it, got a council order and ~~xxx~~ put somebody on over there. After two or three years somebody picked it up and said, "What is this fellow doing over here?" They said, "He is an auditor and is auditing the

courts." "Haven't we got a State Auditor?" "Yes". So it was just brought to my attention. I said there may be some doubt as to whether I have legal authority to do it, but if they want me to do it I will assume it. So we took it over, and from that time on have endeavored to do it. I guess they are way behind on it now, but we endeavored to keep up all those courts. The money flows directly into the general highway fund, coming in there from fines imposed for motor vehicle violations, and is credited back to that fund, and it might be that is how the Highway Commission got that endorsement on there; if there was a fine where a State Highway Police officer made the arrest or conducted the prosecution, then it became Highway money, and I assume that those were some of the checks that got endorsed "State Highway Commission."

I have often thought if there was one department around here charged with the collection of all State revenue and State bills it would be much better. Now I notice Ernst & Ernst made some criticism of our own department down there because we collected from cities and towns. I will tell you how that came about. The law says that where we do an audit in a city or town we shall charge it to the town or city and shall issue a warrant and transmit it to the treasurer of State, asking him to charge that up to that town and collect it, just the same as State taxes. Well, we used to prepare those regularly and send them in there to Mr. Winship. A check would come in there, and sometimes he would write or come in and ask the State Auditor about that, or he would bring the check in and lay it on our desk. That is the way the thing was handled.

Q. (By Mr. Webber) Whose duty was it to reconcile the principal active bank account? Whose responsibility was that?

A. That was left with the Controller. The Controller was determined that they were going to do that under the new set-up of the Code, because they had these sorting machines which sorted by electrical contact, and they could run them through there at ~~XXXX~~ four hundred a minute and they were going to get anything they wanted. There were about 80 columns on those things, and they had perforations there so they could get any breakdown they wanted to, so they could separate the banks without picking them out, just run them through that machine and they would all drop into the proper slot, and he was sure that he could reconcile them by machinery. But I think the reason that it failed -- and it did fail for a number of years to accomplish the result desired -- was that the checks were mutilated. You can readily see a check sent here from the Highway Commission way up to Madawaska, carried out by some road foreman and given to a man, and he folds it up and puts it in his pocketbook, and he carries it around and sweats on it until Saturday night and goes down the store and tries to cash it, that check wasn't of uniform size, it had swollen, and once they got out of shape they never could be smoothed out with all the ironing you could do to them, and when they started running through that machine at four hundred a minute they would catch on there and it would tear them to pieces, not only that check but it would mutilate five or six checks right behind it. The result was they couldn't do it, but Mr. Runnells was determined to do it and kept trying. Finally,

they put Mrs. Fisher, who is a very good accountant, to work on that, and she followed that for several years and she did finally get an approximate balance. It was out, it is true, but Ernst & Ernst said they couldn't find that difference. They checked on it until they were most blind, and they finally gave up and said, "It is not very often we find anything we can't do, but we don't see how we can do this, because some of these checks have been torn up apparently and lost and the fragments never gathered together and patched up." They just couldn't do it. But since December 31, 1938 they have come out to the same amount each month.

Q. The bank showed a larger balance than the State by the same amount each year?

A. Yes, \$17,000 or something like that. I am glad you mentioned that because that is one of the things the Governor spoke of. Of course, as I said before, he knew about it because we discussed that in his office, but that is one of the things that Ernst & Ernst criticised and said this condition was known to the State Controller, and was known to the Treasurer's office and known to the State Auditor. They didn't say it was known to the Governor, but it was too.

CHAIRMAN TOMPKINS: Couldn't that difference be accounted for in whole or in part by the fact that many checks might never have been cashed that were sent out?

A. Yes, that is true. Where you are issuing 900,000 checks a year -- and I believe that is what is going through now -- probably quite a number of checks are not cashed in the course of a year.

Q. (By Mr. Webber) Mr. Hayford, does the machinery still give the same trouble that it always has?

A. So far as I know.

Q. The problem still exists just the same?

A. I think it still exists down there, perhaps not so bad as it used to be. I am under the impression that finally checks that didn't look as if they would run through the machine, they made a duplicate and marked it "Void", with the same perforations, and run it through. Of course that took a lot of extra time, but I think they have been doing much better on that since December 31, 1938.

Q. Mr. Hayford, I am sure you appreciate the purpose of this committee and what the committee is trying to do and get at. Could you tell us at this time of any irregularities or laxities that you have picked up in one way or another that have come to your attention? I would say I do not care if they have come second-handed, if they come from a reliable source. Can you state any of those instances, with particular connection, first, to the Highway Department?

A. No, not with the Highway, I don't know as I can say so with the Highway Department, because, as I said a while ago, they spend half the money of the State, and where we only had twenty-five per cent enough help to do it we would only have half enough help to do the Highway properly, as I figured it, so we never audited the Highway Department.

There is a Federal auditor there, Mr. Fallon, and as far as I know he has been there since 1928, checking on that.

Q. He is representing the United States Government?

A. Mr. Fallon, I don't know just what he does check down there, but he represents the Federal government.

Q. How do you spell his name?

A. I think it is Fallon.

Q. That is because of Federal Aid to highways?

A. Yes, that is on account of Federal Aid to highways.

I struck things in other departments. I remember Mr. Noon was asking me about this one day since I left the office, and Mr. Ingalls. A man down there in the Controller's office named Harold R. Adams, -- Mr. Douglas brought to my attention sometime last fall, if I remember correctly, two vouchers -- they might have been paid a month apart or two weeks apart, as I recall it now, something like that, -- for a lot of overtime. He did a lot of work across the river, filing vouchers in one of these old arsenal buildings across the river. I told Mr. Douglas that was not right, there was no council order for it. I said I did not think it was right, and I was going to speak to Mr. Runnells about it the first time I got an opportunity. So I saw him that day, I think, or the next day, and spoke to him about this big bill for overtime. He had it all carefully lined out, working Saturday afternoons, possibly, or Sunday, and evenings from seven to nine, seven to eleven, or something like that, a large amount in there. I said, "There is no council order on that and I do not think it is proper." He said, "It is all finished now, he has got all through with it anyway." So I think, so far as I know,

that stopped right there. I do not think there were any more bills for overtime. None were ever called to my attention again.

Of course I have been a good deal bothered down there by the fact that things were going through perhaps more easily, and it is a symptom from the Federal Government down through, that expenditures are easier than they were ten or a dozen years ago, and I felt there were quite a number of things that were going through that were not just what we used to consider proper. I will try to explain.

There are some things that are a matter of policy. As I always looked at it, the Governor and Council are the policy-fixing board for the State. Years ago we used to be very careful not to permit anyone to travel from his home to the State House and charge that to the State. It was all right for a State officer to start and go to his place of business and wherever he had to go in the State and back to the State House, but if he went home for a week-end or a holiday, that was his own concern and he must pay for it. But a few years ago the Governor and Council assigned these department heads cars, a lot of them. Well, that matter was easily broken down -- you can see how it would -- and they drove just when they wanted to themselves. So quite a number of department heads around here would take a car and drive up to their homes, sometimes in a distant part of the State and sometimes not so far, but would use it apparently, as it looked, just as if it was their own car.

You see there were many things like that which are a matter of policy, and the policy-fixing board, which is the Governor and Council, tried to get those things looked after by Council Orders back in those days, but somehow there doesn't seem to be so much of that now. I know I took up quite a number of things with the Governor, Mr. Douglas and I went up and placed some matters before him. The law says that anything that does not look just right we shall take it up to the Governor, and if it looks like an illegal transaction, out and out illegal, we shall refer it to both the Governor and the Attorney-General. So we went and took up some of those things with the Governor. He didn't respond very well to it, and he seemed to think they were all right, in fact I think he used the word that they were that they were "picayune", so we went out and we felt there was not much use to go back there again with that kind of an expenditure.

Then of course there is this matter of advances from the Treasury that has long been a source of bother. I don't know that the State ever lost any money, or very little down there. I seem to remember one twenty-dollar coupon clipped some years ago and they couldn't find it down there. I haven't any doubt it was blown off the desk or fell into a waste-basket. It was carried as a cash item for a while and finally the Governor and Council passed a council order and cleaned it up.

A few years ago a councillor died in office, and he had a little expense account of thirty or forty dollars, and they finally cleaned that up. I don't recall the State ever lost any money on those advances, but that is not good business. I have tried to stay away from it, although I have had some

advances myself and tried to take them up fairly promptly.

Q. We would like to know what the nature of those advances were.

A. Well, they would be called "for expenses", but sometimes they would drift along a good while before they were taken up.

Q. Well, actually, it was usually a matter of a man getting a little short and needing some ready money? That is the real truth of it?

A. It looked like that a good many times.

Q. Who did people speak to to get these advances?

A. I thought there was a council order -- I was looking the other day in the office downstairs to see. It is my recollection that the Governor and Council passed an order that the Controller should see to all those advances. I know it has been the custom for years that no one could get an advance down there from the Treasury unless Mr. Runnells okeyed it across the corner, or, in his absence, Miss Kelley, his Chief Clerk or Secretary.

Q. Who were those advances made to?

A. They were made to various State employees and officers who would probably be called away from the State House to go somewhere on official business and didn't have very much money with them -- that was the theory -- and they would go ahead and bring in their expense account later. They were figured as cash items in the Treasury until they were cleaned up. It never looked very good to me.

CHAIRMAN TOMPKINS: Who were they?

A. I had some in there myself, but I generally took them up pretty promptly.

Q. Who were they mostly?

A. As I recall, some of the Governor's councillors, Mr. Fernandez'

and I remember one of the Governor's was in there a while. I think that was put in there when he was Secretary of State. That was only \$100, but I spoke to Mr. Runnells and also to Mr. Owen about it. He said, "We will see to it", but it never was taken care of while he was Secretary of State, and I think it worked out through the contingent fund of the Governor and Council, last July.

CHAIRMAN TOMPKINS: By an executive order?

A. You see the law has changed. Years ago the law stated that the contingent fund of the Governor and Council was not subject to audit, they could send in a requisition to pay George W. Leadbetter or the Secretary to the Governor or somebody up there so much money, a round sum or a fixed sum, and there was nothing that went into the voucher jacket downstairs in the Auditor's office that showed what that was for, they didn't have to account for it. The contingent fund, as you know, was at one time \$10,000 and then it was increased to \$15,000 a year. That went along for quite a number of years, and then in trying to amend the law -- I think they were trying to amend the law relative to sinking fund reserve, and I always figured they went one section too far and repealed one section they did not mean to repeal. It is strange, but the repeal of that extra section wiped this thing out and made this contingent fund of the Governor and Council properly an audit account again. It wasn't noticed at the time but went on for some time. It was picked up later and this last Legislature changed it back. I think it was a section of the supplementary

appropriation bill. If you will look in the 1939 laws, I think you will find in the supplementary appropriation bill it has something to say about the contingent fund of the Governor and Council. That was put back so that it would be proper under the law to pay expenses or pay out sums on the contingent fund of the Governor and Council without audit. The Attorney-General ruled, as I understand, on that, that ~~xxxxxxx~~ was the intent of the law and could be done.

SENATOR LAUGHLIN: Might I ask a question?

How could you determine whether there would be any expenses in the future of these officers? How would you know whether they would have expenses or not?

A. Well, the assumption would be, where they are actively engaged with the department, traveling, and so on, that they would have an expense account, and a good many of them did very soon have an expense account to cover.

SENATOR LAUGHLIN: It was just a supposition?

A. Yes.

SENATOR LAUGHLIN: Outside of the Governor and Council, were there advances to other officers?

A. Many of them.

SENATOR LAUGHLIN: How would you determine then that they would ever have any expenses payable by the State?

A. Well, they were all people -- Runnells passed entirely on that down there, so I presume he satisfied himself they were properly connected with the departments and authorized to incur expenditures in traveling.

SENATOR LAUGHLIN: Would the Auditor's department have a list of these people who had received advances from time to time, or recently?

A. Yes, I think they would have a list of those who recently received them. I think they have kept them down there.

SENATOR LAUGHLIN: That would be the Auditor's department? You could find the names in the Auditor's department?

A. I think Ernst & Ernst, when they began that audit, took some of those advance slips and sealed them up and took care of them for a while. I guess they have some of them now.

SENATOR LAUGHLIN: You don't know where they are? The Auditors have them?

A. I think the Auditors have them.

SENATOR LAUGHLIN: Sealed up?

A. Yes, I think so. I think Mr. Noon or Mr. Wilkinson would know about that.

SENATOR LAUGHLIN: Might I ask another question, not along this line, but I have been thinking of it.

About how many times a month did you have to go on your duties on that Municipal Finance Board?

A. We had meetings every single week, nearly every single week, and a good many times we would be called into consultation when we did not record any meeting, that is Mr. Holley would come down to the office and sit down with me, or, more generally, ask if I could come up to his office and talk over various matters.

Q. How much time would it average a month?

A. I should say it would take a quarter of my time. At times it would take a quarter of my time. It would take more than a quarter of my time, probably, during the winter season, when they were holding budget hearings on appropriations for these towns and when they were electing officers.

Q. That would leave only three-quarters of your time for your duties in the department?

A. Yes.

SENATOR THATCHER: May I ask a question?

You referred to the contingent fund -- in 1929 wasn't that reduced from \$15,000 back to \$10,000?

A. I think it was.

Q. And later on increased again to \$15,000?

A. Increased again to \$15,000.

SENATOR LAUGHLIN: Is that for the Governor and Council or just for the Governor?

A. Well, I suppose that is mostly just for the Governor.

SENATOR LAUGHLIN: My memory was it was for the Governor, \$10,000 contingent fund. Is there any contingent fund for the Council?

A. No; the contingent fund of the Governor and Council. As I recall it now, I think the Governor usually spent most of it himself. Of course I don't know. It was not subject to vouchers, and I do not know what they were for. Such vouchers as appear are just simply to pay somebody an amount.

SENATOR LAUGHLIN: My memory was that when we called for the expenses of the Governor and Council -- that was in 1933 -- that they were way above any \$15,000.

A. Well, I tell you, perhaps, Senator, you have also in mind the payroll of the Council. Now the Council convenes here at their sessions and they get \$20 per session.

SENATOR LAUGHLIN: It averaged somewhere around \$5000 above, as I recall it, and I have all the figures myself, because they were given over to me to digest.

A. Now that is another thing. There has been quite a change in the policy of the Governor and Council. Years ago when they came here to a session it was \$20 for the session, and they might be in session two or three days. Now, each night -- I have understood this to be true, and I think it is -- when they adjourn they adjourn sine die and most of them go home. Probably Dr. Mitchell wouldn't go up to Houlton if they were going to have a meeting tomorrow morning, but a good many of them run home and come back again, so there will be another session the next day. I think that is correct.

SENATOR TOMPKINS: I am intrigued by this contingent fund. As I understand, the contingent fund is \$300,000?

A. That is the State contingent fund.

SENATOR TOMPKINS: And out of that there is this smaller contingent fund that is not subject to audit. Is that right?

A. No, the contingent fund of the Governor and Council is made as a separate appropriation, just the same as any other department appropriation, to the head of the executive department, and has nothing whatever to do with the State contingent fund.

SENATOR TOMPKINS: And this contingent fund appropriation of the Governor and Council is not audited?

A. It is not now audited.

SENATOR LAUGHLIN: Mr. Chairman, I think there ~~is~~ a recent statute that made that subject to audit, and I know when we got those figures over there, the expenses, I got it from Auditor's office or Controller's office, where it was kept with vouchers.

CHAIRMAN TOMPKINS: You do not have to audit them?

A. No; we review the vouchers afterwards, but where this was changed by the laws of 1939 it doesn't have to be audited now. There was this interim in there when someone went one section too far, apparently. I do not think it was the intention of anybody to repeal it. They repealed the section that took it out and made it subject to audit.

CHAIRMAN TOMPKINS: Do you know, Mr. Hayford, this Governor and Council contingent fund, what it was expended for in general?

A. Well, I don't know that I can say very definitely along that line, as I do not recall looking at any of the vouchers in recent years, without refreshing my memory by looking up the vouchers, but it has been the supposition around here for years that the salary of the Governor, his salary as fixed by law plus his contingent fund -- that is, he needs a great deal of money, I suppose, where he is entertaining, travelling here and there everywhere.

SENATOR LAUGHLIN: My memory, Mr. Chairman, is that it was formerly \$15,000 and not subject to audit, and then it was reduced to \$10,000 and the law passed ~~that~~ it must be audited, and I know in 1933 it was audited, and I can tell you, if you wish later in the committee, what some of those items were for, because in 1933 we asked for an itemized account, and, by order of the House, that was turned over to me to digest, because it was so voluminous, and I could tell you some of the items.

MR. NOYES: I think we had the itemized account in 1935. It must have been the 1933 Legislature.

SENATOR LAUGHLIN: Of course travelling expenses, telegraph and telephone calls have been some of it.

A. The Auditor's office was not reviewing the vouchers back in 1933, didn't have a force to do it, but we did begin in 1937 to review the vouchers that passed through the Controller's office.

SENATOR THATCHER: One more question. You spoke of the Governor entertaining. In addition to this, isn't there a sum of money set up for the maintenance of the Blaine Mansion?

A. Oh yes, there is money set up ~~xxxxxx~~ under the Superintendent of Buildings for the maintenance of the Blaine Mansion. That is the heat and light and janitor service.

SENATOR THATCHER: As a matter of fact, there used to be, and isn't there now at least \$10,000 a year for that?

A. Senator, I will look that up. I don't remember what the figures are. I haven't looked that up for a good while.

SENATOR THATCHER: If my memory serves me right, Governor Gardiner, in his address, referred to that sum as being \$15,000 and asked that it be reduced to \$10,000.

A. I think that is correct.

SENATOR THATCHER: I was a member of the Appropriations Committee at that time, and we took special pains to ask him about that, and he said yes, that \$10,000 was sufficient to maintain the Blaine Mansion, and if not that he would be glad to make up the difference. That is my recollection of his answer to us.

A. Yes, sir.

SENATOR THATCHER: So that is why I asked you if there is not something set up for that purpose now.

A. Oh yes, through the Superintendent of Buildings. That is carried right into the public buildings account, so that can all be worked out in the Controller's office just what it costs for heat over there and fuel and janitor service and landscaping on the grounds and all of these things.

Q. (By Mr. Webber) What about food?

A. They are supposed to supply their own food except at entertainments. Of course if they are going to entertain the Maine Federation of Womens Clubs over there, or something like that, of course the State pays for that.

CHAIRMAN TOMPKINS: What fund does that come from? Does that come from the contingent fund of the Governor and Council?

A. That should come from the contingent fund of the Governor and Council.

CHAIRMAN TOMPKINS: But you wouldn't know where it comes from?

A. I think it has always come from that. That is my recollection of it now.

SENATOR LAUGHLIN: From these figures that I have, it would cover really entertainment, but it did include candies and cigarettes and so forth, in this account I have, candies, cigarettes, flowers sent to the hospital to a sick man by Governor Brann, and similar things.

Q. (By Mr. Webber) So that it sums up to this: That the Governor receives a salary of \$5000, and a contingent fund of \$15,000 which is all spent for the Governor's purposes and not the Council's purposes?

A. I wouldn't say that was all spent for the Governor's purposes alone. I would say sometimes the Council must have expenses there, but I couldn't say now without looking it up, because I haven't for several years looked into that very carefully.

Q. It does not ordinarily cover the Councillors salaries or ordinary expenses such as travel and so forth?

A. That comes out of the appropriation known as the payroll of the council, and that is \$20 per diem when they meet here and their expenses back and forth to council meetings from their home and hotel bills while here.

Q. On top of that \$20,000, there is \$10,000 appropriated for the Blaine Mansion, making a total of \$30,000?

A. Yes, if that is the correct amount. I do not remember whether that was \$20,000 or not, the payroll of the council.

Q. If the committee has pursued that thought as far as they care to, I would like to ask you to what extent Mr. Runnells dictated or controlled or interfered with the ordinary processes of your department, with particular reference possibly to the preventing of your doing things you might otherwise have done except for his interference.

A. Well I have always taken the ground -- some people have said to me, "If you had an appropriation, you wouldn't have dared to audit Runnells." Of course would have audited him, audited him long ago, but we didn't have the appropriation to do it. Mr. Douglas, who is a very good accountant, and I talked a good many times on this particular thing, and we picked up things in the balance sheet and in some of the accounts that looked like errors, in fact we worked out one for Ernst & Ernst, which they said we worked out correctly. It wasn't any misuse of money, as I understand, but just didn't state the fund correctly. If I remember correctly, Mr. Douglas showed a difference of some \$11,000. That was the Reserve Lands Fund. I think Ernst & Ernst have it in their report. You can find it on one of those pages where he worked it out.

So far as interfering with the department, he always seemed very friendly, and I believed that Runnells was honest, I believed that he was basically honest. I have heard it reported,

it has come to me from two or three sources since these startling revelations have come out, that Runnells had lobbyists employed to contact members of the Appropriations Committee and others, key members of the Legislature, with this line of talk, to say: "Well, why have two Auditors around here? We audit everything, we preaudit everything. Why isn't that enough? You are really duplicating the thing when you have another Auditor. Let the Department of Audit build up its force for this city, town and municipal work, because we do not have anything to do with that, but we do the auditing, so what is the use of that?"

Well, there may be some truth in that, because how else are you going to explain that our appropriation went from \$34,000 at the time of the Administrative Code down to \$27,000 and then to \$24,000 and then to \$21,000, and it hit \$18,000 one year, because we had \$20,000 and they took \$2000 away for Old Age Assistance, so it hit the low point of \$18,000 one year. So I couldn't understand, with this enormous increase of work piled onto us by the State, why they should still cut down on the appropriation. Possibly there was something in that.

Q. Do you have any information of any sort or description as to who any of these lobbyists might have been?

A. No, I never heard. One report came to me he paid a fellow \$1000 to hang around and talk to people and say, "We don't need auditors around here, we audit everything, so why have this duplication?" I don't know anything about that, didn't

suspect it at the time, and have only heard that since these startling revelations have come about in recent days. MR. NOYES: Mr. Hayford, did I understand you to say in the fall of 1937 you had an increased appropriation and you made plans to audit the Registration Bureau?

A. Yes.

Q. Would there be any connection, would you think there might be some connection between that audit you planned to make and the Auburn robbery?

A. Well, I have never thought so. I will tell you all I know about that Auburn situation, as far as I know it. Of course, as you all know, that mysterious thing happened between the twenty-sixth and the twenty-eighth day of February.

MR. WEBBER: It happened, as far as we know, on the 27th.

A. 1938. We had almost then decided we didn't know whether we could tackle the home office here and the branches, checking their books and reviewing vouchers and all the other things we had to do, because we had just had \$2000 lifted out of the appropriation and carried into Old Age Assistance account, but, when that happened, we were immediately called and asked by Mr. Robie, the Secretary of State, to make an audit over there, and I immediately put three or four men on it, and they worked on it very steadily for a long time, all of us more or less working on it in the office for quite a period of time. Then some of the men went off of it and others continued with it as it tapered down. We never made any investigation of course as to the criminal aspect of that case,

and know nothing about it. We were not asked to. Here was the Secretary of State, the Attorney-General, the Governor and Council, the State Highway Police, and the Sheriff's department of Androscoggin County all engaged on the criminal end, so we felt there were enough working on that end of it. But we did review the accounting records just as carefully as we could. Ernst & Ernst have since said -- they went over our figures very carefully, and they have since said that we did it exactly in the way they would have done it.

Here was the situation: Those wire baskets, filled with registration cards and drivers' license cards, with money attached, check or money order or what not, were piled into this safe, as I understand, on top of each other, sometimes a dozen or fifteen or twenty-five of them, I don't know how many, at night, because the girls were so rushed they couldn't get it onto their books the day it occurred. So it kept piling up, because those last four or five days of February, as you know, were very busy days, because they could not use their last year's plates after the last day of February, and beginning March 1 they had to have new plates on.

They have since adopted -- and we helped install that -- a system by which the money is punched into the cash register immediately upon its coming through the window, so all those features have now been eliminated. But the fact remains that during that particular period these desks were piled full of these cards, and then whoever made the grand scoop there, when

they took things out they took the cards, money orders, checks and everything, dumped them right out and took them away. That left us quite a problem, because naturally all those checks, so far as I ever heard, were destroyed, money orders were all destroyed as far as I know, and just the cash abstracted. The gross shortage, as near as we could determine, was something like \$43,000. We checked over the registration numbers between the last one issued on the book and which was recorded and the ones they started with after March 1st, and found a great number in there, two or three thousand. We set those all down on a sheet and then began to search to see if we could find what went against those particular numbers. We advertised in the newspapers, had the State Highway Police watch all over the State for those numbers, sent out lists to all State Highway Police of these missing numbers, and they picked up a great many of them. We tracked them all down but 61, and I have often wondered how we checked up as close as that on it, but we did get it all down to 61 that were missing. Of course these people only had temporary certificates, because they were just passing out temporary certificates to be renewed in a few days, and they of course could not drive very long on that temporary certificate without breaking the law, and of course a good many of them came in, in response to the advertisements and so on, and took up the thing and told who they were and made out another registration card and fixed the thing all up. There was about \$8000 recovered.

Now the Bangor News said: "They say they recovered \$8000. If they recovered \$8000, why didn't they recover the rest of it?"

The way they recovered \$8000 was that some people were honest enough when they came in and were asked whether they paid by check or by cash, they said, "I gave a check." They were asked: "Did you notice whether that check ever came through the bank?" Some said: "Sure, that check is outstanding." They said, "You had better stop payment on it as soon as you can." And they replied, "Yes, I have done that." That is the way we picked up \$8000, people who were honest enough to say they had given a check.

SENATOR LAUGHLIN: You mean by that some of the people who gave checks and those checks never were cashed, that they never reported it?

A. It is possible some of them did. We tracked it all down until we came within 61 of finding every name out of those hundreds.

SENATOR LAUGHLIN: So you don't know really how much the robber, whoever he was, actually got?

A. No. We struck an average. By taking averages we figured it couldn't have been probably over \$1200 or \$1600 more than what we found. Of course there are an awful lot of big trucks in there that might run that up.

SENATOR LAUGHLIN: They couldn't cash the checks and money orders very well?

A. No, they were destroyed.

SENATOR LAUGHLIN: So really, where they didn't cash the check,

profited by not ever having that check collected?

A. Yes.

CHAIRMAN TOMPKINS: You collected \$8000 worth of those checks?

A. \$8000 worth.

SENATOR LAUGHLIN: And you don't really know how much the robbers got?

A. No, no way to ascertain I could tell of.

Q. (By Mr. Webber) Mr. Hayford, in trying to arrive at some amount by averages, did you look this over here? (Presenting copy of Ernst & Ernst report to witness)

A. Yes, I have looked that over.

Q. That figure where the zero is, that is presumably the 27th., the day we think it happened, which happened to be Sunday also, so no deposit was made?

A. That is right.

Q. Now the next day there are deposits of \$9934.07. Now if all the money was taken out, does that all represent money that came in the day after the robbery?

A. I cannot say definitely as to that, but presumably it was.

Q. Now by a comparison of 1937 and 1938 and 1939, isn't it apparent that 1938 receipts were not running anywhere near as they were the year before or did the year after?

A. I think that is true.

Q. And wasn't that true in other registration bureaus besides Auburn, 1938 was a poor year?

A. I think that is right.

Q. Now if you take the general scale of averages, and also

having reference to what might be the deposits on Thursday, the 24th of February, and February 25th., which were taken as examples, did your department come to the conclusion that there could have been as much as \$40,000 or better there?

A. We had reason to believe that was true. I don't know that anyone will ever know. But of course it was quite a startling thing to me to pick up the Bangor News one day and see where they said their analyst had worked this out and he had discovered to his satisfaction that \$35,000 was missing before the break. Well, the moment I saw that paper in my office, I started three of my auditors up into the dome. It was cold weather and they had to put on overshoes and earlappers and everything else, to check up the cards, for those particular days, to see whether that was current stuff or whether it was way back, and they satisfied themselves by the examination of the 521 cards, if I remember the number correctly, the number that came in on Thursday, or Wednesday, that there might well have been that much money in there. In other words, it did not look to us as if this was a grab to cover a defalcation that had occurred over a period of time. It looked as if it was all current stuff that had been grabbed right there. That is the way it looked to us, and I think Ernst & Ernst upheld us.

Q. Yes, Ernst & Ernst did uphold you. But Ernst & Ernst says here, assuming this, that and the other, the shortage would have been at least \$37,816. Now when you get back to see what the assumption is, you find it is based on assumption of collections of \$15,000 a day, except \$10,000 for Saturday, and what I cannot for the life of me see is when you take these

comparisons and run right down through, they were so very far short of \$15,000 a day all the way through that I see no basis for taking an assumption of \$15,000 a day, and I wondered what your thought was about that. They didn't even reach \$10,000 any one of those days.

A. I think you will find, and I think that we satisfied ourselves down in the office that all of Thursday's and all of Friday's and all of Saturday's receipts were in there, that they had only entered up to Wednesday and possibly a very few items on Thursday, so that there were three days there, but of course they would have to be quite large for the three days to aggregate that amount.

Q. You started with Thursday?

A. I think we found one or two items on Wednesday that hadn't been entered and all of Thursday. There might have been a few entered on Thursday, but most of Thursday and all of Friday and all of Saturday. The News said that Saturday was a half day and there couldn't have been much handled in that day, but Mr. Robie says the office was open all day Saturday, and he was over there just before five o'clock Saturday, and he was through there, he said, at 4.30, and he knew they were open. So they were open until five o'clock Saturday as well as those other days.

Q. It was not their policy to keep open on Saturday afternoon, was it?

A. No.

Q. This was the one time when they kept open on Saturday?

A. This was the one time, because that was the last day of the year, or Monday was the last day of the year when they could use their old plates. Monday was the last day. The 27th. was Sunday, and February 28th. would be Monday. But Mr. Robie told me, in fact he showed me a copy of a telegraph which he had sent to every one of his branches all over the State, telling them to keep open until 5.00 o'clock Saturday because he wanted to accommodate the public just as much as possible.

Q. Well, did you talk with any of the girls in the Auburn registration bureau as to whether there were many people who came in there Saturday afternoon?

A. I don't know that our men did. We have, I think a transcript of evidence taken out by the Attorney-General and the State Highway Police. Have you had that made available to you?

Q. I think it will be.

A. It will come before you no doubt. I notice they go into all those phases. But, as I said before, we did not pursue the criminal aspects of the thing particularly, because they were all working on that and we felt there were enough working on it.

Q. To get back where we started from, hadn't the word gone out so that people in these bureaus heard about it, and there had been plenty of talk there was going to be an audit for the first time in these registration bureaus?

A. Yes, I think so. We planned to start that audit.

Q. So it was generally known, and probably ^{more} ~~xxx~~ generally known you were talking about having an audit than that things

had interfered that might prevent you from having an audit?

A. Oh yes indeed.

Q. But you say you can't help us with the Highway Department at all?

A. I can't recall now anything especially on that.

As soon as I heard this -- the way this Highway business broke to me, Mr. Lindsberg, one of the Auditors, I believe, that uncovered this thing over to the Highway Garage, came to my office, I think probably the sixth or seventh of April, closed the door and sat down and looked at me sharply and said, "You audit the Highway Department?" I said, "Mr. Lindsberg, we did not audit the Highway Department. They collect and spend half the money of the State. We haven't got the force to audit the Highway Department."

I had just been preparing a memorandum to give to Mr. Noon, and was preparing to take it up to him that day, in regard to what auditing we did do and how many times I had called the attention of the public, through my published reports and also the report to the Committee and the Budget Officer, to the fact we were not doing this job because we didn't have the help to do it, and that was the day apparently that he had found it, or a day or two after.

I immediately went out, when I found out what it was all about, and found some of the green forms that are filed in our office on revenue, and I found that they used Lucius D. Barrow's facsimile stamp at the top of the page as the

official or officer turning in the revenue and receipting for it, his initials, or a stamp with his initials under it at the top of the page stating what they were. I noticed that there were checks listed and money orders listed, with possibly some cash, but, as we all know now -- at least I have heard, and I presume it is true, the money orders and checks were carefully turned in but the cash was abstracted. We never audited that because we didn't have the force to audit it. What I was trying to audit were the outside things, as I said before, the normal schools and all those things that were not turning their money into the Treasury.

There is a certain comity, if I may say so, between auditors. Not that we wouldn't have audited Mr. Runnells if we had the help, but it is a little bit comparable to where I would send out two men to audit a town, one to take the tax collector's book and the other the treasurer's book. Now suppose they came out at the same time and each one said that book checks up to a cent. They never change places to see if either one was lying to the other. They assumed that was correct and went from there on. It was the same way with this auditing. He was the pre-auditor and I was the post-auditor. I was post-auditor so far as the appropriation and personnel would permit me to do so, but we just didn't audit in the right places.

CHAIRMAN TOMPKINS: Let me ask you. Did you audit the Treasury Department at all?

A. The Treasurer's accounts at all? Back years ago we made

a monthly verification of all the active banks. Back in those days I think they had eight or ten active banks and we verified those, checked them up each month. Then the work got so heavy we had to give up that monthly audit but did it quarterly, and a man in my office followed it very carefully clear through until the time of the administrative Code, and when that was adopted Mr. Runnells took over that work.

Q. Then, as a matter of fact, your audit didn't touch the Highway Department at all?

A. No.

Q. And what other departments were left out by you?

A. Well, perhaps it would be easier to look at my report and see what we did audit. We set it out each year, what we did audit.

Q. Did you audit the Secretary of State's department?

A. We audited some of the things in there. I cannot recall just what we did audit in there, but we audited part of the Secretary of State's work, some years we could do it and some years we couldn't.

Q. Did you audit the Health and Welfare Department?

A. We did not audit the income. We did review the vouchers that went through since 1937.

Q. You just reviewed them?

A. Reviewed the vouchers that went through since 1937.

SENATOR LAUGHLIN: Including all the relief payments of the Welfare Department?

A. Yes, we looked over the vouchers.

CHAIRMAN TOMPKINS: And you did that right along?

A. Since 1937.

CHAIRMAN TOMPKINS: Did you audit the Taxation Bureau?

A. No.

CHAIRMAN TOMPKINS: Did you ever audit it?

A. When I turned over the gasoline tax collections, or when that went out of my office -- I never handled them anyway, Mr. Douglas handled it -- I had one or two of my best men go over those records and give it a very careful check and verification just right after I turned it over to him, because I wanted to be sure everything was all right. I have a copy of that somewhere in my papers.

Q. And since 1932 you never have audited the Tax Assessors office?

A. No.

Q. And in that time the Tax Assessor has collected some \$50,000, as I understand it?

A. You mean including County and State taxes and all?

Q. Yes, and gasoline taxes.

A. Is it as much as that, \$50,000? Yes, we did the first year or two up there, possibly the first two years, we started in to audit the gasoline tax, but after a while it got so thick and heavy we couldn't follow it with our limited force. They cut us down to seven.

Q. And have you been postauditing the liquor department?

A. No; there was a special statute, as I recall it on that, leaving that to the Controller, said that he should perform

that audit. Not but what we would have done it if we had the force, even though the law said he should do it.

Q. Have you been auditing the Land Commissioner?

A. Yes, the Forestry District, Teachers' Retirement.

SENATOR LAUGHLIN: Inland Fisheries and Game?

A. In part. We used to do it several years ago very carefully, and then it got so big we couldn't follow it all.

CHAIRMAN TOMPKINS: What about the Department of Education?

A. We haven't audited their income, but we have reviewed the vouchers since 1937.

CHAIRMAN TOMPKINS: What do you mean by reviewing vouchers?

A. Go over the paid vouchers as audited by the Controller.

CHAIRMAN TOMPKINS: Do you know whether or not under the Code Mr. Runnells prescribed and promulgated forms of receipts, vouchers, bills or claims to the various departments?

A. Yes, he did. In fact, in some cases where we started to line up something for some of the departments, in some cases, I cannot recall where they were not, he objected rather strenuously that we were encroaching on his ground. I cannot seem to recall just what that was. Mr. Douglas would remember better than I would about that, I am very sure. But the law formerly gave that to the State Auditor, and then of course when the Code was enacted that carried over to the Controller's office.

CHAIRMAN TOMPKINS: But did the Controller put out any orders or directions to the departments about forms or receipts or vouchers?

A. Yes, I think so.

Q. Was it a printed order?

A. He had a way of sending out a mimeographed letter when something would come to his mind he wanted to mention; he would promulgate an order and send it out to the various departments and institutions in the form of a letter.

CHAIRMAN TOMPKINS: You wouldn't know whether they lived up to them or not?

A. Not in every case we wouldn't, because we wouldn't have the power or the authority or number of auditors to go and do it.

CHAIRMAN TOMPKINS: You did audit all the accounts of the thirteen State institutions, didn't you?

A. We did before the Code, but since the Code that has been done by Mrs. Fisher in the Controller's office, Mrs. Virginia Fisher in the Controller's office did that work since the enactment of the Code.

There are some things about the Code law that I would like to speak of, if it is in order here. In some respects the Code perhaps did a good job, in others it perhaps went too far in consolidating power in the hands of a few, but there was one thing that always bothered me about the Code and that was the manner in which it was prepared and written.

Now I contend that it is impossible to get a clear law by just saying "the powers heretofore conferred ~~upon~~ upon the State Auditor and hereby transferred to the State Controller", and so on and so on, and not going back and repealing a single section in the statute in regard to the State Auditor. If you went and looked in Smith Dunnack's index, I suppose he would scratch his head and say, "Modified by the Code, see such and such a chapter." In other words, the Code was prepared by

Mr. Buck in November, 1931, and prepared very hastily. He tried to make that a chapter in itself, but he couldn't do it, didn't have the time or force. But, at any rate, since the enactment of the Code, Mr. Dunnack has worked out the Health and Welfare laws and got them into one big chapter, the 1935 laws, and the Sea and Shore Fisheries law, he has worked those out and got them all into one chapter, but he has tried, he tells me, again and again on the financial laws, and he always runs up against a stone wall and can't do it.

CHAIRMAN TOMPKINS: There is a conflict of authority?

A. A conflict of authority, and it is practically an impossibility to work out a smooth and consecutive chapter on the finances of the State, enough so he would dare to ask the Legislature to repeal all the financial laws in the 1930 statutes. In other words, it is just left betwixt and between, neither one thing or another. The Code is a skeleton form and never has been filled in.

CHAIRMAN TOMPKINS: That is right, when it was passed it wasn't in completed form, it was the best they could get through at the time. The idea was they were going to build up the horse afterwards, put on its legs and tail, etc.

You said this Code was prepared in November, 1931. You don't mean 1931 -- you mean 1930, when it was adopted by the Legislature?

A. Excuse me. I meant to say 1930.

CHAIRMAN TOMPKINS: Does your department, when they require an Auditor, have to go to the Personnel Board for it?

A. Yes, sir.

Q. Is that satisfactory?

A. Well, I have always claimed that the law intended that the State Auditor should have absolute control over his own help.

CHAIRMAN TOMPKINS: My question was: Was that satisfactory?

A. Well, no, it has not always been satisfactory.

CHAIRMAN TOMPKINS: How many of the present auditors in this department who served under you were selected by the Personnel Board?

A. I don't know as I can state on that. They didn't get fully organized and going on auditors until they had been in there a year or so. They found it fairly easy to work out examinations for stenographers, typists, filing clerks, and so on, but it was a little more intricate on the auditing, and it took them a good while to work out a formula.

SENATOR LAUGHLIN: Did they finally work it out?

A. They finally worked out a formula.

SENATOR LAUGHLIN: They haven't worked out a lot of others.

CHAIRMAN TOMPKINS: Have you had any of the auditors you employ through the Personnel Board?

A. I don't recall we have any down there that came from the Personnel Board.

CHAIRMAN TOMPKINS: Did you ever have any?

A. I think not.

CHAIRMAN TOMPKINS: So you don't know whether it is satisfactory or not?

A. We have had applications from people in there who said they were No. 12 on the eligible list, or No. 1, or 3 or 5, or something, which, when we examined into it, we didn't feel that were proper to have.

CHAIRMAN TOMPKINS: Now you are also a member of the Farm Lands Loan Commission?

A. Yes, sir.

CHAIRMAN TOMPKINS: What were your duties?

A. They began way back in 1918. Now many of the states make loans out of their public funds, school funds, and other things. Now this Reserve Land Fund is a school fund, or for that purpose. It arose by reason of the lease of 1000 acres of land in a wild land township, we will say, to the non-resident timberland owner who had preference in leasing it if he bought the township, and he would carry on there until it became organized as a plantation. When it became organized as a plantation the fund which built up by reason of the lease then immediately came under the control of the Forest Commissioner, or it used to be the Land Commissioner years ago -- his title was changed. And he had the right under the law to permit stumpage to be sold on this public land and became trustee of that 1000 acres in trust for the town to be in the future incorporated there. Some townships were very rich and very fine public lots. I recall one up in Sandy River Plantation where I think they sold over forty thousand dollars worth of timber off one public lot. At six per cent interest,

which is paid over to the plantation on that fund, it would be pretty nearly \$2500 a year. They didn't have to raise any money for school purposes. In fact, they got so rich that they finally built a brand new schoolhouse and made quite a splurge up there and built up their schools in great shape.

This fund built up all these years until it became or is at the present time about \$860,000. Well, when the State began to make loans Justice Charles P. Barnes of Houlton introduced that bill for the State to make loans of these trust funds in 1917, and the State began to make those loans in 1918 on farm lands. People didn't take hold of it at first to any great extent, but, after a good many years, I think in 1932, that fund all became invested.

CHAIRMAN TOMPKINS: \$860,000?

A. It wasn't so much as that then, probably \$750,000 or something like that at that time, but it is about \$860,000 now. That is when Governor Tudor Gardiner was Governor. The Commission then voted to discontinue making loans because the fund was all invested so there was no sense going ahead making loans of so small amount in each year on principal. There was no object in advertising we were making loans, because it got people excited and we couldn't make more than three or five loans a year, so it was thought best to discontinue making loans.

SENATOR LAUGHLIN: Hasn't the Federal Government taken that over?

A. The Federal Government stepped in that field and makes loans.

Then later the Federal government liberalized that law and let the Farm Loan Commissioner make another loan on a farm that was already mortgaged to the Federal Land Bank in a sum up to 75 per cent of its value, so the difference between fifty and seventy-five per cent gave them twenty-five per cent more borrowing capacity on that farm.

CHAIRMAN TOMPKINS: At the present time, as I understand it, this school fund which made up this land loan fund is all invested in real estate mortgages?

A. It is invested in real estate mortgages in municipalities of the State of Maine, and some deposits in banks, and then there is an uninvested balance, I don't know just how much now, but due to the fact the fund is very restricted it cannot go on savings bank loans due to the fact the fund is restricted, and there is quite a balance awaiting investment.

CHAIRMAN TOMPKINS: I would like to confine this for the moment to the mortgage loans. Have you any idea how much the mortgage loans would amount to?

A. I think the mortgage loans at the present time are \$150,000 or \$160,000, I am going to say offhand.

CHAIRMAN TOMPKINS: And, from your recollection, do you know how many of those mortgages are now active?

A. If I recall correctly, something over one hundred.

CHAIRMAN TOMPKINS: And the rest have been foreclosed?

A. A good many have been foreclosed. The rest have been paid off by the persons who have followed or have been foreclosed due to failure of the people.

CHAIRMAN TOMPKINS: Do you have any idea how many farms the State of Maine owns under this Farm Loan Act?

A. I think 145 or 150.

CHAIRMAN TOMPKINS: A good many of them in Aroostook County?

A. Yes, quite a number up there, probably twelve or fifteen up there.

SENATOR LAUGHLIN: Have they sold any of those that they have foreclosed on?

A. Yes, sometimes they sell one.

SENATOR LAUGHLIN: How many?

A. Take it over the years, there have been a good many sold. Of course that has been growing in recent years due to the depressed condition in agriculture.

CHAIRMAN TOMPKINS: Mr. Hayford, I would like to ask you a question in regard to these mortgage loans. When a tax is not paid by the mortgagor on these farms, does the State have to pay the tax?

A. Yes, under the law recently enacted the State has to pay the tax. For a number of years the attitude was taken that being State land they would not have to pay taxes on it.

CHAIRMAN TOMPKINS: You don't mean State land, but State security?

A. Well, State security. But that wasn't fair, the people in those towns felt it wasn't fair, and I admitted it wasn't fair, so in 1939, I think it was the last session, several members became interested in that, Mr. Stilphen down in Dresden was one, and Mr. Hawes in Charleston was one, and there were two or

three others in the House who made a concerted effort to change that law and make them taxable, set up a board to tax them. They called me before the committee and I did not oppose it because I thought it was no more than fair for the State to pay.

CHAIRMAN TOMPKINS: Now, Mr. Hayford, in your judgment would it be a good thing for the State of Maine to get out of the business of loaning money on farms?

A. I certainly believe it would be a good thing to get out of the business. I have believed so for ten years.

Q. (By Mr. Webber) Through the Auditor's report of Ernst & Ernst, they constantly make comparisons with the "published report", so-called, the prior published report of the State of Maine. Now the figures on that published report were prepared by Mr. Runnells, were they not?

A. Yes.

Q. That is the report that was published in the newspapers and broadcast?

A. Yes.

Q. Now is it possible that any part of those errors which appeared in the published newspaper reports were intentional errors to make the published report look better, or were they, in your opinion, honest mistakes?

A. Well, the fact that Ernst & Ernst found ten-fold as much in the sinking fund as was shown there, it would look almost as if he either neglected it or didn't know how to prepare it, because they found most of that, I think, in the liquor money.

Q. That, and the deficiency bill, what remained of it?

A. Yes.

CHAIRMAN TOMPKINS: Didn't they capitalize the debt on that Liquor Commission?

A. Yes, they tapered it off \$100,000 a year. That \$2,044,000 deficiency which existed January 1, 1937 and which the Governor asked the Legislature to pass legislation for, lay a special tax on beer to take it up, that was paid off pretty substantially in amount for two years, but two years later I suppose they discovered that to pay it off at that rate was going to take a lot of money, and I suppose they were looking for money for Old Age Assistance, so they decided to change that and make it \$100,000 a year.

CHAIRMAN TOMPKINS: Amortized it?

A. Yes.

MR. NOYES: It was estimated that the beer tax would yield a million dollars a year and retire that in two years, and then in the special session of October, when the sales tax was not passed, they wanted money for Old Age Assistance, so they split it and spread it over four years?

A. Yes.

Q. (By Mr. Webber) Mr. Hayford, that is set up in the sinking fund, but isn't that actually a mere representation of what the State of Maine sometimes hopes to collect from taxes?

A. I would say so.

Q. It is not a present asset that exists, is it?

A. No.

Q. But you don't think, in answer to my first question, regardless of somebody's failure to be ingenious enough to include the deficiency appropriation in the sinking fund, and the liquor inventory -- you don't think that any of these other mistakes where there was duplication of assets -- for instance, \$152,435.41 carried as cash in sinking fund as a separate item, when it actually had already been included in the amount of \$2,979,000 cash and securities and special trust funds, etc.-- that is actually a duplication which makes the thing look better by \$152,000.

A. I think that is right.

Q. That is a sample of several things of a somewhat similar nature they apparently found. You do not think there was any effort on anybody's part, Mr. Runnells or anybody else, to do any of that intentionally?

A. Well, I don't know whether there was or not, whether there was any intention on his part. I had a feeling he just didn't look after it or didn't attend to it and didn't get it right. It never occurred to me in the past those were intentional errors. He is a hard man to convince. If he decided a thing ought to be done a certain way, you couldn't change him.

CHAIRMAN TOMPKINS: I do not think you got the point of Mr. Webber's question. His question was double-barrelled. Was there an attempt by either Ernst & Ernst or Runnells to build the financial statement up so that it would have a better appearance than it deserved?

MR. WEBBER: Yes. And, more than that, did anybody else get their finger in the pie to make either of these statements look better than they really were?

A. That I don't know about, because I wasn't consulted or called in on those things.

SENATOR LAUGHLIN: Mr. Hayford, was there ever any attempt to change any of your reports by anybody?

A. Yes. I spoke a while ago of the fact that the Governor did not like certain words. "Test check" -- he struck that out. "Many major items of revenue have been checked by our auditors" -- he didn't like that. Several things. I have a photostatic copy of the letter here.

SENATOR LAUGHLIN: Did you consent to the change?

A. I am sorry to say I did consent to some changes. I did not realize that I was doing anything wrong and certainly did not intend to. There is the latter. I will pass it around so the committee can see it. There were some changes which at the time appeared innocent enough, but I should not have signed it and realize it now.

CHAIRMAN TOMPKINS: While they are looking at that, I have got a question or two. This deficiency of \$2,044,000, I think it was, how did that occur?

A. Overdrafts in the Welfare Department, practically all of it, as I understand it.

Q. Now what do you include in the Welfare Department?

A. For instance, in 1931, to go back a little into the history of that, in 1931 the Legislature liberalized the law relative

to pauper settlements. Prior to that time, a person had a pauper settlement in a town until he had acquired one somewhere else.

Q. I do not think you need to explain that. We understand that.

A. That increased that thing sixty to seventy-five per cent.

Q. Wasn't a lot of that deficiency due to the starting off of old age pensions before any provisions had been made for funds for old age pensions?

A. Some of it was in there.

Q. Do you know how much?

A. I couldn't say now right offhand.

Q. But you say that you have audited, post-audited the Health and Welfare Department?

A. That is the vouchers.

Q. And it is a fact, is it not, Mr. Hayford, the Health and Welfare Department never keeps within its appropriation?

A. I think that has been true for a good many years.

Q. There is always a large overdraft?

A. Yes, sir.

Q. Regardless of the appropriation?

A. Yes.

Q. Or the amount of the appropriation?

A. That is true.

Q. Could you suggest any measure to remedy that?

A. Well, if they changed the law back to what it was in 1931 it would have a very deterrent effect upon those overdrafts, because the law since 1931 has been that if any person lives outside of

a town for five years he loses his settlement regardless of where he is.

SENATOR LAUGHLIN: Does the Health & Welfare get the authorization of the Governor and Council for these overdrafts or do they do it on their own authority?

A. Oh yes, they get authority from the Governor and Council on that. That is, I know Runnells was getting worried over that long before the end of the fiscal year, and he told me he was going right up and put it before the Governor and Council.

SENATOR LAUGHLIN: How could it be, when this came in about this \$149,000 to the regular session of the Legislature, that it came as a surprise to the Governor?

A. As a surprise to the Governor?

CHAIRMAN TOMPKINS: That is the 1939 session, you mean?

SENATOR LAUGHLIN: Yes.

A. I wouldn't suppose it would be a surprise to him, because I assumed the Governor and Council were aware of it.

SENATOR LAUGHLIN: If the Governor and Council had approved it they would have known about it, yet the statement was made it was a complete surprise to him.

MR. BOW: And sometime after the Legislature assembled.

SENATOR LAUGHLIN: Yes.

MR. VARNEY: Wasn't that an anticipated overdraft rather than an actual overdrawing.

SENATOR LAUGHLIN: They have got another one, so I don't know how it could be anticipated.

MR. VARNEY: I am aware the Governor came before the Legislature and said he had been notified there would be an overdraft before the end of the fiscal year, that is they were not overdrawn at that time.

SENATOR LAUGHLIN: We provided for it, and now at the end of the fiscal year we have got one of equal amount, so that presumably would be the anticipated one, the one that was sprung on the Eighty-Ninth Legislature.

MR. VARNEY: As I understood, it was not spent then, but it was anticipated it would be needed before the end of the fiscal year.

CHAIRMAN TOMPKINS: I think, Mr. Hayford, this would be true in regard to that overdraft, would it not, that the money that was appropriated for the Health and Welfare Department had all been spent at the time that this anticipated overdraft came into the Legislature in 1939?

A. I think so.

SENATOR THATCHER: Mr. Chairman, if I remember that correctly, you were right, and this additional appropriation was to carry through that fiscal year to June, 1939. Now this one that comes into this special session is another one to carry through to 1940.

CHAIRMAN TOMPKINS: Now, Mr. Hayford, are you a member of that Budget Committee?

A. No, I am not, not now. Under that set-up I was a member of the Budget Committee.

CHAIRMAN TOMPKINS: This Budget Committee meets in November, does it not?

A. Yes, sir.

CHAIRMAN TOMPKINS: Is there any reason to believe that Mr. Runnells didn't know when that budget was set up for the 1939-1940 fiscal year, that there had been then an overdraft in the Health & Welfare Department?

A. You mean it was being expended at a rate which he knew would bring it about long before the end of the fiscal year?

CHAIRMAN TOMPKINS: Yes.

A. Oh yes, he must have known that, because it was being spent very heavily at that time.

MR. DONAHUE: Mr. Hayford, in view of the fact your sample audit failed to disclose the discrepancies of the sample audit of Ernst & Ernst, is it not probable that another sample audit might disclose discrepancies that Ernst & Ernst didn't find?

A. That is possible. Of course as Ernst & Ernst said -- I guess Mr. Wilkinson made the statement -- that many times these are matters of opinion, some of these things are matters of opinion as to how such and such an item should be treated. Different auditors have different ways of looking at things.

MR. DONAHUE: A sample audit is not the form of audit conducted by your department in auditing the accounts of the cities and towns? They conduct a thorough audit?

A. We endeavor to conduct a very thorough audit and go over things with a good deal of detail.

MR. DOW: May I ask a question?

In connection with this Budget Committee, composed of the members of the Legislature and others, isn't it true, Mr. Hayford, that Mr. Runnells prepared that budget and sold that bill of goods to the Budget Committee, that they were not here long enough to do those things and that he sold it to them as a bill of goods and they bought it?

A. Yes, I think Mr. Runnells pretty generally outlined that thing and got it ready. I think that is correct.

MR. DOW: The Chairman asked you if you audited certain departments. Did you ever audit the Attorney-General's department?

A. You mean on the income.

MR. DOW: On any part of it, Mr. Hayford.

A. We go over the vouchers.

MR. DOW: Did you ever audit the State Police account?

A. We examined the paid vouchers, and of course on the State Police, where a State Police officer is the complainant or the arresting officer and gets the fines, we have checked the dockets of the various courts in this State as to that.

MR. DOW: The attorney for the committee asked you if you intended to audit at Auburn. When did your department intend to audit at Auburn with respect to the Auburn robbery, if you did intend to audit?

A. We planned to begin on January 1st. Of course these come in ahead of January first. The early fellows get their cars registered in October, November and December.

Q. You were planning to get at it as soon as you could?

A. We were planning to get at it as soon after the first of the fiscal year, hoping to get at it but not sure we could.

MR. WEBBER: The important thing, Mr. Dow, is what the people in the registry office thought was going to happen.

MR. DOW: You said under the system down there the money came in and was immediately registered on the cash register. Wouldn't that show the receipts there for those three days on a tape of the cash register or adding machine?

A. That is since this occurred.

MR. DOW: It wasn't the practice at that time?

A. No. They were all filed in these wire baskets, these cards with money attached, one dollar bills and five dollar bills hooked on with a clip, and if it came to sixty-nine cents, they would put a fifty-cent piece, a dime and a nickel into a little envelope and slip that on. It was a crude way to keep money.

MR. DOW: May I ask you another question? You mentioned one advance made from the Treasurer's office which you have reason to believe was not paid in actual cash. Have you reason to believe there were others not actually paid in cash?

A. Which one do you refer to, Mr. Dow?

MR. DOW: I understood you to say one was made to the Governor when he was Secretary of State which was afterwards washed out by order of the Governor and Council rather than by actual cash. Do you know of any others in that category?

A. No, I don't recall any others now.

Q. Have you ever made a complete audit of the receipts on motor vehicles in the Secretary of State's office?

A. The office is engaged in that now.

Q. Has it ever been made?

A. It has been done. I think they have completed 1938 down there. The last I heard they were pretty near through 1938. Of course you see they have to be a year behind on that stuff before they close it up.

Q. Prior to that time, how long since a complete audit was made in that office?

A. It hadn't been made since back in, I would say 1913 or 1915, somewhere along there.

Mr. WEBBER: Was that \$100 item you are speaking of that the Governor got when he was Secretary of State?

MR. DOW: Yes.

Q. (By Mr. Webber) Was it your understanding that was finally paid back, or was it washed out?

A. It was washed out through the contingent fund of the Governor and Council, so I am informed.

Q. While he was still Secretary of State?

A. No.

Q. After he became Governor?

A. Last July.

CHAIRMAN TOMPKINS: Who informed you of that?

A. Well, I asked Mr. Deering, and I think I spoke to the Attorney-General, and I think also to Runnells. I spoke to all three of them about it.

CHAIRMAN TOMPKINS: Do you know what that advance of \$100 was for?

A. It purported to be expenses of the Secretary of State.

CHAIRMAN TOMPKINS: Travelling expenses?

A. Travelling expenses of the Secretary of State.

MR. DOW: These reconciliation machines, does the State own them?

A. No, the State does not own them.

MR. DOW: Do we rent them?

A. They rent them. They cannot buy one.

MR. DOW: And how much rent do they pay, if you know?

A. It started in at the time of the Code around \$7000 a year, and it is up to, the last I had any knowledge of it, about \$22,000 a year rental; but somebody told me the other day they are paying \$30,000 a year.

MR. WEBBER: The same number of machines?

A. Oh no, they have had more machines. For instance, it is only a few years ago or a comparatively few years ago, before the Code was adopted, when the State was issuing about 300,000 checks a year, and Mr. Bonney or Mr. Winship would sign them all, but they issue about 900,000 now. I understand on the Maine Unemployment Compensation Commission, on that account alone they issue about 300,000 checks a year. Somebody has told me that.

MR. WEBBER: The increase then is an increase in work and not an increase in rental per machine?

A. It is mostly, I think, an increase in work.

MR. WEBBER: More machines?

A. Yes, more machines.

MR. DOW: Mr. Hayford, do you know anything about the history of Mrs. Virginia Fisher, who audits State institutions?

A. A little, not much. Mrs. Fisher, when I first knew her, was the bookkeeper at the State School for Girls in Hallowell. She is a widow, as I understand it, and is a pretty bright woman. And then, when the Code was adopted, Mr. Runnells brought her up here, and I think first had her on State institutions, auditing State insitutions.

MR. DOW: Has she been here continuously since the Code?

A. Yes.

CHAIRMAN TOMPKINS: Have any members of the Committee any other questions?

MR. MacNICHOL: Mr. Hayford, you mentioned that the Auditors came in to you with a report from the garage and asked you whether you audited the garage. What date was that? Around the 12th?

A. It was earlier than that. I think it was around the sixth or seventh of April.

MR. MacNICHOL: How long would it take an auditor to find out there was a defalcation in that garage, according to your experience? Could a man be over there a couple of days and find it?

A. I should think in a very few days he could satisfy himself there was defalcation there. I don't know when they went in there. I never have heard just when they went in there to lock it over.

MR. VARNEY: Who was the man that was reported to have received the \$1000 for lobbying in the Legislature?

A. I never heard.

MR. VARNEY: I didn't understand you correctly then.

MR. WEBBER: I asked him that. He said he didn't know.

MR. HAYFORD: I never heard who that was.

MR. DOW: Mr. Hayford, do you know of any actual instances where a head of a department tried to assert his right, and then, going to the Governor and Council, Mr. Runnells interfered, and the department head was sent back to mind his own business? Have you heard those reports?

A. I do not recall any such instances.

MR. DOW: One more question. Mr. Hayford, can you tell the Committee what reasons the Governor advanced in asking for your resignation the night that he received it?

A. Well, he said he had before him this letter of Ernst & Ernst, which you will find shown here in the appendix to his message -- no, I am wrong, the appendix to Ernst & Ernst's report, you will find it on Page 86. That was April 11th., and he had just received it that day apparently, because that is the day I was called in there, and he said: "Did you know about irregular transactions, the Treasury of State checks" and so on. I said I did not know anything about it. He said there were checks for substantial amounts, one dated April 4, 1939, \$3680. He said, "You didn't report that in your audit." I said, "No, Governor, this was a test check and we missed that check, we didn't find it." And that is true. And then he said, "You knew about the

principal active bank account not having been reconciled?"

And I told him I did know about that, in fact we all knew about that anyway.

Q. (By Mr. Webber) Did you say to him: "You know about that too"?

A. I don't know. I don't recall whether I told him he knew about it, but, as a matter of fact, he did know about it, because we all talked it over in his office a short time before that when I was making this check-up of the Bangor News articles. Perhaps I didn't. I was anxious not to antagonize the Governor and Council, because I had thirty-three years of service and I had made it my career, and I did not want to jeopardize it to the extent of antagonizing the Governor and Council. I got a late start in life with my family and have a lot of children to get through school. I had not expected to be a candidate--

SENATOR LAUGHLIN: You were not appointed by them?

A. That is true, but they have the say-so as to whether you can retire at half pay. It is absolutely in their hands.

SENATOR LAUGHLIN: After a certain time?

A. Yes. Possibly that was some evidence of weakness on my part, but we are all human, and I did not feel I could antagonize the Governor and Council. He said he thought I ought to resign. I was the first one they asked and I hadn't thought much about it. I did not think it was as serious as that. I turned to the Council and asked them if they felt the same, "So say you all, gentlemen? Did Ernst & Ernst say it was as serious as that?" They said, "Yes." I said, "So say you all, gentlemen?" and

they all gave assent to the Governor's word, that they thought so. And then the rest of the conversation ensued, where I said I could not resign to him because I am not a executive but a legislative officer. I signed it and passed it back to him. I since wish I had written "Under Protest".

MR. DOW: The next to the last sentence of this letter: "We are informed these facts were known in the Treasurer's office" -- and then he shifted to the State Auditor -- your answer to that is that you were not aware of it, these checks payable to the Treasurer of State?

A. No, I didn't know about those checks.

MR. DOW: And you so stated that night?

A. Yes, as I recall it I stated it right there.

MR. DOW: Was your resignation all typed out and waiting for you or did you have to wait for it to be typed?

A. It was all typed out and waiting for me. I was quite surprised when it was shoved across the table already prepared.

MR. DOW: Whose writing is this on the letter here?

A. The Governor's writing, except one or two small items I changed where it didn't really affect the thing. I will point them out if you wish: "Eighty-ninth Legislature by appropriate action"-- I said "By authority of such and such chapter".

SENATOR LAUGHLIN: What about that word "correctly" -- did you object to putting that in -- "the books correctly reflect"?

A. Well, I asked Mr. Douglas: "Do you think I can sign that?"

SENATOR LAUGHLIN: The difference is what the books show. You say, "they correctly reflect".

A. Well, I was so sure things were all right that I did not object. I should have objected.

MR. DOW: Whose writing is this at the bottom?

A. That is the Governor's. I made no objection to that. He simply said there had been no temporary loans for either year. That was true and I was perfectly willing to certify that. That was simply stating the fact.

CHAIRMAN TOMPKINS: One question in regard to this check of \$3680. Could you have found that check anyway if you had made a check of every item in the Controller's office?

A. Yes indeed, of course we would. I am very sure we would.

Q. (By Mr. Webber) You said you were checking up on the Bangor News stories. Did you have any conversations with anybody representing the Bangor News or just simply checked the facts contained in their stories to see if they were facts?

A. We checked the State's books mostly. Of course we examined some of those facts. Some of the facts were correctly presented and some not. I recall one in relation to the State liquor money not being shown properly, and the analyst for the Bangor News made quite a point of the fact the State Treasurer showed one amount and the State Liquor Commission report showed another amount. Now that happened, as I understand, from money in transit that had been deposited in some

bank or banks, quite a number of banks possibly, to the credit of the State of Maine, but hadn't cleared through the Treasury Department here, so that the State Liquor Commission showed a larger amount of receipts as of June 30, 1939 than the Treasury showed, as I recall it, and that was the reason for it.

Q. Did you talk with anybody representing the Bangor News?

A. Yes, Mr. Chapman, Mr. Vaughan Chapman, came to the office one day and talked to me a few minutes. He didn't go into much detail. I had met him before and he had been in my office several times. When he came in he said he was going to check on this Auburn matter and asked if I would take him up and introduce him to the Secretary of State. He said he had never met him. So I walked upstairs with him and took him and introduced him to Mr. Robie. That is about the extent of my talk with him. I never went into any great detail in regard to those figures with him.

MR. NOYES: Mr. Hayford, in connection with this sinking fund and the reserve ~~of~~ two million and some odd thousand deficit in 1937 when Barrows took office, I understood that the State had at that time borrowed two million dollars on temporary loan, which was the full temporary borrowing capacity?

A. What year was that -- 1937?

MR. NOYES: 1937, at the time of the deficit.

A. Yes; the State borrowed in 1936.

MR. NOYES: It borrowed in 1936, so when we convened in January the temporary borrowing capacity of the State was exhausted.

A. I cannot remember now just how much that loan was that year, but I think in 1936 we did negotiate a temporary loan.

SENATOR LAUGHLIN: Or did you take it from some other funds?

A. Oh no.

MR. NOYES: What I am trying to get at: Has that temporary loan been paid?

A. Oh yes, the temporary loans have all been paid. Usually they pay those back about February and March. You see the lean time of year in State finances is October and November and up to December and sometimes almost to January, according to how promptly the cities and towns pay their taxes. Of course five million dollars comes in in State taxes between December 1 and January 1.

SENATOR LAUGHLIN: Wasn't any of it taken from funds earmarked for other purposes?

A. You mean of this deficit?

SENATOR LAUGHLIN: Yes.

A. Well, in the long run no, but it might have been a temporary borrowing. Now the courts have held that if the budget is worked out and so much money comes in and so much is paid out and you balance at the end of the year, it does not make any difference, even if they are earmarked funds, if you come out all right at the end of the year.

SENATOR LAUGHLIN: Supposing you come out owing that money to some funds. Supposing, for instance, it was taken from the Highway Fund, it would be owed to the Highway Department?

A. Yes.

Q. Wasn't any taken from funds like that and owed?

A. That deficit would reflect in the general funds of the State.

MR. NOYES: That deficit has all been paid?

A. No deficit has been paid; the temporary loan has been paid.

MR. NOYES: There is over one million dollars deficit then still unpaid?

A. Yes, \$1,092,000, I believe the Ernst & Ernst report says.

MR. NOYES: How is that an asset?

A. Well, it is an asset because you have got to raise the money to pay it off sometime.

SENATOR LAUGHLIN: If it was taken from the general funds, wouldn't it be a deficit? It was taken, as I remember at the time, from certain other funds for which it was earmarked and used for another purpose.

MR. NOYES: If that \$1,000,000 is an asset and we pay \$100,000 a year on it for the next ten years, at the end of ten years it wont be an asset. We are going to pay another million and the sinking fund reserve will decrease \$100,000 a year until paid?

A. That is right.

MR. NOYES: I used to teach highschool mathematics, and I thought I knew.

Q. (By Mr. Webber) Mr. Hayford, isn't it a fair question to ask you if, in your opinion, as an experienced auditor, it is not perfectly ridiculous to carry that expectation of future realization from taxes as an asset? Can you understand it as an auditor? Does it make any sense to you?

A. No; except the State has committed itself to the program and is going to collect this money to pay it off, therefore I should say you might say it was an asset.

MR. NOYES: It is paying it off as fast as it raises it, and how is it an asset? Suppose, as an illustration, we take all the beer taxes next year and pay off that deficit, we have decreased our sinking fund reserve by one million dollars. That doesn't make sense to me. I would like someone to explain it to me.

Mr. MacNICHOL: Where did they get the money to pay off those temporary loans?

A. They take that out of the general fund. The State is pretty fairly flush with money when the State taxes and automobile receipts flow in. If we come out at the end of the year all right and balance, the highway fund has not lost any money.

(Discussion between Committee members off record)

MR. DONAHUE: Mr. Hayford, is it safe to say we have had two write-ups of the assets of the State of Maine, one by the Legislature of the State of Maine and one by Ernst & Ernst this year?

A. What was that?

MR. DONAHUE: Two write-ups of assets of the State of Maine, one by the Legislature in 1937 and one by Ernst & Ernst this year?

A. The write-up you speak of by the legislature, they took that out of the sinking fund. They did have assets which were perfectly good and were believed to be, if, as and when collected.

MR. DONAHUE: I mean this two million dollars in 1937 we owed to the sinking fund reserve that is now carried as an asset of the State of Maine by legislative action in 1937, being a write-up of state assets of that amount. Is that correct?

A. Well, yes, I assume so, because the Legislature committed itself to pay it off and said it was going to raise the money to do it.

MR. Let us get it down to this, if we can. The school account in a town is required to be carried by law. Suppose a town overdraws its school account by \$500. Dr. Packard's department is going to see that is raised in the next year. They have to raise it. In other words, it is an asset, because they are going to tax their people to raise that in their next commitment.

MR. DONAHUE: Doesn't it work this way, Mr. Hayford: A reimbursement by the State to the municipality of all the share of the town, and the following year it will be decreased by the amount of the overdraft for the year. That is, I understand, the State's funds and school funds required by the town insofar as the State funds are concerned, if it is not expended at the end of the fiscal year it is to be kept as a running account. You cannot lapse the balance of the State funds of the school account into your unexpended balance. That is carried as a liability or as a debt owed to the State. Isn't it different here where this item is carried as an asset?

A. Well, I would think that where the State has committed itself to pay off this deficiency, that that would be proper to consider that as an asset, because they provide ways and

raise this money and pay it off.

Q. (By Mr. Webber) Almost as though it was an account receivable?

A. Yes.

Q. It is an account receivable that is good and can be collected or carried as an asset?

A. Yes.

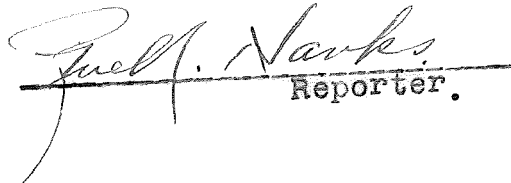
MR. NOYES: If we repeal the deficiency fund of 1937, we will immediately reduce our depreciation reserve by one million dollars?

A. Yes.

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(Adjourned to Thursday, January 14, 9.30 A.M.)

The foregoing is a true transcript of my shorthand notes in the above-entitled matter.


Reporter.