STATE TREASURER'S ACTION CONDEMNED

Huge Profits Reported Made by Bond Dealers.

REMEDIAL ACTION URGED

Marion County Grand Jury in Report Recommends Legislation to Prevent Abuses.

(Continued From First Page.)

high rate of interest without looking to the value of the property back of the bonds that must ultimately redeem the principal. 'Safety first' applies to investing in bonds as much as to any other human conduct.

Claim Advances Opposed.

"We condemn the system that has obtained in the office of the state treasurer for many years, of making advances on salaries and claims against the state before the same have been audited by the auditing officer of the state, namely, the secretary of state.

"The records further reveal that bonds which were not yet in existence had been sold by Morris Bros., Inc., to the state treasurer at an exorbitant profit and payments in full made thereon by the treasurer. It is claimed, however, that delivery of the bonds to the state treasurer was secured by bonds deposited as collateral.

"The most flagrant example of excessive profits is the sale of $100,000 water bonds of Reedsport to the state treasurer; the bonds that were purchased from the thriving little town of Reedsport and sold to the state at the enormous gross profit of $16,019.90.

"The town of Reedsport was incorporated on June 19, 1919. On August 25 thereafter, the municipality, by its officials, entered into a contract with Morris Bros. for the amendment of its charter to provide for an election authorizing the council to issue water bonds in the amount of $100,000. At that time a contract was entered into with Morris Bros., Inc., for the sale of the bonds for the sum of $92,320. Morris Bros. undertook the legal work of amending the charter, but before the amendment of the charter or the voting of the bonds Morris Bros., Inc., on October 28, 1919, sold the proposed bonds to the state of Oregon for the sum of $108,339.90, and received payment therefor.

"An election followed, the charter amendment was adopted, and the bonds were voted November 10. Bonds were thereafter issued by the council and executed by the officers of Reedsport and delivered to Morris Bros., Inc., on December 24 following; likewise, delivered to the state on the same day. The bonds were then paid for by Morris Bros., Inc.

Middleman Gets Profit.

"We might remark in passing that this is an impressive illustration of the cost of doing business through a middleman. The state of Oregon, in purchasing the bonds of one of its own municipalities, permits a middleman to exact a gross profit of $16,019.90, a condition that should not and must not exist longer."

Reminding Governor Olcott by statute that it is the duty of the chief executive from time to time to advise the legislature regarding needed enactments, as he in his judgment deems expedient, the grand jury makes the following recommendations:

"No county, school district or municipality of any kind should be permitted to sell its securities without giving notice to the state and publicly advertising the sale of any and all bonds in some local as well as metropolitan paper.

Direct Dealing Advised.

"The state should go into the open market and bid on the bonds of its agencies. When the state of Oregon has any considerable sum of money for investment in bonds, it should make the fact known and give all of its agencies, or the holder of the obligations of its agencies, an opportunity to submit their securities to the state for investment.

"Why should not the state of Oregon use as much intelligence in investing its funds as it does in buying supplies for its public institutions?

"The right to invest the money of the state in bonds should be left to no individual person. The legislature should create a board consisting of at least three members thereof, and it would not be necessary to create any additional state officers for such purpose.

Legislature Held Competent.

"The legislative assembly of the state of Oregon is competent to enact legislation and frame such a statute as would be for the common welfare of all the state's agencies and the state itself; and, to use the oft quoted language of Chief Justice Marshall in Gibbons vs. Odgen, the state and its subdivisions should dwell and act in 'that spirit of harmony and conciliation which ought always to characterize the conduct of governments standing in the relation which that of the union and those of the state bear to each other.'"

The report praises Treasurer Hoff for his policy of investing industrial accident funds in Oregon bonds, but expresses regret that he did not select school bonds to a larger degree. The state treasurer also is felicitated upon working his office staff a full eight-hour day, whereas, the report comments, many of the other state departments fail to give a full day's work for a day's wage. This little aside may be taken to indicate that the grand jury was interested in its task.

"The investigation developed the fact that bonds were often paid for before delivery," runs the report. "At the time of the investigation all sums paid for undelivered bonds were secured with collateral."

Concerning this phase, the auditor's report is quoted as follows:

"There appears to be no complete record in the treasurer's office of these collateral securities which had been furnished in the past pending delivery of the bonds which were purchased. In some cases a pencil memorandum had been made on the ledger page, but at the time the purchased bonds were delivered this memorandum had been erased. For this reason we cannot give a complete statement of all collateral which has been held by the state treasurer."

Record System Criticized.

In further comment upon the auditor's report the grand jury said:

"We particularly direct attention to the auditors' criticism of the bookkeeping method used in the state treasurer's office for a number of years past; likewise to the auditors' criticism of the method of keeping the record of collection of inheritance taxes in the treasurer's office for a similar period."

Etheridge Testimony Given.

Portions of the testimony taken by the grand jury, when those concerned in the bond transactions were called, are also inscribed in the record, including the statement of John L. Etheridge, president of Morris Brothers.

"When I first started doing business with the state," testified Mr. Etheridge, "I was called down to Salem by Mr. Hoff and went into conference with Mr. Hoff and Mr. Richardson, and they said they had about $400,000 for investment which they were not confident they could keep continually in that investment and that they desired that these funds should be invested; but they wanted to be sure, if they were so invested, if they had to return some of these bonds originally taken with it, that I would take them back and pay them the price they paid me.

"I thought it over for some time and thought here's an investment of $400,000 with every likelihood of funds being continually invested, and I thought it would give me a friendship with the state treasurer if they were so invested, and I said I would do that, but said, I won't do it and pay you exactly what you paid. For instance, if a bond bears 6 per cent interest, it would not be fair for you to require me to take these bonds back and have me pay all that interest back to you. Five per cent would not cover . . . there might be a change in the market, so we hit upon 4 per cent interest, provided we did have to repudiate these bonds. . . .

"We took a lot of bonds that they raised a question about; we sent a letter down here and we said that some of these bonds had been previously reserved for other customers, and he immediately came to the office and said: 'We are going to turn these bonds back because we don't want these kind of bonds; if we want bonds to keep we are going to keep them . . .

"He (meaning the state treasurer) bought $400,000 worth of bonds; now the details I would not remember. He bought $400,000 worth of bonds, the majority of which were gone over and discussed . . . which he was going to sell back to me and buy bonds of a higher rate just as soon as we could get them. It was only by eternal vigilance that we could get the 5.25s on the market and were able to exchange. . . . Lots of those bonds would have sold on a 5 per cent basis. He was insistent on getting these bonds. . . .

"You see, Mr. Brown, at the time of the original investment we hadn't the bonds really wanted for permanent investment. That is why he put in this repurchase clause. They didn't give him the yield he wanted."

Richardson Explains Deal.

The reason for the large business transacted with Morris Brothers was explained by J. G. Richardson to the Marion county grand jury in the following testimony:

"As I attempted this explanation the other day, when Mr. Hoff and I had had time to study our funds we found that there was an exceptionally large fund being carried in the accounts. We couldn't understand why there was something over $500,000 in the industrial accident account. I don't know whose suggestion it was, but I think Mr. Hoff suggested that we ought to invest that money as much as possible. He wanted to establish the policy of making every dollar of interest that we could make for his term, so an agreement was entered into with Mr. Etheridge representing Morris Brothers, that Etheridge come to Salem to our office.

"We explained the situation to him and told him that we were not familiar with our funds; that we did not know whether we could purchase securities and retain them, or whether we would have to have our money on demand or at any time, so we made this arrangement with him, and it was done after Mr. Hoff and I discussed it fully, and was to save any brokerage. Now if we had purchased securities outright and the industrial accident department had made demand on us for money that we had in securities, it would be necessary for us immediately to throw these bonds on the market, thereby adding to the cost of brokerage for resale of the bonds. So to get away from that we sold on this plan—that the bonds we purchased from Morris Bros. would be subject to resale at any time we needed the money, and if we did resell them then we were to get 4 per cent interest on our money. That is the agreement as I remember it."

Bond Deals Enumerated.

The report enumerates the bond purchases of the state treasurer from the firm of Morris Bros., in the following summary:

Exhibit "C" of the auditors' report contains special transactions of the state treasurer with Morris Bros., Inc., from January 6, 1919, to March 15, 1920, showing that the state treasurer had purchased from Morris Bros., Inc., bonds at a cost to the state of $424,959.82, which were resold to Morris Bros., Inc., for the purchase price, the state treasurer collecting interest on the sum invested in the bonds at the rate of 4 per cent, amounting to $3085.06.

Securities purchased by the state treasurer, exclusive of those purchased from Morris Bros., Inc., from January 6, 1919, to March 15, 1920, are described in exhibit "D" of the auditors' report and show that bonds of the par value of $456,312.36 were purchased from a number of firms dealing in bonds, at a cost of $468,880.24.

Personal Purchases Noted.

Exhibit "E" of the auditors' report shows the following strictly personal and private purchases of bonds by O. P. Hoff from Morris Bros., Inc., from January 6, 1919, to March 15, 1920:

"State Treasurer Hoff purchased from Morris Bros., Inc., exclusive of 'special transactions' listed in exhibit 'C' of the auditors' report, from January 6, 1919, to March 15, 1920, bonds of the par value of $1,106,629.09, at a cost to the state of Oregon of $1,172,223.12, which bonds cost Morris Bros., Inc., $1,088,147.03, making a gross profit to Morris Bros., Inc., of the sum of $84,076.09. In addition thereto, Mr. Hoff purchased from Morris Bros., Inc., at a cost to the state of $155,263.55, city of Ontario paving gold bonds, city of Rainier betterment gold bonds, city of Rainier refunding bonds, city of Scio electric light and water bonds.

"The last mentioned bonds had been paid for at the commencement of our examination, but had not been delivered to the state treasurer; however, they are now in the possession of Mr. Hoff as the treasurer of the state, having been delivered to him pending our investigation. The auditors' report advises that various securities were held by the state treasurer as collateral, pending the delivery of the aforesaid bonds. We are not advised what said bonds last referred to cost Morris Bros., Inc., nor were we acquainted with Morris Bros'. profit thereon."

Auditor Makes Comment.

A letter written by E. E. Pinney, Oregon manager of the Fidelity & Deposit company of Maryland, who has audited the books of the state treasurer from time to time, is included in the grand jury's report as commentary upon inadvisable methods now in use. The letter concludes:

"I do not think the grand jury can make any more pertinent recommendations than that the next legislature make provision for a board which shall have charge of the investments of the state's funds. It is not right that this immense amount of money should be invested by one man alone, no matter who that man is. Different states have different plans for the making of state investments, and I am confident if the matter is brought to the attention of the legislature a good feasible working plan can be found."

HOTELS TOO SCARCE, DECLARES S. BENSON

Tourists Being Warned to Keep Away From Oregon.

ROADS DAMAGED BY LOGS

Most Paving Jobs Under Contract on Pacific Highway Likely to Be Finished This Summer.

"More hotels are needed along the Pacific highway," declares S. Benson, chairman of the state highway commission, who has returned from California. "Conditions in this respect are just about as bad in California, yet down south they tell tourists to keep away from Oregon as they cannot get into hotels, and then they also say that it is impossible to drive through to Portland because of the condition of the road.

"As for the highway, traffic can get through, but the hotel problem is another matter. Roseburg, in particular, should have another hotel, for it is about a day's run from Portland, and a day's run to Medford or Ashland. Of course, to build at the present price of material, is almost prohibitive."

Oregon Well to Front.

Mr. Benson says that there is a great era of road building throughout the United States and that Oregon is well to the front. He declares that Oregon is getting a pavement of which it can be proud, but the pavement is not constructed for some of the traffic now using it, for instance, logs.

"When over the highway," says the commissioner, "I saw a number of loads of logs. The highways are not built for that kind of traffic, and these loads were crushing the old concrete pavement on the Siskiyou grade. It is nonsensical to tolerate the damage of thousands of dollars to a highway for the benefit of a few people. When I was in Salem I took up this matter, and regulations will be issued keeping log loads off the highway.

"In California the roads are going to pieces, but are being maintained at heavy expense. Many miles of grades in Oregon on the Pacific highway have been put in bad shape by the traffic over them during the wet season, with the result that they are ragged and rough. These grades will be dragged and this dragging will go on in several counties.

Labor Question Serious.

"From what I can gather, most of the paving jobs under contract on the Pacific highway will be finished this year, unless there is a labor shortage. The labor question is more serious on grading contracts than on paving, for small and specialized crews are needed on pavement work. Hot stuff plants have resumed and unless something unforseen occurs, all of the paving jobs on the Pacific highway should be completed before the rains of the fall.

"Little if any new work will be contracted for this year unless the bond market improves. The market is now weak and securities are not bringing what they would normally."

FACTORY WAGE WANTED

Washington Conferees to Discuss Minimum Working Scale.

SEATTLE, Wash., May 7.—Nine conferees, three representing each group—employers, employes and public—were selected by the state industrial welfare commission at its meeting here Thursday to meet in Olympia May 18 and 19 to discuss a minimum wage for factory workers.

The employers' group will be represented by R. H. Butler, Seattle; T. W. Moore, Spokane and Mark Ewald, Olympia. Employes' delegates are Miss Rose Simoneaux, Tacoma; Miss Hilda Freeman, Spokane, and Miss Alice Farrell, Everett. The public will be represented by Mrs. Helen M. Stevens, Seattle; Mrs. R. C. McCredie, Sunnyside and W. M. Kern, Walla Walla.

Clam Season Nets Big Returns.

ABERDEEN, Wash., May 7.—(Special.)—Grays Harbor clam season, now nearing a close, has been much better than last season, according to local packers, and, with fair weather to June 1, will be fully up to normal. Last year the pack was considerably below the average. Diggers this years have been making big money, and some of them will run over $1000 for the three months' work. The price this year is $3.25 each hundred pounds.

DEAL HELD FRAUDULENT

TRANSFER OF PAPER COMPANY ASSETS ASSAILED.

Astoria Transaction Efected Without Notice to Stockholders, M. J. Lynch Asserts.

That assets of the Astoria Pulp & Paper company were turned over to the Portland Paper Box company, the Blake-McFall company and the Portland Paper Package company fraudulently, without notice to stockholders and at a time when assets were more than sufficient to meet liabilities of the concern, are allegations in a complaint filed in the circuit court yesterday by Matthew J. Lynch, demanding an accounting and the appointment of a receiver for all the Astoria's concern's property in the hands of the other companies, which are made defendants.

Mr. Lynch owned 30 shares in the Astoria company of the par value of $3000 and declares that he never received notice of the proposed transfer of assets, nor received any settlement as a result of it. The plaintiff asserts that C. H. Leadbetter and L. L. Leadbetter, directors of the Astoria company, who are made co-defendants, effected the transfer some time in 1919. He insists that the company, capitalized at $100,000, was a going concern.

SUGAR DUE AT YAKIMA

216,000 Pounds Expected to Last District's Needs Ten Weeks.

YAKIMA, Wash., May 7.—(Special.)—Six carloads of sugar, 216,000 pounds, are due to arrive in Yakima next week, according to announcement by wholesale grocers. This quantity, it is estimated, will be sufficient for the needs of the Yakima district for 10 weeks. The Seattle longshoremen's strike may interfere with the unloading of the shipment. In that case the time when the sugar will arrive is uncertain.

The sugar will be the first to arrive here under the new price of $22.75 to the wholesaler and $24.35 to the retailer.

Lewis River Bulkhead Finished.

KELSO, Wash., May 7.—(Special.)—Burcham Bros. have completed construction of the new piling bulkhead at Robinson Bend on the Lewis river. It is 1800 feet in length and was built by the county and the road district to protect the Lewis river and Pacific highways. The county is riprapping in front of the bulkhead at a cost of about $25,000. County Engineer Fred C. Cramer is supervising the work.