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To: Gen. Groves.

Attached is report in final form, ready for your file. Previous draft was approved by you for final.

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25 October 1944.

er Works Employees'

1. Pursuant to your verbal orders, an investigation has been made of the Hanford Engineer Works Employees' Association, Incorporated, during the period 14 to 17 October 1944.

II - Subject of Investigation

2. The purpose of the investigation was to determine the source of income of the Hanford Engineer Works Employees' Association, Inc., hereinafter referred to as the Association, its past activities, contemplated future activities, expenditure of funds, and the need for such an organization, both past and future. The investigation included the examination of documents, copies of contracts, books, ledgers and vouchers of the association, inspection of the large recreation building used by the organization and interrogation of the following persons:

Lt. Colonel F. T. Matthias, Area Engineer
Mr. Hayden Rector, Vice President, HEW Employees Association
Mr. W. O. Simon, Chief of Operations, E.I. duPont de Nemours & Co., Inc.
Mr. Karl J. Payne, Business Manager of the Association

III - Facts & Discussion

3. Purpose, History and Organization. The Association was formed on 22 December 1943 with its major objective being the financing, independent of government funds, of a project newspaper which was needed to bolster employee morale and to convey essential information from the government and the construction management to the employees. A copy of the newspaper is attached hereto. See Exhibit "A". The association was established pursuant to written authorization from the Area Engineer and the duPont Company, the prime contractor.

a. Board of Directors. In order to insure financial regularity in all business transactions of the Association, the membership of the Board of Directors included persons intimately associated with fiscal activities on

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WAR DEPARTMENT

P. O. Box 2610

WASHINGTON, D. C.

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REFER TO FILE No. EIDM WL-26

25 October 1944.

Subject: Report of Investigation, Hanford Engineer Works Employees' Association, Incorporated.

To: Major General L. R. Groves, C. E.

From: Colonel D. E. Antes, C. E.

I - Authority

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the project, among them the project auditor, project accountant and the Army Disbursing Officer. The original members of this board were:

Mr. J. F. Sembower
Mr. T. W. Brown, Project Auditor
Lt. M. K. Barrett, Army Disbursing Officer
Mr. H. F. Magoon
Mr. H. E. Warner
Mr. H. A. Behling
Mr. J. E. Zachary
Lt. Arlene Scheidenhelm

These Board members were appointed by the duPont Company and the government. It was not the intention of the Association at the outset to hire a business manager. It was contemplated that all affairs of the Association were to be conducted by the Board of Directors at their weekly meetings. Bi-weekly meetings were later held, with special meetings called when desired by a majority of the members of the Board.

b. Disbursing Officer and Business Manager. At the 6 January 1944 meeting, Lt. M. K. Barrett was elected Disbursing Officer of the Association. At that time it was reported that the Association had approximately \$4500 on deposit. It was not until the 18 April 1944 meeting that any mention was made of keeping books and ledgers recording all transactions of the association. It had become evident at that time that the transactions of the association had deviated from the original intent. It also became apparent that the volume of business being conducted by the Association had increased sufficiently to require the full time services of a business manager. Mr. Karl J. Payne was hired for this purpose and he entered his duties on 10 May 1944. Up to this time, no ledger books had been set up for the Association, the only record being a statement of cash receipts.

c. Formation of a corporation. As the activities of the association expanded, it was considered advisable to secure the limited liability of a corporation, and the association was duly incorporated under the laws of the State of Washington as a non-profit organization. The charter was dated 20 September 1944 at 2:27 o'clock p.m. A more detailed statement on the origin and operation of the Association is incorporated in the attached booklet, marked "Exhibit B", Section "A".

4. Recreational and Welfare Activities of the Association.

a. Conducted by the contractor. Lt. Colonel Matthias stated that prior to the formation of the Association, no organized steps had been taken to improve the morale of the project employees. Employees working on the project were leaving their jobs simply because there was no welfare or athletic program to provide entertainment in their leisure hours. Prior to the formation of the Association, the prime contractor had provided recreation through means of a recreation building in which such facilities as pool tables, billiard tables, bowling alleys, games of skill, weighing and amusement machines more specifically known as "Weighing Machines", coin-operated Victrola machines, pinball machines, "Race Horse", "Line Up", "Baseball", etc., were available.

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b. Conducted by the Association. The Association sponsored dances for all employees, at which nationally known dance bands were featured; baseball games between leading professional teams of the country, baseball leagues composed of players from various units of the project, junior baseball leagues in Hanford and Richland, football games between leading professional teams of the Northwest, concert and lecture series. It was considered a must that such an association exist during the construction phase of the project.

c. Contemplated Future Activities. Regarding future operations, Lt. Colonel Matthias stated that he considered it advisable for such an association to exist during the operation phase of the project, but that it is inadvisable to continue it on as large a scale as is now practiced. Up to 1 October 1944, the Association had spent \$105,300.00. Mr. W. O. Simon, Chief of Operations for the duPont Company, stated that the problems presented during the construction and operation phases of a project are not similar. During the construction phase, building craftsmen are in predominance. These people are accustomed to short employment, high wages, etc. Operations personnel as a rule are much older, usually married and possibly with a family of two or three children. Their primary interests are a home and its maintenance. The fact that they do not own the house they are living in does not deter them from taking enough pride in it to keep it looking as nice as possible. The procedure recommended by Lt. Colonel Matthias would be contrary to the duPont procedure and not in keeping with standard practice at other duPont plants.

The village of Richland had a population of 9,096 on 6 October 1944. This will be increased to approximately 14,000, it having been estimated that operating requirements will necessitate this figure. It is the duPont policy to lend encouragement to and foster the formation of civic groups within the village and the formation of recreation groups by the inhabitants themselves. It is considered sufficient when the village is furnished a building for group meetings and such sports as bowling and basketball without lending financial assistance in the form of a subsidy. Furthermore, under the terms of the contract, it is doubtful whether funds spent for recreation and welfare are reimbursable. The duPont Company does not favor an organization such as the H.E.W. Employees Association, Inc., as presently operated or in its contemplated reduced form.

5. Funds.

a. Business Manager. Mr. Karl J. Payne, the business manager of the Association, was hired and entered employment on 10 May 1944. Interrogation disclosed the fact that Mr. Payne had no previous government experience. He seemed capable of managing the affairs of the Association provided he had been given some assistance so that the usual government procedure could be followed. When he entered employment, no ledger books other than a cash receipt book were being maintained by the Association. The Association set forth the policy under which the business manager was to operate, which policy is stated in detail in Exhibit "B", Section "B", page 22.

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b. Source of Funds. The Association's sole asset at its inception was a contract between duPont and the facility operator of coin machines and bowling alleys on the project. This contract was assigned to the Association which received as income under its terms one-half of the profits of the facility. This turned out to be considerable. (See Exhibit "B", Sections "F" and "G" for copies of contracts between duPont and the Association, and the Association and Mr. L. C. Foisy, respectively.)

c. Status of Funds. By 1 October 1944, the income of the Association from the above source, plus other incidental income from a few employee activities, totalled \$159,688.49. The 31 August 1944 balance sheet of the Association showed assets of \$84,364.58 against actual liabilities of only \$6,001.53, leaving a capital and surplus of \$78,363.05. Inasmuch as there is no capital stock, the \$78,363.05 represents solely a surplus. The operating expenses for the same month only totalled \$887.45. The most consistent losses to the association have been due to shows and athletic contests which it has sponsored; however, during August the Association sponsored dances at a net loss of \$486.32. The budget of the Association for the period 1 January 1944 to 31 January 1945 shows an estimated monthly loss for the months of October, November, December and January, which is estimated to reduce the present surplus, \$78,363.05 as of 31 August 1944, to a net balance of \$2,436.47. All the fiscal statements of the Association are set forth in detail in Exhibit "B", Section "C" and the Budget statement in Section "H" of the same exhibit. An itemized list of expenditures by major classes for the month of August 1944 is inclosed in Exhibit "B", Section "D". A statement of payments made by the Association to the duPont Company for various services to date is inclosed in Exhibit "B", Section "E".

d. Records. The books of the Association were set up by the Business Manager of the Association and in such manner as to conform with acceptable government procedure, similar to requirements for company funds. The books and ledgers were not set up until 10 May 1944. At that time an effort was made to back trace over all past purchases and expenditures. The books in their present conditions would not be acceptable under government procedures. The main deficiency is lack of complete supporting vouchers; there is no evidence of a complete detailed audit by anyone. The book entries show an unusually large number of erasures. This in itself is contrary to government practices as corrections are normally made by crossing out the incorrect figure and inserting the correct amount. There were numerous small discrepancies noted in the ledgers set up. To go into detail would consume too much space and the discrepancies are such that they could be corrected without much effort.

e. Budget. The budget of the Association shows for the month of December 1944 a revenue of \$300 against an anticipated expense of \$31,957. The anticipated revenue for the month preceding and the month following December shows \$5500 and \$1300 respectively, with anticipated expense of \$15,538 and \$7,647 respectively. Why the large drop in revenue during the month of December and pick up in the month immediately following is not understood.

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The budget figures as presented were evidently not presented to the Association for approval until some time in September or October 1944. This is evidenced by the fact that the revenue for the month of August and September are stated to an exact penny. While it is possible, it is highly improbable that such a close estimate could have been made of both revenue and expenses except that the actual book figures were used. The budget is shown in complete detail in Exhibit "B", Section "H".

6. The L. C. Foisy Contract. The contract between L. C. Foisy and the Association was entered into on the 23rd day of December 1943. The complete contract is attached hereto (see Exhibit "B", Section "G"). The pertinent features of the contract are that the lessor furnishes all the facilities to operate certain coin machines and in return the lessee, for furnishing a few coin operated machines and a few miscellaneous services necessary to keep them in operation, will pay to the association 50% of the gross income for each and all coin operated machines. The lessee, under the terms of the contract, is required to submit to the business manager of the Association a profit and loss statement for each quarter; the quarters to end March 30, June 30, September 30 and December 31 of each year. It is further agreed that a statement or statements will be rendered July 30, 1944, covering all previous quarters and that all future statements will be rendered within 30 days after the end of the said quarter. A request for the Profit and Loss Statement as of 30 July 1944 disclosed that no such statement has as yet been submitted. The total gross receipts that have been paid by the Association to L. C. Foisy under the contract is \$148,892.74, as of 30 September 1944. It is believed that a detailed audit will disclose excessive profits have accrued Mr. L. C. Foisy.

IV - Findings

7. It has been determined that:

- a. The operation of a recreational and welfare program was essential during the construction phase of the H.E.W. for the following reason: to improve the morale of the construction workers and thereby reduce turnover, cutting the time and cost of the job;
- b. The books of the Association have not been properly kept;
- c. Excessive profits have accrued to L. C. Foisy under his contract for the furnishing of certain coin operated games of skill;
- d. It may have been unwise to secure nationally known name bands and athletic games between outstanding professional teams but this practice was deemed desirable by the Area Engineer.

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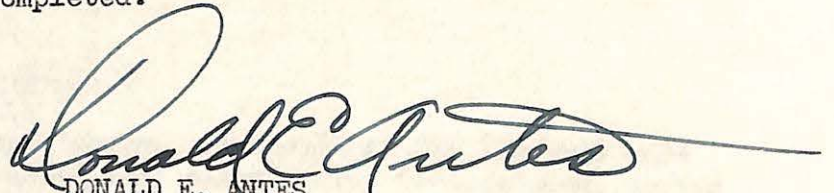
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V - Recommendations

8. It is recommended that:

- a. A detailed audit of funds and fiscal procedure be completed without delay;
- b. Effort be made to recover excessive profits accrued to L. C. Foisy under his contract;
- c. The H. E. W. Employees Association as now organized be terminated when construction is completed.



DONALD E. ANTES,
Colonel, Corps of Engineers.

Attachments:
Exhibits.

(Exhibits filed with Col. Antes.)

*To Col Antes
Funding and
recs app. It is*

*your responsibility to see
that they are carried
out insofar as practicable.
JRG, 5/Dec/44*

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