

PSF Smaller War Plants Corp.

Box 185

1 item

Subject File

Box 185

PSF: Smaller War Plants Corp. folder
2-44

SMALLER WAR PLANTS CORPORATION

WASHINGTON, D. C.



March 20, 1944

IN REPLY REFER TO

PERSONAL AND [REDACTED]

Major General Edwin M. Watson
Secretary to the President
The White House
Washington, D.C.

file

Dear General Watson:

There is returned herewith original letter dated March 4, 1944 from Mr. J. Edgar Hoover, addressed to you, to which is attached memorandum dated March 4, 1944, captioned: Unknown Subjects; Irregularities of Executives of Smaller War Plants Corporation; Fraud Against the Government. These were sent to me with memorandum dated March 13, 1944, for my information, with a notation indicating that they were to be returned.

It appears from the memorandum of March 4, 1944 that the investigation did not reveal any misconduct on the part of officials or employees of Smaller War Plants Corporation, although it indicated that certain persons not connected with the Corporation have been attempting to collect fees for alleged services in obtaining loans and leases from the Corporation.

The standard form of loan agreement required in connection with all loans prohibits the Borrower from paying any compensation to anyone for obtaining the loan. A similar provision is contained in the revised standard form of lease agreement.

Sincerely yours,

Maury Maverick

Maury Maverick
Chairman and General Manager

Attachments

DECLASSIFIED

E. O. 11652, Sec. 8(B) and 5(D) or (E)

SBA letter, 5-31-73

By RHP

Date 4-11-74

T-249

THE WHITE HOUSE
WASHINGTON

March 13, 1944.

MEMORANDUM FOR

HON. MAURY MAVERICK:

FOR YOUR INFORMATION AND
RETURN.

F.D.R.

FBI answer to President's note, 3-2-44, re
alleged irregularities in award, through
Smaller War Plants Corp., of contract to
Fernandina Millwork Co. - Matter brought
up by Gen. Robt. W. Johnson.

JOHN EDGAR HOOVER
DIRECTOR



Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.
March 4, 1944

PERSONAL AND [REDACTED]

Major General Edwin M. Watson
Secretary to the President
The White House
Washington, D. C.

Dear General Watson:

In response to the President's note dated March 2, 1944, in which he requested the evidence available in regard to the Smaller War Plants Corporation, I am pleased to advise that an investigation was instituted upon the authorization of the Attorney General and the completed investigation of the matter is incorporated in the enclosed summary which has been prepared for your convenience.

The Attorney General has been furnished with all of the information obtained, and we are now awaiting his desires.

You may also be interested in knowing that Congressman Wright Patman, who was recently interviewed at the request of Honorable Maury Maverick, stated he had received information Ralph Moore and Jack Levin, an employee at Smaller War Plants Corporation, had been discussing commission payments. This information was furnished to the Attorney General who by memorandum dated February 15, 1944, requested an immediate investigation. This matter is receiving attention at the moment, and the Attorney General will be advised concerning all important developments.

With assurances of my highest regards,

Sincerely yours,

J. Edgar Hoover

Enclosure

BY SPECIAL MESSENGER

RECORDED
E.O. 11652, Sec 5(E)(2)

Justice Dept. letter, 9-21-72
By RHP DATE 4-11-74

March 4, 1944

MEMORANDUM

RE: UNKNOWN SUBJECTS; IRREGULARITIES
OF EXECUTIVES OF SMALLER WAR PLANTS
CORPORATION; FRAUD AGAINST THE GOVERNMENT

Brigadier General Robert W. Johnson, former Chairman of the Board of Directors, Smaller War Plants Corporation, advised there appeared to be irregularities in connection with the awarding of a contract to the Fernandina Millwork Company, Incorporated. He stated this company was not included on the list of approved plants submitted by the Atlanta Regional Office of Smaller War Plants Corporation and was recommended by the unusual procedure of a supplemental facilities memorandum bearing the typewritten signature of O. S. McPherson, Head of the Agency Service Division, Smaller War Plants Corporation. General Johnson further stated this company was not a distressed small business enterprise and therefore did not fall within the category for which the Smaller War Plants Corporation was created by Congress. Mr. L. W. Farris, an investigator for Smaller War Plants Corporation, was interviewed at the request of General Johnson and advised he had been told McPherson had remarked the contract was awarded because of a case of political pressure.

Investigation disclosed the Fernandina Millwork Corporation was newly organized and was not in production at the time bids were offered for the manufacture of wooden barges. Two of its officers had considerable equipment and an investigator for Smaller War Plants Corporation was of the opinion the facilities were adequate. The company was not included on the list of plants recommended by the Atlanta Regional Office, however, and it was not included on the list of available facilities which Smaller War Plants Corporation transmitted to the Transportation Corps, United States Army, on May 27, 1943.

The Fernandina Millwork Company, Incorporated, was recommended by a supplemental facilities memorandum dated June 14, 1943 and transmitted to the Transportation Corps on June 29, 1943. This memorandum bore the typewritten signature "O. S. McPherson." Walter G. Mehen, Liaison man between Smaller War Plants Corporation and the Transportation Corps, said it was actually signed by Gordon Elrod, Assistant to McPherson, and that he, Mehen, personally delivered it to Captain Wheeler of the Transportation Corps. Mehen also heard McPherson say the awarding of the contract was a case of political pressure.

Captain Wheeler advised Gordon Elrod called him on June 16, 1943 and asked him to award the Fernandina Millwork Company, Incorporated, a contract to build 130 knock-down wooden barges. He said on the following day a representative of the company and an unknown individual connected with Smaller War Plants Corporation made a formal bid and the company was awarded a \$507,605 contract on that date. The bid submitted by this company was higher than the bids submitted by two companies recommended by the Atlanta Regional Office. Captain Wheeler

stated the award was made solely upon the recommendation of either Gordon Elrod or John S. Repko, another executive in the Agency Service of Smaller War Plants Corporation. Both of these men deny that they recommended the company.

Gordon Elrod said he probably signed the supplemental recommendation but had absolutely no recollection of the matter. He claims not to know the origin of the directive and said he did not know anybody connected with Fernandina Millwork Company, Incorporated. Elrod stated he heard there was political pressure in connection with the awarding of the contract, but he could furnish no definite information.

Orville S. McPherson stated he could recall absolutely nothing about the Fernandina Millwork Company, Incorporated, contract. He was of the opinion this company had been recommended by either the Atlanta or Jacksonville office of Smaller War Plants Corporation, because he said the supplemental notification would not have been prepared without a recommendation from the field. McPherson denied that there was any particular political pressure with regard to the awarding of this contract, but said many Senators and Congressmen, names unknown, displayed considerable interest in the entire barge program. He said he could not recall ever having made the statement that the awarding of this contract was a case of political pressure.

Both the Atlanta and Jacksonville offices of Smaller War Plants Corporation deny they recommended the Fernandina Millwork Company, Incorporated, and the records at Smaller War Plants Corporation fail to reflect that a recommendation had ever been received from the regional offices.

The entire contract was canceled by the Transportation Corps on September 11, 1943, because of a general curtailment of the barge program.

who said so?
O. S. McPherson was interviewed on several occasions and advised that Jerome Menkus, who is reportedly a lobbyist, requested to be advised if a \$315,000 loan application by the Stanley Engineering Corporation was approved by Smaller War Plants Corporation. Menkus told McPherson if this loan were approved he would receive a \$15,000 commission which he would split with C. S. Peak. At a later date McPherson advised Menkus the loan had not been approved and Menkus said he was not concerned because he had taken the matter up with Mr. Mulcahy, secretary to Senator Mead, who called someone at Smaller War Plants Corporation and announced "It will be easy." McPherson further stated he was told by L. C. Penry that Menkus later took the matter up with Senator Scott Lucas who called Albert Carter of Smaller War Plants Corporation and had the loan revived.

Investigation reflected that the Stanley Engineering Corporation made application for a \$315,000 loan on September 2, 1943. This loan was turned down on October 1, 1943, but was later reconsidered and a \$273,180 loan containing many restrictions was approved on October 15, 1943.

C. S. Peak, who claims to be an investigator for the Senate Small Business Committee, stated Jerome Menkus agreed to split a \$15,000 commission with him if he would assist in obtaining a \$315,000 loan for the Stanley

Engineering Corporation. Peak told Menkus he had a contact at Smaller War Plants Corporation through whom he could have the loan approved, but he insisted he was merely attempting to obtain information for Charlie Murray of the Senate Small Business Committee and actually could not have assisted Menkus to obtain the loan. He denied he had received any payment from Menkus or that he had knowledge Menkus had received a commission.

L. C. Penry, who is now employed at Smaller War Plants Corporation, denied he had information to the effect that Menkus was to receive a \$15,000 commission or that he knew anything concerning the Stanley Engineering Corporation loan. He said some unknown person told him this loan was reconsidered because Senator Scott Lucas interceded with Albert Carter, but he could not be specific.

Charles L. Clark, Chief Examiner, Smaller War Plants Corporation, outlined the negotiations relative to this loan and said it was finally approved with restrictions, after several conferences with representatives of the company and representatives of the Radio Corporation of America, the prime contractor. The principal conditions were that all disbursements would have to be countersigned by the Land Title Bank and Trust Company of Philadelphia, and that the salaries of the officers would have to be reduced. This arrangement was not satisfactory to the company and there was considerable negotiation to have the restrictions released. In that connection a letter was received from Mabel D. Ditter, attorney for the company, and a telephone call was received from Allen Thurman of the Senate Small Business Committee. Thurman wanted to know what was holding up the loan and told Clark a representative of the company would call on him. Thereafter Menkus appeared and tried to persuade both Clark and Albert Carter to remove the restrictions. This was never done and Stanley has not accepted the loan.

T. H. Yehle, Treasurer and General Manager of the Stanley Engineering Corporation, stated he had placed a loan with Smaller War Plants Corporation but that he did not intend to accept it because of the many conditions which were attached. He denied his company had ever paid or promised to pay Menkus a \$15,000 commission if the loan went through but admitted Menkus had done some work for his company. He stated Menkus merely served as an errand boy for the company and was paid \$600 expense money.

J. Jerome Menkus advised the Stanley Engineering Corporation asked him to help them secure a loan at Smaller War Plants Corporation, but he took no action until after it had finally been approved. He said he was anxious to have the restrictions released, and in that regard talked to Clark and Carter. He said he also sought Senatorial intervention, but denied he received or expected to receive a \$15,000 commission. He said he jokingly told C. S. Peak he would give him half of what he made on the deal but denied that he was ever serious. He said that the late Congressman Ditter of Pennsylvania was solely responsible for the reconsideration of the loan and denied that any other Congressman or Senator had taken part in it. Menkus stated he received \$600 from the Stanley Engineering Corporation as expense money and did not ever expect to receive more.

O. S. McPherson advised that William Balmer, a contract broker, told him he had information that J. R. Finkelstein and James E. Watson, former Senator from Indiana, had obtained \$260,000 during the past few months for obtaining loans and equipment for various firms at Smaller War Plants Corporation. Balmer said Finkelstein and Watson received a 5% commission on loans and a 15% commission on machinery. Balmer further told McPherson these men received a 25% commission when Industrial Investments, Incorporated rented \$380,000 worth of machinery from Smaller War Plants Corporation and that they received a \$2500 commission when the General Binding Corporation obtained a \$40,000 loan at Smaller War Plants Corporation. Balmer told McPherson that Finkelstein complained about the size of this commission because he had to split it five ways. Watson \$500 per month

William Balmer was interviewed and stated he did not recall mentioning any specific amounts of money paid to Finkelstein but said Finkelstein told him he and Senator Watson had been very successful in obtaining loans and equipment at Smaller War Plants Corporation. Finkelstein told him he contacted plants and Watson handled the legal end, and they handled the Industrial Investments, Incorporated, application, would handle the General Binding Corporation and had been contacted by Climax Engineering Company. Finkelstein refused to disclose why they had been so successful in obtaining loans, but offered Balmer a commission if Balmer would furnish him with the names of companies which needed Smaller War Plants Corporation assistance. Balmer referred the Hug Motor Company to him, but denied he had received any commission. He was unable to furnish further information.

Charles Edward Emmer, president of the General Binding Company, stated he met Finkelstein through Roy Hubbard of Chicago. Upon learning that the General Binding Company needed machinery, Finkelstein suggested that Emmer make application at Smaller War Plants Corporation and retain James E. Watson as his Washington representative. He said Watson could expedite the filing and approval of the application and suggested a retainer would be required and further payments would be made in proportion to the services rendered. No specific amounts were mentioned and no agreement was signed. An application for the lease of machinery valued at \$53,749.19 was filed at the Chicago office, Smaller War Plants Corporation, on June 17, 1943. This application was approved to the extent of \$49,612.39, on July 22, 1943, and at the suggestion of Finkelstein, Watson was paid \$500. Emmer denied that additional payments were made and his records failed to disclose further payments. Emmer stated Finkelstein appeared to be a legman for Watson and he was of the opinion Watson did not have too much influence because he was unable to get certain machines that he sorely needed. Watson accompanied him to the Washington headquarters of Smaller War Plants Corporation on one or two occasions, and they conferred with Frank Prince, the Chief Loan Agent.

Otto Boheim, President of Industrial Investments, Incorporated, Milwaukee, Wisconsin, advised this company leased \$338,700 worth of machinery from the Smaller War Plants Corporation on March 18, 1943. He said he handled the transaction on the part of his company and denied that Finkelstein or Watson had anything to do with the loan application or that they were paid any commission. Thomas Leslie of this company admitted Finkelstein accompanied him on two visits to Smaller War Plants Corporation, but said this was because he, Leslie, was a stranger in Washington. Boheim admitted he had employed Watson for the past nine months to represent his company's interest in Washington and paid him a monthly

retainer of \$1,000. He maintained these payments did not represent commission payments.

Glenn R. Doyme of the Climax Engineering Company, Clinton, Iowa, said H. E. Rice of the American Wood Carving Company heard he needed equipment and contacted him relative to using the services of James E. Watson. Rice said Watson could save time and cut down considerable red tape, but was not in a position to guarantee results. Watson wanted 10% for his services. Later Doyme met Finkelstein in Chicago and was shown a copy of an agreement between Industrial Investments, Incorporated and Finkelstein and Watson. Thereafter, an agreement was drawn whereby Climax Engineering Company was to pay Watson \$500 per month contingent upon tangible results obtained. This agreement was never signed, and Doyme denied that any payments had ever been made to Finkelstein or Watson.

C. A. Riggs, Hug Company, Highland, Illinois, advised this company forwarded a \$500 check to Watson on August 19, 1943, in return for services before Smaller War Plants Corporation and Defense Supplies Corporation. On the same date they made application for \$112,871 worth of machinery at Smaller War Plants Corporation. Information appearing in the files of this company indicated that if the machinery were obtained, they would retain Watson for a period of one year on the basis of 10% of the total value of the equipment leased to them by the Government, payable in twelve monthly installments. The letters to Senator Watson and Smaller War Plants Corporation and the agreement were prepared from sample forms furnished them by Finkelstein.

C. J. Hug advised he met William Balmer in Chicago and Balmer told him he was in a position to secure contracts through the mass of Washington "red tape." Thereafter Balmer introduced him to Roy Hubbard, who told him he had been successful in obtaining machinery through Senator Watson. At Hubbard's suggestion, the Hug Company wrote Watson with reference to obtaining approximately \$100,000 worth of machinery and enclosed a \$500 check with a statement that it should be returned if the loan was not obtained. The letter also reflected that the Hug Company would compensate Watson on the basis of 10% of the total value of machinery obtained, payable monthly. Watson returned the check because of the conditions imposed and said he would accept it only as a retainer. Thereafter the Hug Company sent him the check as a retainer and has made no further payments. Hug contends that both Finkelstein and Watson are legitimate and that the payment was made on the basis of attorney-client relationship. The Hug Company has not yet been successful in obtaining machinery through Smaller War Plants Corporation.

In the course of the investigation it was indicated Finkelstein and Watson might have had arrangements with the following companies: Oliver Machine Tool Company; A & B Equipment Manufacturing Company; Rockcastle Company; Link-Belt Company; and Manufacturing Industries, Incorporated. These last three companies denied making payments to Finkelstein and Watson, though they admitted they were offered a proposition similar to those outlined heretofore, namely, a retainer and 10% of the total value of the machinery obtained. Oliver Machine Tool Company paid Watson \$1,000 and A & B Equipment Manufacturing Company paid him a retainer of \$700 before they called off the arrangement because they were dissatisfied with the results Watson had obtained.

All of the persons who have been interviewed concerning their relationship with Senator Watson with regard to obtaining loans at the Smaller War Plants Corporation advised they retained him as their legal representative. They all denied there was anything irregular in connection with the payments. From an examination of the correspondence and from interviews with various individuals who are known to have retained Watson the only executive at Smaller War Plants Corporation who was mentioned was Frank Prince, the Chief Loan Agent.

Frank Prince advised he met both Finkelstein and Watson in General Johnson's office when they called with reference to applications made by the Industrial Investments, Incorporated and Oliver Machine Tool Company. Prince stated he had seen both of these men on various occasions since that time, but was unable to recall other companies they represented. He was of the opinion, however, that very few of the companies they represented had been successful in obtaining contracts at Smaller War Plants Corporation. He maintained all of his conversations with them were of a routine nature and denied they had ever offered him inducements or otherwise exerted pressure to influence him to favorably recommend applications.

Investigation disclosed that James E. Watson maintained a bank account in the Liberty National Bank, Washington, D. C. An analysis of this account reflects that he made total deposits of \$30,186.45 between November 1, 1942 and December 28, 1943, and the principal sources of these deposits are summarized as follows:

Automatic Screw Machine Products Company	\$ 5,400.00
Samuel T. Aaron	500.00
Mrs. F. E. Harvey	500.00
Schwarze Electric Company	1,000.00
August E. Miller	8,000.00
B & L Machine Company	1,000.00
A & B Equipment Manufacturing Company	700.00
Oliver Machine Tool Company	1,000.00
Rockcastle Machine and Engraving Company	250.00
Premier Crystal Laboratories, Incorporated	2,500.00
The Hug Company	500.00
J. W. Hewitt Machine Company, Incorporated	500.00
General Binding Corporation	500.00
Total	<u>\$22,350.00</u>

H. E. Rice, Roy Hubbard and J. R. Finkelstein all admit having been associated with Watson, but they deny any irregularities. They state Watson represented various firms who were seeking governmental assistance and Watson paid them for referring clients to him. They insist his sole function was to be their legal representative in Washington.

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hmo

Smaller War Plants Corp. folder
2-44

THE WHITE HOUSE
WASHINGTON

March 2, 1944.

MEMORANDUM FOR

HON. J. EDGAR HOOVER:

Will you be good enough to let me have what evidence you have in regard to the Smaller War Plants Corporation?

F.D.R.

Letter from Brigadier Genl. Robert W. Johnson, New Brunswick, N.J., 2/24/44, to the President, asking that proper officials proceed in connection with investigation of unethical practices on the part of a group said to be operating both inside and outside of the Smaller War Plants Corporation.

March 2, 1944.

Dear Bob:

Thank you for your note. I am asking F.B.I. to let me have what evidence they have run across -- and also that they keep Maury Maverick in touch with the whole situation.

I hope you are a lot better and I hope also to see you soon.

As ever yours,

Brig. Gen. Robert W. Johnson,
New Brunswick,
New Jersey.