GOVERNOR MAKES STUDY OF AUDIT BATTLE; MAY ACT

(CONTINUED FROM PAGE 1)

Kerr for immediate action. I gave permission."

The legislature was then in session "upstairs" with appropriations for the entire system of higher education under considerable criticism. The officials felt that any publicity on the matter might react unfavorably on the whole system of the state system.

Auditors Sent Away

The auditors, according to reports, were excused from the conference after the preliminary discussions which were concluded by Mr. Starr and Mr. Hoss in private. Mr. Hoss says this is not accurate, that the auditors left and that he and Mr. Starr continued talking but about other matters. "Dr. Stiner came in and joined us," said Mr. Hoss.

Auditor Buell was released from the state's employment on June 1 when his definite assignments were virtually completed, although Kubin prepared in July a supplementary report answering the State College answers submitted in a 57-page report in March.

Although disciplinary action was reported by Chancellor Kerr this did not go beyond a reprimand to Jackson and taking away from him all authority to handle funds or to purchase supplies. Jackson is still on the State College payrolls.

The text of the Feb. 10 report by Auditor Buell submitted through his chief, Mr. Kubin, follows:

In connection with the annual audit of the Oregon State board of higher education now being conducted in accordance with Section 67-213, Oregon Code 1930, we submit herewith special comments respecting findings at the Oregon State Agricultural college in the department of the Superintendent of Buildings.

This department under consideration has been headed by the same individual for a period of about twenty years—more or less—an individual who has been in the college employ for about twenty-five years. The text of this report centers around the operations of this individual for the past twelve years who, from signed and sworn statements in our possession, apparently used college equipment and college employes for his personal gain. We endeavored to substantiate the statements referred to by inspection of the records, both in the office of the superintendent and in the business office, and satisfied ourselves that certain of the assertions are substantially correct.

tions in statements

(Note: Comments regarding assertions in statements exhibits I, II and III attached.)*

The oldest charge of misappropriation dates back to the year 1921, when, as set forth in Exhibit I, the superintendent is reported to have purchased $385.00 of materials and supplies from the college stores charging them to himself on memorandum invoices. The individual who made the assertion was bookkeeper for the superintendent at the time. He stated that he asked the superintendent to have these charges paid to clear his records, but they were not paid, but rather were removed from the files. The removal of these charges from the files is said to have been made between one and two years after they originated. The same individual asserts that the lumber inventory in 1921 checked some five to seven thousand feet short, and that after a very careful scaling of jobs in progress during the year.

We were informed that the superintendent had houses under construction about 1920 and 1921.

Another individual, as evidenced by Exhibit II, asserts that in the year 1923, and other years subsequently, college trucks were used for the personal business of thes uperintendent to and from his farms, one near Cheshire, Oregon, and one near Corvallis. This individual said he was ordered to use college trucks in this manner and was asked to turn in time charges for that time spent which he did and for which he was paid by the college.

Other assertions, as evidenced by Exhibits II and III, were made regarding work done for the superintendent on one of his houses in Corvallis during the summer of 1927, when three college employes worked there. All of these individuals stated that they were asked to charge their time to the college. Two of these individuals stated that they charged their time to the college and were paid by the college therefor. The third individual stated that he worked a short time on this house and charged his time to a college job, but did not wish to give us his signed statement.

We were told by one individual named in one of the exhibits that he knew of the college truck driver having taken a six weeks vacation trip east in 1928. We studied the monthly labor requisitions turned in for this man from 1926 to 1932 and found no indication of such unpaid time. The tabulation attached indicates the amounts paid to this truck driver each month for the years 1928, 1929, 1930, 1931 and 1932 to June 30, per labor certificates signed by the superintendent.

PAYROLL PADDING ALLEGED HERE

	1928	1929	1930	1931	1932
January	$ 230.94	$ 223.48	$ 211.64	$ 192.40	$ 171.68
February	203.87	199.11	187.22	170.20	162.06
March	224.03	211.64	211.64	192.40	190.92
April	206.00	235.32	211.64	192.40	176.86
May	216.60	219.78	216.60	188.70	174.64
June	226.07	209.79	200.54	176.80	177.60
July	203.50	195.36	185.00	192.40	
August	219.78	219.78	192.40	181.30	
September	234.21	197.36	206.46	181.30	
October	258.63	221.78	199.80	192.40	
November	204.24	205.72	220.58	164.28	
December	207.94	203.50	192.40	173.16	
	$2,635.81	$2,542.62	$2,435.92	$2,197.74	$1,053.76

NOTE: These figures in the report of Auditor Buell show unbroken payments to a man reported to have enjoyed a 6-week vacation trip east during 1928. The only explanation offered was that the man had accumulated "vacating time" coming to him.

Comments Regarding Records

The records of this department consist principally of copies of purchase requisitions, freight and express receipts books, stores records, key deposit records, copies of labor and material charges rewritten from the original daily labor and material charge slips on typewritten pages, and monthly budget statements and job cost reports. The original daily labor charges which show job numbers and are signed by the employees, and original material requisitions withdrawing materials from stores, were not available. The superintendent informed us that these had been destroyed up to and including June 30, 1932.

In the course of our audit we studied the monthly reports of the superintendent, copies of which are said to be placed in the hands of the president. We found during the month of June an unusual number of material charges to janitorial and repair budgets. These charges, especially in June, 1932, appeared to be entirely out of proportion to labor. We investigated causes for such fluctuations and were told by the superintendent that because of failures to properly record items taken from stores during the year it was necessary at the close of a year to make various charges to balance the book inventories with the physical inventories. Such charges were apparently allocated to certain buildings under either janitorial or repair budgets. This method naturally covers up inventory shortages.

In reviewing typewritten copies of inventories at the close of the past two years, and in reviewing charges that were made for materials used during these periods, two examples of condition of the accounts were noted for your consideration.

In January, 1931, an order for blinds in amount of $961.70 was placed with Wm. Volker & Company. The blinds were delivered and the office copy of the purchase requisition was marked "invoice received March 30, 1931," charging stores ac- The stock cards for these stores show the blinds taken out April 1, 1931, indicating the buildings to be charged. However, no record is on file under that date indicating the stores account was relieved of this charge. An inventory was taken in June, 1931, which agreed exactly with the stores control account. At the beginning of the new fiscal year 1931-1932 a charge of $961.79 for these blinds was recorded to the various buildings with the offsetting credit to the stores account. It is apparent that since the June, 1931, inventory had been adjusted or agreed with the stores account which excluded this item, a later credit to the stores account of this $961.79 would leave that amount free to absorb shortages which might occur later during the fiscal year 1931-1932.

Another instance was noted where linoleum costing $208.20 was received in June 1931, charged to stores and included on the June 1931 inventory. Immediately thereafter the entire sum was charged to repairs of cabinet shop and foundry (B10). It is admitted by the superintendent that this linoleum was not used there and an explanation given by him did not clarify the matter to our satisfaction.

In June of 1932 the janitorial report showed $582 of mops and brushes charged out. Upon investigating this item we found that mops and brushes for that sum had been ordered in June 1932, but had not been received in June, and were not received until from July 8, 1932, to the latter part of September 1932. The superintendent's reports show that the goods were charged to the stores account and again out of the stores account in the month of June 1932. Much of this stock is still on hand.

It was apparent from studies made of the monthly statements and job records that job charges for work done for other departments were practically identical to the amount of the estimates. In questioning the superintendent regarding this he stated that his instructions to his men were "not to allow any jobs to run over" and if the men failed to do this it was necessary for him to absorb the overrun in one of his budgets. Because the original charge slips for labor and material were destroyed for the year 1931-1932 we were not able to determine to what extent such diversion of costs had been made. We did, however, inspect a few of the material slips for the month of September and October 1932. In doing so we found slips that were originally charged to job number 175 which were changed to read job number 141. These aggregated $38.38. The reason for this change was explained by the superintendent to be an overrun on the estimated cost given this department. The job was billed to Visual Education in amount of $83.98. A large percentage of these material withdrawals were not signed by any one.

The superintendent in his position has disregarded rulings regarding employment of one's own family in his immediate department, and has employed family and relatives in his office or in various positions under his control. Such is the case at present.

General Comments

From the foregoing presentation it appears imperative that some radical changes of policy should be inaugurated to the end that all possibility of misapplication of labor and stores be eliminated. It is quite evident that the operation of the department of buildings has been permitted to function without giving very serious consideration to internal audit or control of stores and repairs. All matters of purchasing, storing and use of equipment and supplies have been vested in one individual. Much of the purchasing has been done directly through the process of having the board of control confirm deals already consummated.

Because of the practice of shifting charges to correspond to estimates rather than having them reflect the actual costs, the monthly statements submitted purporting to show operating costs and job costs are very questionable from the standpoint of accuracy.

We suggest that the matter of purchasing and issuing stores and equipment be an independent function and not in any manner connected with the department of buildings or any other consuming department. Such function should be the responsibility of the centralized accounting department of the board of higher education.

We feel that the condition is such that drastic measures must be adopted to bring about the proper adjustment.

The audit of this department was not entirely satisfactory due to the destruction of much of the original record.

On the following pages will be found exhibits I, II and III, two of which are copies of sworn statements which are included in this report to substantiate certain of the charges contained herein.

Assistant Auditor

This information was secured through the efforts of Mr. S. D. Buell, certified public accountant, auditor from the departmental auditing division.

Respectfully submitted
Departmental Auditing Division
By OTTO F. KUBIN, Certified Public Accountant.

EXHIBITS UNDER OATH

Exhibit I is an affidavit by Paul P. Bates, of Corvallis, in employ of the State College building department from 1920 to 1925. It alleges the destruction of bills owed by Superintendent E. P. Jackson to the department, shortages in the inventory of lumber stock, and efforts to get Bates to accept a state-owned typewriter in lieu of a pay raise. Bates was a bookkeeper.

Exhibit II is by A. J. Fuller, employed by Jackson off and on for 12 years. It recites many instances of the use of College automobiles and trucks to move family belongings of Jackson's relatives in eastern Oregon, to move Jackson's own property to and from a ranch near Cheshire. Fuller also alleges he was detailed to attend a brother of Jackson during an illness and turn his time in for payment by the State College. This was in 1927. Fuller also alleges that he was paid by the College for time spent in working on Jackson's Corvallis house.

Exhibit III is an affidavit by A. J. Peterson, Corvallis carpenter and cabinet maker to the effect that he was frequently employed for work on Jackson's home and instructed by Jackson to turn in time and collect pay from the College. Peterson also alleged that Jackson borrowed $500 from him as a personal loan and that he was unable to collect principal or interest for fear of losing his job.