

DIARY

Book 252

Indiana Tax Cases

Indiana Tax Cases

	Book	Page
Indiana		
Preliminary report as submitted by Special Agent James M. Sullivan, together with covering memorandum from Irey - 12/4/39		
a) Index.....	252	5
Supplemental reports by Special Agent Sullivan - 12/28/39, 1/7/40, 2/11/40, 2/18/40, 2/25/40.....		43,47,71, 55,77
Attorney General Jackson and Helvering confer - 2/19/40..		52
a) Cooperation of Justice Department extended in connection with preparation of petition for court order to compel testimony by Bowman Elder		
b) United States Attorney's Office, Indianapolis, told to cooperate to fullest extent with Treasury agent - 2/28/40.....		84
Assistant Attorney General Clark informs Treasury it is his opinion that the issuance of a court order constitutes a doubtful legal question; reasons given - 3/2/40.....		104
a) Irey memorandum - 3/5/40.....		90
b) Special Agent Sullivan's report on Elder's testimony - 3/4/40.....		92
c) Elder's actual testimony - 2/14/40.....		106
Graves' memorandum on		
a) Hoosier Wine and Beer Company) State Brewing Company).....		129
b) Universal Beverage Company, Inc.) Frank E. McKinney).....		130
c) Pleas E. Greenlee) Handy Beverage Company) Russell R. Handy) Robert F. Handy) Southeastern Beverage Company).....		131
d) Albert C. Brown		132
McNutt interview: Graves' memorandum on - 4/5/40.....		133,135
Helvering's statement to newspapermen on leaving White House		
a) H&Jr, Helvering, and Graves discuss - 4/9/40.....		137
b) H&Jr: "I am no longer worried we are prosecuting an innocent person"		143
Progress report (Graves) on McNutt, McHale, McKinney, Greenlee, and Elder - 4/9/40.....		150
Special Agent Sullivan's report from Indianapolis on McNutt's bank accounts.....		151
Special Agent Sullivan's report on Hoosier Democratic Club.....		158



TREASURY DEPARTMENT

WASHINGTON

1

OFFICE OF
CHIEF, INTELLIGENCE UNIT
BUREAU OF INTERNAL REVENUE

December 4, 1939.

MEMORANDUM FOR THE SECRETARY.

There is attached a preliminary report submitted by Special Agent James N. Sullivan covering an investigation made since August last, of alleged income tax violations by certain taxpayers in the State of Indiana. Two general groups of income-producing organizations have been under inquiry, one the political group consisting of the Hoosier Democratic Club, commonly known as the Two Per Cent Club, and The Paul V. McNutt for President in 1940 Club, Inc.; the other, the permittees who were authorized in 1933 and subsequent years, under State license, to import beer into the State of Indiana.

These two activities have been productive of large amounts of income to persons in control of the present political party in Indiana, many of whom, prior to their rise politically early in 1933, were men of small income. It is shown in this report that they promptly availed themselves of the opportunity on their ascendancy to power to increase their wealth through the various methods related in the report.

The so-called Two Per Cent Club was formed by the political leaders for the purpose of collecting from the various officers and employees of the State of Indiana contributions at the rate of approximately two per cent of their salaries and fees. The aggregate amounts collected in this manner have been large and over one-fourth of them have been diverted to purposes other than the support of the Democratic State Central Committee in Indiana. The agents have discovered a discrepancy of approximately \$111,000 by comparing the amount shown on the books of the Two Per Cent Club as having been paid to the Democratic State Central Committee with the records of amounts received by the latter. An explanation of this discrepancy has not yet been obtained, but, as an indication of what might be expected, Mr. Sullivan cites to me his interview with Mr. Bowman Elder, until recently treasurer of the Two Per Cent Club, with respect to certain checks drawn in favor of the State Central Committee but not entered as having been received by them. Mr. Elder stated that he did not know what had happened to the money secured as cash on these checks; that the agent would have to ask the Governor (Mr. McNutt), as the checks were drawn and cashed on his direction. A further statement by Mr. Elder was significant. When asked why the Club did not keep minutes of its meetings, he stated that this was not practicable inasmuch as orders for most of the actions taken by the Club were given by Mr. McNutt, who was not an officer of record of the organization. The investigators have learned that the charter creating this Club as a corporation was issued August 1, 1933, at a time when Mr. McNutt was

absent from the city. After his return and eleven days later he directed that the charter be surrendered and that the organization simply be continued as an association. The explanation for this was that the functioning of the organization as a corporation would be in violation of the State Corrupt Practices Act, and, furthermore, that under the law it would be necessary for the corporation to make certain reports which would of necessity be published and might result in embarrassment to the persons interested.

As an example of the manner in which the income of certain politicians in Indiana increased after their rise to power in 1933, there is cited the case of Frank M. McSale, an attorney from Logansport, Indiana, and Democratic National Committeeman since 1933. For 1932 Mr. McSale reported a gross income of \$8,918.90. After that date his income rose steadily each year until in 1937 he reported a gross income of \$116,000. During this latter year he represented about thirty-five clients, such as breweries, public utilities and insurance companies. The receiver for the Indiana Railroad, Mr. Bowman Elder, who was also treasurer of the Two Per Cent Club, paid Mr. McSale \$25,000 for so-called legal services. It has been learned that Mr. McSale was connected with at least ten breweries and wholesale beer distributors, from which he received either dividends or salaries, or both, which corporations could exist only on permits issued by the leaders of the State Government. Since 1932 and up to and including 1938, Mr. McSale reported and paid tax on a net income aggregating over \$400,000, whereas before that period his income was negligible.

Mr. Frank E. McKinney is another individual who prospered as a result of his political connections in this State. He rose from assistant cashier in a bank in Indianapolis in 1933 at an annual salary of \$3,800 to higher political positions, and in 1938 he reported a net taxable income of \$60,296.72 in addition to nontaxable income of about \$37,000 from fees and salary as City and County Treasurer. In addition, he has acquired a controlling stock interest in the Fidelity Trust Company representing an investment exceeding \$90,000 and is its president. Mr. McKinney was associated with Mr. McSale in several wholesale beer distributing ventures. Since 1933 and up to and including the year 1938, Mr. McKinney reported net incomes aggregating about \$214,000 and received nontaxable income from an elective office of about \$96,000.

Mr. Pless E. Greenlee also profited substantially by his political connections. This is the individual who was recommended for appointment as Collector of Internal Revenue at Indianapolis but was rejected because of the facts discovered when his application was investigated. From January 1, 1933, to December 31, 1935, he was patronage secretary to Governor Paul V. McNutt at an annual salary of \$4,600. Thereafter he conducted a campaign for nomination as a candidate for the office of Governor but was defeated in June, 1936. He received an appointment as

Commissioner for the National Bituminous Coal Commission in May, 1937, and held office until the Commission was abolished on July 1, 1938. Mr. Greenlee filed no income tax returns for the period 1932 to 1936, inclusive. His returns for 1937 and 1938 disclosed salary from the United States Government of \$10,000 annually and also salaries and dividends from the Handy Beverage Company, a beer importing permittee, and the Southeastern Beverage Company, a wholesale beer distributor, of about \$20,000 in 1937 and \$8,000 in 1938. He submitted a financial statement to the agents in connection with his candidacy for Collector of Internal Revenue which indicates he has a net worth in excess of \$100,000. It has been learned that Mr. Greenlee was an actual stockholder in the Handy Beverage Company since its organization in March, 1933. This company, according to its records, had an original investment of \$500.00 and the stockholders of record were Mr. Russell R. Handy, State Senator, his wife and a son. Up to the end of 1938, this company on a nominal invested capital of \$500.00 paid a total of \$197,000 in dividends and salaries to the stockholders and officers of record. These figures indicate what a valuable franchise or monopoly the importing and wholesale beer distributing permits were and how they resulted in the rapid increase in net worth of those in a position to obtain them through political influence.

An interesting explanation given by Mr. Greenlee as to the source of \$68,000 in his possession which had not been included in his income tax returns was that it represented the residue of political contributions which had been made to him at the time of his candidacy for Governor. He stated these amounts were given to him in cash by persons whose names he did not remember; that they were placed in a safe deposit box when received and after the close of the campaign were converted to his personal use.

Special Agent Sullivan has informed me of certain information secured by him during the course of the investigation to the effect that beginning in 1933 and ending in 1936, while Mr. McNutt was Governor of the State, poker parties were arranged as frequently as twice a month; that these parties were participated in by Mr. McNutt, together with various officers of the public service in that State; that they resulted in the loss of as much as \$2,000 in an evening by the individuals attending, and that Mr. McNutt was consistently the winner. It is pointed out as a most unusual incident that on one occasion a certain officer of the State won \$1,800 but lost his position within a few days thereafter. According to the records of the Collector, no returns were filed by Mr. McNutt for years prior to 1937, and, because of the official position which he held in 1937 and 1938, he filed income tax returns but was not required to pay any substantial tax.

Mr. McHale resigned as a director of the Two Per Cent Club within the past two weeks, as did also Mr. Bowman Elder, treasurer of the Club, and it was stated in the press that these resignations were submitted so that they might take active part in the management of the campaign of Mr. McNutt for the presidential nomination, and to avoid any embarrassment which might arise because of their connection with the Club.

For consideration with his report, the agent has attached certain exhibits of interest. They consist of an affidavit by an employee of the City Hospital at Indianapolis relative to demands made on him for his contribution; a letter addressed to a City employee threatening him because of failure to pay his assessment; a list of the "dues" received from State and County offices during the period August 1, 1933, to December 31, 1938, totaling \$732,639.93; newspaper clippings and a letter from the Bureau of Internal Revenue ruling that the income of The Paul V. McNutt for President in 1940 Club is taxable.

Throughout this investigation, it has been necessary to confine the work almost entirely to the audit features. It was learned that files were being "lost" or possibly "destroyed by fire," and the agent deemed it advisable to complete the audit as quickly as possible in order that the files might not entirely disappear. He has about reached the point in his investigation where the principal work will consist of interviews with the various present and former State officials and others in the State of Indiana and elsewhere having acquaintance with the facts developed in the investigation.

A more definite report will be submitted at an early date.

A handwritten signature, possibly reading "J. A. T.", is written in dark ink.



INTELLIGENCE UNIT

CHICAGO

DIRECTOR OF DIVISION

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

5

Indianapolis, Indiana,
December 2, 1938.

SI-Special Preliminary Report

In re: Indiana Investigation.

INDEX

	<u>Pages</u>
Introduction	
Chapter I Port of Entry Permittees and related Wholesale Beer Distributors	1-2
Chapter II Results of Income Tax Audits of Permittees	3-14
Chapter III The Hoosier Democratic Club	14-18
Chapter IV Hoosier Sentinel Publishing Co., Inc.	18
Chapter V Investigation of the Indiana Review-1938	19
Chapter VI Investigation of Leaders in Hoosier Democratic Club and Beneficiaries of Port of Entry and Wholesale Beer Permits	20-25
Chapter VII Paul V. McNatt for President in 1940 Club, Incorporated	25-26
Chapter VIII Probable Results	26-27
Chapter IX Summary	27-28



INTELLIGENCE UNIT

CHICAGO

UNIT OF SERVICE

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

6

Indianapolis, Indiana,
December 2, 1939.

SI-Special
Preliminary Report
JWS:DM

Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.

In re: Indiana Investigation.

This report relates to a special investigation of alleged income tax evasions by certain taxpayers engaged in wholesale beer distribution in the State of Indiana, the income and tax liability of both the Hoosier Democratic Club, Paul V. McHatt for President in 1940 Club, Incorporated, and related taxpayers. The investigation was begun in August, 1939, and has been continued since then with the assistance of nine revenue agents, one junior inspector and one special agent.

Chapter I

Part of Entry Permittances and related Wholesale Beer Distributors

It was learned from a reliable source that when the present party in Indiana first gained control it was composed of numerous individuals who had earned small incomes and who had reported little or no income for tax purposes. This happened either prior to, or about the time, the alcoholic content of beer was increased and this state was drafting laws to legalize the sale of this beer. My informant advised that at a meeting of the prominent people in control of the party held at the Indianapolis Athletic Club at which he was present, it was decided that their supervision over the issuance of the permits to sell beer would be used for the purpose of increasing the wealth of those in charge and for gaining absolute control of the state political situation.

The legislature in Indiana in 1933 enacted an alcoholic beverages control act to supervise the importation, manufacture and sale of beer. In general, the particular sections of this act in which we are

7

SI-Special
Preliminary Report

interested provided for the importation of beer into the state and its sale. Licenses were issued to the importers and they were known as port of entry permits. Under the alcoholic beverages control law ten port of entry permittees were entitled to import beer into the state and sell it wherever they chose. The law was not followed in this regard and the ten original port of entry permits were issued to cover specified districts in the ninety-three counties in the state. An inspection of one of the original port of entry permits disclosed that eighteen counties were assigned to this company and this same situation has been proven to be the case where other original permits were examined. Therefore, instead of a port of entry permittee being able to import beer and sell it wherever he could find a customer, he was restricted to a certain number of counties and in this manner, because of the small number of permits issued for this purpose, enjoyed a monopoly or franchise which was very profitable.

Inasmuch as the Indiana breweries could only manufacture a small part of the beer which was necessary to supply the demand, these port of entry permits, because of their monopoly nature, were valuable franchises and earned their holders a substantial income out of all proportion to the invested capital. They also had another valuable angle which was exercised, and that was to force the foreign breweries to pay them certain sums of money, usually in advance, before they would agree to import and handle their beers.

During the period when these port of entry permits were issued, from April, 1933, to about March 31, 1939, the original number (ten) was increased to fourteen and some of the original permittees lost their permits and others were issued to succeed them so that in all a total of eighteen such permits were issued to selected groups. Incidentally none of the permits were issued to an individual but always to two or more individuals.

All of the income tax returns of the eighteen port of entry permittees have been examined, or are at present being checked, as well as the returns of the officials and owners where it was possible to establish this fact covering the years 1933 to 1938, inclusive, or for the period they were permit holders and in business. The audit work, as far as possible, was completed first because it was noted early in the investigation that records were starting to disappear and some had already been destroyed at undetermined dates.

It has only been possible up to the present time to interview a very small percentage of the individuals holding such permits and arrangements have just been completed to have additional stenographic help assigned for this purpose.

Chapter II

Results of Income Tax Audits of Permittees

Hoosier Wine and Beer Company,
State Brewing Company.

The two above-named corporations received original permits numbers 1 and 2 covering the City of Indianapolis, Marion County and approximately three adjacent counties. Beginning in April, 1933, the two corporations by concurrent resolutions of their stockholders have operated from one office and maintained one set of books. All income was divided equally between the two corporations and identical income tax returns were filed. Their assets and liabilities were divided equally in preparing balance sheets. In November, 1935, the State Brewing Company relinquished its Federal and State beer licenses but thereafter and until December, 1938, the Hoosier Wine and Beer Company continued to divide profits with it.

Mr. Frank M. McHale, Democratic National Committeeman, owns 50 percent of the stock of the Hoosier Wine and Beer Company and 50 percent of the stock of the State Brewing Company. Mr. William E. Glaser, Treasurer of Marion County and the City of Indianapolis at time stock was acquired, owned one-fourth of the stock of the Hoosier Wine and Beer Company and was the president of that corporation while Mr. John Burke owned one-fourth of the stock of the State Brewing Company and was its president. Prior to December, 1935, the Hoosier Wine and Beer Company had two additional stockholders and the State Brewing Company also had two additional stockholders, namely, Mr. Frank E. McKinney, now occupying elective offices formerly held by Mr. Glaser, and Mr. Thomas D. Taggart. In April, 1936, the State Brewing Company purchased its stock held by Mr. Frank E. McKinney and Mr. Thomas D. Taggart for \$30 a share. A part of that stock was then issued to the remaining stockholders of the State Brewing Company as a stock dividend charged against surplus at \$3.50 a share. Also, a part of the stock acquired from McKinney and Taggart at a cost of \$30 a share was sold to two of the stockholders of the Hoosier Wine and Beer Company at a cost of \$3.50 a share. After the above transactions were completed, the Hoosier Wine and Beer Company and the State Brewing Company were owned by the same group of stockholders and in approximately the same ratio except for the stock in the State Brewing Company which was owned by Mr. John Burke. Mr. Burke became mentally ill shortly thereafter and in the early part of 1937 his wife was appointed his attorney in fact and managed his business since that time. The State Brewing Company has continued to pay Mr. Burke a salary although he performed no service for the corporation since the end of the year 1936.

SI-Special
Preliminary Report

The Heesler Wine and Beer Company and the State Brewing Company have accumulated a surplus of approximately \$100,000 which is represented principally by investments in the Indianapolis Brewing Company. The investments in that one corporation amount to approximately \$75,000. It is contemplated at the present time that the income reported by the State Brewing Company for the years 1935, 1937 and 1938 will be restored to the Heesler Wine and Beer Company and it is also contemplated that the surplus created by the two corporations will be taxed under Section 108 of the Internal Revenue Act of 1936. It also appears probable that the filing of separate returns by the Heesler Wine and Beer Company and the State Brewing Company either the State Brewing Company relinquished its State and Federal beer licenses will be regarded as a device to evade surtaxes imposed on corporations under the Internal Revenue Act of 1935 and a fifty percent fraud penalty will be assessed. The additional tax exclusive of penalties is estimated at approximately \$25,000.

Standard National Importers, Inc.,
Port Wayne, Indiana.

The Standard National Importers, Incorporated, was one of the original ten importers licensed in the State of Indiana in April, 1935. An examination of its records is now being made by Internal Revenue Agent Diebel. That examination has disclosed deductions on the books of the corporation for traveling expenses and advertising which was paid to its president, Mr. William Kunkel, who is the publisher of a newspaper at Port Wayne. Internal Revenue Agent Diebel has also ascertained that a salary of \$15,000 was paid to the bookkeeper of the corporation, who is also listed as one of its officers. Part of that salary for one year has been traced to the bank account of Mr. William Kunkel. The bookkeeper has been disclosed and his present address has not been obtained, as yet.

Kr. Kunkel also received an income from the trustees of his father's estate which was not reported in his income tax return and no fiduciary returns have been filed by the trustees of the estate. The examination by Internal Revenue Agent Diebel is not complete but the adjustments contemplated by him at the present time will result in an additional tax to the corporation of approximately \$1,500 and an additional tax to Mr. Kunkel of approximately \$800. The assertion of a fraud penalty will depend upon the investigation yet to be made.

SI-Special
Preliminary Report

Central Wine and Beer Company,
Merion, Indiana.

This corporation is one of the original ten permittees. Its records for years prior to 1937 were destroyed by fire and no changes were found for subsequent years during the examination made by Internal Revenue Agent McPherson.

Southern Indiana Beverage Company,
Bloomsville, Indiana.

The above-named corporation, also one of the original permittees, was investigated by Internal Revenue Agent Cahill. His investigation also included the income tax liability of Mr. John E. Jennings, State Administrator, Works Progress Administration, Walter J. Foley, Branch Manager, Bureau of Motor Vehicles, State of Indiana, and a director in the Bowler Democratic Club, and five officials of the City of Bloomsville. It was ascertained that the same individuals who purchased stock in the E. V. B. Corporation at less than book value also purchased stock in the Southern Indiana Beverage Company in 1937 at a price of \$15 a share. Within a week after that stock was purchased the corporation paid a dividend amounting to approximately \$60 a share or four times the original cost to these individuals. The stock in the Southern Indiana Beverage Company was originally owned by Mr. William Kabbie, a personal friend of the United States Attorney, and Mr. Thomas B. Taggart, owner of the French Lick Hotel, French Lick, Indiana. Mr. William Kabbie died in 1937 and it was his stock which was subsequently acquired by the previously mentioned city and state officials. The stock belonging to Messrs. Jennings and Foley and the five city officials is recorded in the name of an Indianapolis attorney named Walter Meyer.

The examination of the records of the Southern Indiana Beverage Company disclosed that some payments of dividends have been shown as salary deductions on the corporation's returns although they are shown as dividends on the books of the corporation and reported as such by the individuals. Also, money has been withdrawn from the corporation which is not shown on the books except by forcing the footings in order that the cash account would agree with the bank records. Some of that money has been turned to bank accounts of Mr. Thomas B. Taggart. The amount of additional tax which will be assessed against the corporation can not be estimated at this point in the investigation as some of the entries have been made in such a manner that in some instances they appear to be duplications. Therefore, the actual amount of understated income can not be determined until a further analysis of individual bank accounts has been made.

SI-Special
Preliminary Report

Mr. Thomas D. Taggart not only failed to report certain income he received from the Southern Indiana Beverage Company, which is disguised on their books by fictitious entries, but he also received income from the sale of stock in the State Brewing Company, at Indianapolis, which he failed to report on an individual return. In one year technical adjustments to the net income reported by Mr. Taggart will result in an increase in his income for that year of over \$50,000. Consequently, it is estimated that taxes and penalties which will be collected from him will amount to approximately \$20,000.

K. V. B. Corporation,
Terre Haute, Indiana.

The above corporation is one of the original ten permittees. Examination of the books and records was made by Internal Revenue Agent Edward L. Biebel. It was ascertained that Mr. John K. Jennings, State Administrator, Works Progress Administration, Mr. Walter J. Foley, Branch Manager, Bureau of Motor Vehicles, State of Indiana, and a director in the Hoosier Democratic Club, Mr. John V. Spencer, Jr., and three officials of the City of Evansville, Indiana, purchased stock in the K. V. B. Corporation at a cost of \$10 a share in the latter part of the year 1937. The stock belonging to Messrs. Jennings, Foley and Spencer and the three City of Evansville officials is recorded in the name of an Indianapolis attorney named Walter Meyers. Shortly thereafter large dividends were declared and paid by the corporation which exceeded the original cost of the stock to the above-mentioned individuals. However, it appears at the present time that no additional income can be attributed to the stockholders for the purchase of the stock at less than book value. Also, the examination of the records of the K. V. B. Corporation fail to disclose any adjustments of a material nature.

Handy Beverage Company,
Shelbyville, Indiana.

The above-named corporation is one of the original permittees and was involved in an investigation to determine the qualifications and fitness of Mr. Flenz E. Greenlee for the position of Collector of Internal Revenue. That investigation, at a preliminary stage, indicated that Mr. Greenlee had received approximately \$66,000 from undisclosed sources which had not been reported as income. An investigation of Mr. Greenlee's income tax liability is being made concurrently with the investigation of the income tax liability of the Handy Beverage Company and Mr. Russell R. Handy by Internal Revenue Agent Caddick.

SI-Special
Preliminary Report

Up to the present time that investigation has failed to disclose any unreported income for the Handy Beverage Company or Mr. Russell E. Handy of a fraudulent nature. The investigation tends to strengthen the belief, however, that the income acquired by Mr. Greenlee from an undisclosed source was actually received from the Handy Beverage Company. Within the past few days a former salesman for the Handy Beverage Company has been located who made the statement that Mr. Greenlee has always been connected with the Handy Beverage Company. However, the records of the corporation indicate that he has been connected with the corporation only since April, 1937, and it is evidence of the nature offered by this salesman that is needed to complete the case. The above-mentioned salesman was interviewed casually in the office of the brewery at Cincinnati, at the time he made the above-mentioned statement. He is expected at Indianapolis some time during the coming week when an attempt will be made to obtain further information from him under oath. No estimate of the additional tax and penalties which may be collected from Mr. Greenlee can be made at this stage of the investigation.

Stedling Beverage Company,
Brookville, Indiana.

The above-named corporation received an importer's license in 1935 which permitted it to import one or two brands of beer in a territory comprised of approximately four counties. The same counties were covered by an importer's license issued to the Handy Beverage Company, at Shelbyville. The stock in the corporation was owned by three individuals residing at Brookville, Indiana, and by the Southeastern Beverage Company, which is a holding corporation, the stock of which is owned by Mr. Russell Handy and subsequent to April, 1937, by Mr. Pleasant E. Greenlee. An examination of the returns of the Stedling Beverage Company is being made by Internal Revenue Agent Cahill and he has ascertained that in 1936 the corporation decided to pay a dividend of \$750 to each of its stockholders. The payments to the three residents of Brookville were charged to officers' salaries on the books of the corporation and the payment to the Southeastern Beverage Company was charged to clerical salaries. In the journal the word "dividend" appears on the line showing the payment to the Southeastern Beverage Company but an attempt was later made to erase the dividend notation.

SI-Special
Preliminary Report

In addition to the above salary payments certain other payments were made to the three individuals residing at Brockville which were also charged to officers salaries and it is the intention of Internal Revenue Agent Cahill to disallow a portion of these payments as excessive. At the present time Internal Revenue Agent Cahill has estimated the additional tax resulting from his adjustments as approximately \$700 and a 50 percent fraud penalty will also be recommended.

Midwest Beverage Corporation,
Lafayette, Indiana.

This corporation, one of the original ten permittees, has been examined by Internal Revenue Agent M. F. Salkley. The examination disclosed principally that slightly in excess of \$30,000 in checks have been issued to Dr. J. William Wright during the period from 1933 to February, 1938. Some of these checks are shown to have been paid to Dr. William Wright on the books of the corporation and were charged to an officers accounts receivable. Later the account was credited and charges made to a salary expense account and the salary was reported by Mrs. Esther Williams, wife of the president of the corporation. Some of the checks are shown on the Journal to have been paid to Mrs. Esther Williams and reported as salary by her but an examination of the checks show that they were endorsed by Dr. Wright. Also, a dividend check for \$2,200 issued to Mrs. Williams in February of 1938 was endorsed by Dr. Wright and cashed or deposited by him at Indianapolis. On August 16, 1937, the Midwest Beverage Corporation issued a check for \$500 to the Hoosier Democratic Club as a subscription to the publication of the Indiana Review. The check was charged to advertising. A second check also for \$500 was issued in April, 1938, and it applies to a year for which no return has been filed as yet. The estimated additional taxes which will be assessed against the corporation amounts to \$4,525 plus a fraud penalty of 50 percent. It is contemplated that additional taxes will also be collected from Mr. Marshall Williams, one of the stockholders and officers of the corporation, amounting to \$191 and additional taxes from Dr. J. William Wright amounting to \$1,611 plus a 50 percent fraud penalty.

Northern Distributing Company,
South Bend, Indiana, and

Calumet Breweries, Incorporated,
East Chicago, Indiana.

The two above-named corporations are permittees listed among the original ten. The Northern Distributing Company has been

Re-Special
Prohibitionary Report

examined by Internal Revenue Agent McGarvey and the Calumet Breweries, Incorporated, has been examined by Internal Revenue Agent Henry. Both corporations are owned principally by Mr. William J. Collins, at East Chicago, Indiana. The investigations made by the internal revenue agents, who have worked together in order that their information might be coordinated, has failed to disclose any income of a material nature which was not reported by the corporation.

The investigation of the Northern Distributing Company disclosed that a part of its stock was at one time owned by Mr. Clarence Newton, State Director of the National Beerweny Baller Council, now known as the Office of Government Reports, and a part of the stock was also owned by a Dr. Shoemaker, at Indianapolis. These individuals had the stock placed in the name of an attorney at South Bend and subsequent to its sale the income realized on the disposition of the stock was not reported by either of them. The unreported income realized by each amounted to approximately \$2,000.

Brown Distributing Company,
Elmwood, Indiana.

Cary Beverage Company,
Alliance Beverage Company,
Cary, Indiana.

Richman Beverages, Incorporated,
South Bend, Indiana.

The above-named corporations have operated under Importers' Licenses which were subsidiary to the Importers' License issued to Calumet Breweries, Incorporated, and the Northern Distributing Company. The latter two companies have been entitled previously hereto and were owned principally by Mr. William J. Collins, who also has an interest in the Cary Beverage Company. The investigation has been extended to include all of the Importers in the districts controlled by Mr. Collins in order to obtain all information possible concerning his financial transactions. It now appears that technical adjustments will be made in the license of one or two of the corporations, and that additional income will be recommended against Mr. Collins, based upon the disallowance of traveling expenses and advertising expenses which have not been substantiated. The additional tax resulting from these adjustments will be less than \$1,000 and no grand penalty is contemplated.

Re-Special
Preliminary Report

A & A Beverage Company,
Indianapolis, Indiana.

The above-named corporation has operated under a wholesale permit since April, 1933, and also under an importer's permit since November, 1935. The examination thus far indicates that the salary paid to some of the officers of the corporation was excessive and some information has been obtained which indicates that the officer to whom that salary was paid passed the proceeds thereof to another of the officers. However, the information obtained up to the present time is not sufficient to form any conclusion as to the adjustments which will be made.

A & A Beverage Company,
Indianapolis, Indiana.

The above-named corporation was organized as a wholesale permittee in April, 1933. It obtained a permit to operate as an importer in November, 1935, but that permit was not renewed at the expiration of one year. Internal Revenue Agent Blum, who examined the returns of the A & A Beverage Company ascertained that the stock in the corporation is owned by a brewery located at Cincinnati, Ohio. The laws of the State of Indiana require that all stock in a wholesale beverage company or importing company shall be owned by residents of the State of Indiana and in order to overcome this requirement the officers of the Cincinnati brewery had the stock loaned to employees of the A & A Beverage Company.

A comparison of the income tax returns filed by the A & A Beverage Company for the years 1933 to 1938, inclusive, disclosed that the corporation has not reported a profit for any year of its operations and after learning that the stock was owned by an out of state brewery, interviews were had with Mr. William Bruckman, the president of the Cincinnati brewery which owned the A & A Beverage Company and with other officers connected with the A & A Beverage Company or the Cincinnati brewery but up to the present time no information has been obtained which indicates that the A & A Beverage Company operated at a profit for any year. It, therefore, appears that no additional tax will be recommended as a result of the examination of this corporation.

Bill Brothers Beverages,
Indianapolis, Indiana,
a partnership.

Internal Revenue Agent Blum is engaged in an examination of the books of the above-named partnership at the present time. The

SI-Special
Preliminary Report

partnership held a wholesaler's permit since 1933 and a port of entry permit since November 15, 1937. The internal revenue agent has ascertained that a payment was made to the Hoosier Democratic Club in 1937 in the amount of \$300 as a subscription to the Indiana Beerier which was charged to advertising. The internal revenue agent contemplates disallowing that deduction. The wholesale beer business was conducted as a corporation until December 31, 1936, when the nature of the organization was changed to that of a partnership. The corporation had a surplus of approximately \$5,000 at the date of dissolution which was not reported as a liquidating dividend. It is also planned by the internal revenue agent to tax the individuals as the recipients of the liquidating dividend from the corporation. The investigation has not progressed to a point where it can be determined whether or not any other adjustments will be made and no estimate of additional taxes which will be recovered has been made.

Whitewater Beverage Company.
Connersville, Indiana.

The Whitewater Beverage Company obtained a license for operating as an importer in November, 1937. Its books have been examined for the period from November 15, 1937, to December 31, 1938, by Internal Revenue Agent Blum who has taken the position that the salaries paid to the officers of the corporation represented dividends since the salaries were based on stock holdings. He also found one check for \$700 charged to advertising expense which was paid to one of the officers of the corporation. That officer submitted a letter in which he stated that the \$700 was paid to him as a reimbursement for "over the head" advertising paid by him and also to establish a future fund for advertising of that nature. The internal revenue agent expects to disallow that deduction for lack of substantiation and he is of the opinion that an agreement can be obtained from the corporation for the additional tax resulting from the adjustments discussed herein. The additional tax will amount to approximately \$2,000. No fraud penalty is contemplated at the present time.

Valvernal Beverage Company.
Indianapolis, Indiana.

The above-named corporation was organized April 11, 1933, by Frank E. Kellmeyer for the purpose of wholesaling and distributing beer. This company was not one of the original permittees, its port of entry permit being obtained in 1937 for the purpose of importing beer for its wholesale distribution. The company was capitalized at \$10,000. Mr. Frank E. Kellmeyer subscribed to 660 shares of the capital stock

SI-Special
Preliminary Report

and 330 shares were subscribed by Owen J. Bush. The remaining ten qualifying shares were held by a nominee. The ownership of this corporation remained the same until July 19, 1937, at which time Mr. McKinney transferred ownership of the 660 shares owned by him to Owen J. Bush for a consideration of \$11,197. This transfer is in accordance with the records of Frank E. McKinney. The corporation has been at all times under the direct management of Frank E. McKinney who has passed on all business matters of importance. While the records of the company disclose substantial salary allowances paid to Owen J. Bush, investigation discloses that practically all of Mr. Bush's time is occupied as a professional base ball manager and he is only located in the City of Indianapolis about three months out of the year. Since 1934 the company has concentrated its efforts toward the promotion and distribution of F. W. Cook Company beer. The distributorship for this beer was obtained in April, 1935, through the efforts of Frank E. McKinney. It is also noted that at the time this distributorship was obtained the records of the F. W. Cook Company disclosed commission payments to Frank E. McKinney at the rate of 13¢ per case and 50¢ per half barrel on all beer sold to the Universal Beverage Company. These commission payments were computed on all beer shipped on and after April 26, 1935. On the same date that the commission payments started the F. W. Cook Company increased the selling price of its beer to the Universal Beverage Company by the amount of 13¢ per case and 50¢ per half barrel. This increase in beer price was not general as among F. W. Cook Company distributors in the State of Indiana and apparently was made to offset the commission expense to Frank E. McKinney. The increase in beer price also met with no complaint or disapproval from the Universal Beverage Company or its stockholders. The commissions paid to Frank E. McKinney were as follows:

1935	\$28,012.70
1936	42,868.74
1937	47,049.90
1938	46,517.36

The above commissions were reported on the individual income tax return of Frank E. McKinney against which certain deductions were claimed for promotional expenses.

The laws of the State of Indiana and the regulations of the alcoholic beverage commission prohibited certain forms of advertising by beer importers and beer wholesalers. During the years 1935 to 1938, inclusive, Mr. McKinney and also the Universal Beverage Company

SI-Special
Preliminary Report

said payments for promotional expenses which, according to Mr. McKinney, were not permissible by the State of Indiana. In an interview at this office Mr. McKinney also stated that, in his opinion, some of these expenses were not allowable deductions for income tax purposes. However, those deductions have been claimed either on income tax returns filed by Mr. McKinney or the Universal Beverage Company. At the present time it appears that the promotion expenses identified by Mr. McKinney as prohibited by state law will total in excess of \$35,000 for the four-year period.

Consideration is also being given to the possibility of increasing the income of the Universal Beverage Company by the amount of commissions received by Mr. Frank E. McKinney from the F. W. Cook Company since the price of beer was increased to the Universal Beverage Company by the F. W. Cook Company in an amount exactly equal to the commissions paid to Mr. McKinney. Although Mr. McKinney transferred his stock in the Universal Beverage Company to Mr. Owen J. Bush in 1937, he held a general power of attorney to act as an agent for Mr. Bush in all of the latter's financial transactions. There is, therefore, the possibility that Mr. McKinney is the owner of all of the stock of the Universal Beverage Company rather than Mr. Bush. This belief is based upon information obtained during the investigation which indicates that none of the money paid to Mr. Bush as a salary from the Universal Beverage Company was deposited in his personal bank account. Part of Mr. Bush's salary was traced to Mr. McKinney and he has offered the explanation that he borrowed the money from Mr. Bush. It was also noted that a so-called loan from Mr. Bush to Mr. McKinney which the latter alleged he used to purchase stock in a newspaper actually came from the Hoosier Democratic Club and the organization lists the stock among its assets. He also states that he transferred the stock of the Universal Beverage Company to Mr. Bush in payment of the money he borrowed from Mr. Bush. It was ascertained that he realized a profit of approximately \$3,500 on the transfer of the stock, if the transfer was made in settlement of loans from Mr. Bush. However, Mr. McKinney failed to report any sale of his stock in the Universal Beverage Company in his income tax return for 1937.

No accurate estimate can be made at this date of the additional tax which may be proposed against the Universal Beverage Company or Mr. McKinney until a determination has been made as to who is the actual owner of the stock of the corporation and until a determination has also been made as to the amount of promotion expenses which may be considered as allowable deductions by either the corporation or Mr. McKinney.

SI-Special
Preliminary Report

If the commissions received by Mr. McKinney are determined to be income to the Universal Beverage Company, the additional tax, exclusive of penalties, will approximate \$41,000.

Chapter III

The Hoosier Democratic Club

Shortly after beer legislation was passed the Hoosier Democratic Club was incorporated on August 1, 1933, during an absence from the state of the governor, at that time Mr. Paul V. McNutt. Upon the return of Mr. McNutt he ordered the charter to be surrendered because it was realized that as a corporation the organization would have to submit reports to the state which would become public records and there was a question about its activities as a corporation being in violation of the State Corrupt Practices Act. This information was given to Revenue Agent Tolmach and myself by Mr. Bowman Elder, one of the incorporators and its treasurer and leading spirit from its inception until November 17, 1939, when he and another leader and director in the organization, Mr. Frank W. McHale, resigned. According to the newspaper comment they are to manage the campaign of Paul V. McNutt for president "and will have no official connection with the party's much criticized money raising organization in Hoosierdom." (Exhibit A).

At the last session of the State Legislature the State Corrupt Practices Act was amended for the purpose of permitting the Hoosier Democratic Club to continue but, according to what is believed to be reliable information, its practices are still in violation of the above-mentioned act. This belief is based on statements appearing in the newspapers quoting United States Senator Frederick Van Nuys, from verbal statements made by the same person and from other information obtained during this investigation.

The Hoosier Democratic Club received the bulk of its income from assessments on the salaries of the employees of the State of Indiana. Although the popular belief is that the state employees pay into the organization two percent of their salaries, this is not the exact case. The rates paid monthly and based on the monthly salary follows:

Class AA members	\$.50 per month	Salaries up to and including \$49.99
Class A members	1.00 per month	Salaries \$50 to \$99.99, inclusive
Class B members	2.00 per month	Salaries \$100 to \$149.99, inclusive
Class C members	3.00 per month	Salaries \$150 to \$199.99, inclusive
Class D members	5.00 per month	Salaries \$200 to \$299.99, inclusive
Class E members	8.00 per month	Salaries \$300 to \$499.99, inclusive
Class F members	12.00 per month	Salaries \$500 and up.

SI-Special
Preliminary Report

The above schedule only applies where employees are on a straight monthly or yearly salary.

A number of the state employees in Indiana are paid on a fee basis and different arrangements were made with reference to them. For instance a number of automobile license branches were set up around various parts of the state and branch managers were appointed and their salaries were based on the amount of fees they collected. For issuing plates for an automobile they received a fee of twenty-five cents of which one cent was paid over to the Hoosier Democratic Club. In this case the assessment amounted to four percent.

In order to insure the collection of the assessments a collecting organization has been set up by the Hoosier Democratic Club and one of its salaried employees occupies desk space in the State House.

While it has been alleged that membership in the Hoosier Democratic Club is voluntary on the part of the state employees, and in some instances county employees, the direct statement was made in our office by Mr. Pleas E. Greenlee, one of the original incorporators and also one of its leaders until recent times, that membership was compulsory as was the payment of dues based on a percentage of the monthly salary.

Direct evidence of the compulsory payments to the Hoosier Democratic Club have been obtained during this investigation and an affidavit dated October 2, 1938, from Mr. Matthew Straw, Exhibit B, and a letter dated August 18, 1939, from Mr. George E. Barahardt, Clay County Chairman, addressed to Mr. Ralph O. Jarvis, Exhibit C, proves this point.

Under the election laws of Indiana precinct committeemen and delegates to state conventions are elected by the voters. The chairman of each group in turn designates the candidates who are to be nominated and run for office and by means of this safeguard is more or less responsible to the voters and he can be removed from office for suitable cause or a successor elected to replace him.

Under normal circumstances political contributions are made to the chairman of the different political groups or to the candidates or their respective agents, all these parties being provided for under the state election laws and their functions and activities controlled by appropriate laws and regulations under which reports are required.

SI-Special
Preliminary Report

In the case of the Hoosier Democratic Club an entirely different situation prevailed. It was controlled by about four or five individuals who were not responsible to the people or voters; they submitted no reports of contributions received; those who contributed had no vote or voice as to how their contributions would be disbursed; the contributions or really assessments were not voluntary, as alleged, but compulsory; failure to pay resulted in the member's dismissal from employment; the members had no control in the nomination or election of officers and they had no supervision over its activities.

While it may have been the original intent to confine the activities of the Hoosier Democratic Club to definite political activities, and about all their by-laws state on this subject is as follows: "Its object shall be to advance the principles of government advocated by Thomas Jefferson, and encourage cordial relations among followers of the Jeffersonian theory of Democracy", as time went on the leaders engaged in one activity after another. They financed a newspaper distributed periodically to the members and others, in which advertising was sold; they purchased stock in various newspapers, ostensibly to control their political activities; they published a book known as the "Indiana Review-1938" under unusual and irregular circumstances which resulted in a substantial income being received; they advanced substantial sums of money, aggregating at times at least \$20,000 to one of the leaders, extending over a period of one year for unexplained purposes and on which no interest was charged, and at least part of its income inured to the benefit of a selected few.

As far as can be determined from the present investigation, the principal reasons for the existence of the Hoosier Democratic Club are to perpetuate certain individuals in public office regardless of the sentiment of the voters and to enrich others. One of the exceptions to this rule was when this organization disbursed substantial sums during a recent primary to defeat the election of one of its charter members, and, incidentally, he is the person who claims credit for originating the idea of taxing the salary of state employees to raise funds for political and other purposes.

As a result of the assessments collected and the other income received by the Hoosier Democratic Club it has accumulated a huge fund which has been disbursed for known political purposes, for known nonpolitical purposes, and for unknown and unexplained purposes from time to time. In most instances checks have been issued by this organization to the proper party authorized by law to receive political contributions and the funds were deposited in the proper bank accounts. However, substantial amounts represented by checks and cash disbursements paid to the authorized party failed to reach the proper bank accounts and apparently have disappeared.

SL-Special
Preliminary Report

From the facts so far developed during this investigation it is believed that the income received by the Hoosier Democratic Club is taxable in its entirety.

A complete audit has been made of the records of the above-mentioned organization from the date of its incorporation, and during the period it operated as an association to December 31, 1938.

Their income is principally derived from alleged voluntary contributions from all State of Indiana employees and the amounts received from the various departments, bureaus, and special activities are shown for each year on a statement attached hereto, Exhibit D. The following summary shows the total amount of dues received by the Club annually as well as other miscellaneous income:

<u>Years</u>	<u>Dues</u>	<u>Miscellaneous</u>	<u>Total</u>	<u>Expenses Allowed</u>	<u>Net Income</u>
1933	\$ 33,127.01	\$.07	\$ 33,127.08	\$ 5,712.94	\$ 27,414.14
1934	112,454.67	2.03	112,456.70	23,973.79	88,482.91
1935	127,215.29	24.05	127,239.34	34,900.26	92,339.08
1936	134,500.44	2,525.55	137,025.99	47,311.57	89,714.42
1937	158,147.24	.74	158,147.98	45,576.07	112,571.91
1938	<u>167,194.75</u>	<u>11,524.95</u>	<u>178,719.70</u>	<u>51,373.09</u>	<u>127,346.61</u>
	\$732,639.40	\$ 14,077.39	\$746,716.79	\$208,847.72	\$537,869.07

The expenses noted as being allowed are only tentative and may be reduced for income tax purposes if not supported by proper evidence. It might also be pointed out that the expenses for the six years aggregate more than \$200,000 whereas the gross income totals about \$750,000 indicating that such deductions amounted to more than twenty-five percent of the income. This condition could not exist if the Hoosier Democratic Club was operated along the lines of a political club and benefits did not inure to its leaders.

There is a huge discrepancy between the records of payments as disclosed by the books and cancelled checks of the Hoosier Democratic Club and the records of receipts of the Democratic State Central Committee as disclosed from the following yearly summary:

<u>Years</u>	<u>Hoosier Democratic Club</u>	<u>Democratic State Central Committee</u>	<u>Discrepancy</u>
1933	\$ 12,837.40	No Record	—
1934	84,394.31	\$ 68,275.00	\$ 16,244.31
1935	35,850.00	19,950.00	15,900.00
1936	123,600.00	87,500.00	36,100.00
1937	33,500.00	20,000.00	13,500.00
1938	<u>176,000.00</u>	<u>136,000.00</u>	<u>40,000.00</u>
	\$466,181.71	\$341,725.00	\$111,744.31

SI-Special
Preliminary Report

The discrepancy of \$111,744.31 is brought about by the checks issued by the Hoosier Democratic Club being cashed and not deposited in the bank account of the Democratic State Central Committee nor shown on their records of receipts.

Up to the present time it has not been deemed advisable to question those involved with reference to the above-mentioned discrepancy.

Inasmuch as this organization controlled a company which published a paper known as the Hoosier Sentinel, its records were also audited as well as the records pertaining to the publication of a book known as the "Indiana Review-1938".

Chapter IV

Hoosier Sentinel Publishing Co., Inc.

The above-named company was incorporated on April 23, 1934, and its principal purposes, according to the charter, was printing and publishing newspapers, books and other matter. At that time Mr. Keith L. Johns was the president and sole stockholder.

On April 1, 1935, Mr. Johns sold and transferred all of his stock to Mr. Bowman Elder, who became president on the same day. Since that time the company derived its income from the following sources: subscriptions from members of the Hoosier Democratic Club, subscriptions from nonclub members and advertising revenues.

The subscriptions from members of the club are actually paid by the Hoosier Democratic Club.

Since the stock of the Hoosier Sentinel Publishing Company was purchased by Mr. Elder, it has operated at a loss for all years with the exception of 1936, and the losses have been underwritten by the Hoosier Democratic Club.

Inasmuch as the present examination has disclosed that the Hoosier Sentinel Publishing Company has filed substantially correct Federal income tax returns there appears to be no necessity to discuss its income in detail.

It is interesting to note, however, that while the stock of the company was purchased by Mr. Elder, Treasurer of the Hoosier Democratic Club from August, 1933, to November, 1939, its losses were underwritten by the Club and not by Mr. Elder. Also, its publications were issued free of charge to the members of the Hoosier Democratic Club.

SI-Special
Preliminary Report

Chapter V

Investigation of the Indiana Review - 1938

Some time in 1937 or at an earlier date, Mr. Holland E. Friedman conceived the idea of publishing a book depicting the official pictorial and historical review of the State of Indiana from the viewpoint of the present political party in power. Inasmuch as he did not have the funds to finance the publication he entered into an agreement with the Hoosier Democratic Club in the early part of July, 1937, so that this venture might be termed a joint venture or partnership for income tax purposes.

The original plan was to solicit advertising subscriptions from various business organizations at a stipulated rate per page or fraction thereof. It was estimated that the aggregate revenues from this source would approximate about \$250,000. In addition thereto it was also planned to publish about 50,000 copies of the Indiana Review and sell them to the public at large at \$5.00 per copy. Accordingly, solicitors were engaged to sell the subscriptions to business firms for which the solicitors received a given percentage of the contract prices. The subscriptions were evidenced by a written contract as between the Hoosier Democratic Club and the advertiser. The agreement was to pay for this advertisement fifty percent upon the signing of the contract and the balance when billed with no provision for cancellations. After the solicitors were active for a period of about two months they were stopped on instructions from the governor of Indiana because of the complaints made about their methods of soliciting.

The plan of publishing 50,000 copies to be sold to the public at large at \$5.00 per copy was entirely abandoned. The present examination has disclosed that the profit resulting from this venture was \$23,049.91, according to the records available up to the present time and this was divided equally between the Hoosier Democratic Club and Mr. Friedman. It is interesting to note that after the advertising space was sold by contract the book was published without a word of advertising. While the income received as a result of this venture is not of great importance it has a direct bearing on the activities of the Hoosier Democratic Club in determining whether or not its income will be taxable.

SI-Special
Preliminary Report

Chapter VI

Investigation of Leaders in Hoosier Democratic Club and
Beneficiaries of Port of Entry and Wholesale Beer Permits

Some of the individuals referred to in this chapter have been mentioned previously in discussing the investigation of the Hoosier Democratic Club or in discussing the investigation of the corporations licensed as importers or wholesalers of beer. The principal purpose of this chapter is to show the sources and amount of income received by these individuals.

Mr. Frank M. McHale is the Democratic National Committeeman for the State of Indiana. He acquired that position in 1933 and prior thereto practiced law at Logansport, Indiana. When the Hoosier Wine and Beer Company and the State Brewing Company received permits to import beer in March, 1933, Mr. McHale subscribed to fifty percent of the stock in each of those corporations. Although the stock was never issued in his name he has reported the dividends received on that stock for each year. Mr. McHale was also a director of the Hoosier Democratic Club from its beginning to November 18, 1939, as previously stated. In addition he is also a substantial stockholder in the Fidelity Trust Company which is controlled by Mr. Frank E. McKinney, also associated with him in a number of ventures involving the sale of beer.

The following figures shown on the tax returns of Mr. Frank M. McHale will give some idea as to the increase in income resulting from his political activities:

<u>Year</u>	<u>Gross</u> <u>Income</u>	<u>Net</u> <u>Income</u>	<u>Tax</u> <u>Paid</u>
1932	\$ 6,918.80	\$ 4,180.80	\$ 67.23
1933	37,497.84	29,815.97	3,060.79
1934	57,114.27	44,577.85	6,833.58
1935	71,100.03	68,632.80	15,356.49
1936	112,806.56	86,718.16	24,863.99
1937	116,666.56	93,574.03	28,677.68
1938	105,321.80	77,975.99	20,036.38
Totals	\$507,424.86	\$405,475.60	\$ 98,886.14

In 1932, the income reported was from a general law practice in Logansport, Indiana, and the tax return indicates no dividends or interest received or any dealings in securities.

SI-Special
Preliminary Report

In 1937, the income reported under profession or business was \$105,129.43, made up of the following items:

State Auto Insurance Association	\$ 1,200.00
Hoesier Wine & Beer Co., Inc.	6,000.00
State Brewing Co.	6,000.00
Indianapolis Life Insurance Co.	1,583.31
Indiana Associated Telephone Corp.	1,000.00
Indiana Brewers Association	6,000.00
Bowman Elder, Receiver, Indiana Railroad	25,000.00
Chicago Dist. Elec. Generating Corp.	10,000.00
City of Crown Point, J. J. Patrick	300.00
Binkley Coal Co.	541.67
F. W. Cook Co. (Brewery)	4,166.70
Fortville Telephone Co.	100.00
Citizens Independent Telephone Co.	15,000.00
Interstate Telephone Corp.	100.00
United Telephone Co., Inc.	800.00
Mullen Estate	100.00
McHale, Arthur & Myers - Logansport	50.00
Walter Pels Transfer Co.	600.00
Circle City Sales Corp. (Wholesale Beer Dealer)	3,600.00
Red Car, Inc.	3,500.00
Schwabacher	100.00
Department of Water Works, Michigan City	75.00
Kibler Trucking Co.	300.00
The Blanton Co.	500.00
Cosden Petroleum Corp.	2,940.00
Pennsylvania Railroad Co.	2,500.00
Van Camp Hardware & Iron Co.	100.00
Hunker Bottling Co.	900.00
S. B. Fleming	500.00
Northern Indiana Public Service Co.	5,000.00
Kiley Brewing Co., Inc.	500.00
E. S. Whitney & P. F. Smith, Special	500.00
Fidelity Trust Co., Trustees	1,000.00
General Motors Corp.	1,625.00
American Water Works & Elec. Co., Inc.	1,000.00
Peoples Gas Subsidiary Corp.	1,200.00
Miscellaneous Attorney fees	747.75
	\$105,129.43

In addition to the above items, Form 1100, Return of Information by Brokers and Other Agents filed by Harris, Upham and Company, shows total purchases of \$117,331.75 and total sales of \$64,517.21 on a

SI-Special
Preliminary Report

27

trading account and a net loss of \$5,155.66 on a covenally account. The 1937 tax return of this individual also shows \$11,827.14 in dividends received from domestic corporations.

Some idea may be gained of the activities of this taxpayer in the beer business by the number of such organizations he represented, owned stock in, and from which he received salaries. He has reported income from, or held stock in, the following beverage companies located in the State of Indiana:

Indianapolis Brewing Company	State Brewing Company
Hoosier Wine & Beer Co., Inc.	Kilby Brewing Co., Inc.
Circle City Sales Corp.	Indiana Brewers Association
Peerless Corp.	P. W. Cook Brewing Co.
General Distributors, Inc.	Dunn Beverage Co., Inc.

Up to the present time not much progress has been made in the examination of Mr. McKale's tax liability because of his frequent absences from Indianapolis in connection with his campaign activities and it cannot be estimated when same may be completed.

Mr. Frank E. McKinney was an assistant cashier at an annual salary of \$3,200 in the Peoples State Bank at Indianapolis in 1933. He subscribed to 200 shares of stock in the Hoosier Wine and Beer Company when that corporation was organized in March, 1933, and he also acquired 660 shares of stock and the controlling interest in the Universal Beverage Company at the same time. During the year 1934, Mr. McKinney was elected Treasurer of the City of Indianapolis and Marion County, a position held at that time by Mr. William E. Clamer, who was elected president of the Hoosier Wine and Beer Company. Shortly after the election but before Mr. McKinney took office, he borrowed a large sum of money and purchased control of the Fidelity Trust Company, at Indianapolis. He was reelected to the position of City and County Treasurer in 1936 and his present term of office expires December 31, 1939.

Mr. McKinney is a stockholder in the Indianapolis Brewing Company and the Kilby Brewing Company. Acting with Mr. McKale and Mr. Clamer he purchased an interest in the Dunn Beverage Company, a wholesale beer distributor, at Indianapolis, which the three of them sold shortly after it was acquired. Also, Mr. McKinney, through the Universal Beverage Company, purchased all of the outstanding stock of the General Distributor, Incorporated, distributors of Patrick Henry beer, at Indianapolis, from Mr. McKale, Mr. Clamer and Mr. John E. Burke, president of the State Brewing Company. Mr. Clamer was also a director and drawing a salary from the Universal Beverage Company.

SI-Special
Preliminary Report

Mr. McIlwain, in 1938 was the controlling stockholder in the Fidelity Trust Company, his stock ownership amounting to some \$90,000, and its president at an annual salary of \$6,000. He received consultations from the F. W. Cook Company (brewery) of \$6,808.67. In addition he was the City and County Treasurer of Marion County and received in salaries and fees \$36,943.60.

The following figures developed during the present investigation will give some idea as to the increase in income of Mr. Frank E. McIlwain, resulting from his political activities:

<u>Year</u>	<u>Net Taxable Income</u>	<u>Net Taxable Income</u>
1934	\$ 8,020.00	
1935	39,676.36	
1936	52,648.74	\$22,300.04
1937	52,841.40	36,664.15
1938	60,296.72	36,943.60
	\$213,683.22	\$95,907.79

Mr. Floss E. Greenlee was secretary to Governor Paul V. McNutt from January 1, 1933, to December 31, 1935, at an annual salary of \$4,800, and during that period he was also secretary of the Hoosier Democratic Club. Thereafter he conducted an unsuccessful campaign for nomination as a candidate for the office of governor and was defeated in June, 1936. He received an appointment as Commissioner for the National Bituminous Coal Commission in May, 1937, and held that office until the Commission was abolished on July 1, 1939. More recently Mr. Greenlee was considered as a candidate for the position of Collector of Internal Revenue for Indiana and rejected.

Mr. Greenlee first appeared as a stockholder of record in the Eaddy Beverage Company, at Shelbyville, Indiana, in April, 1937. However, no evidence has been submitted by him to show that he actually paid any sum of money for the stock at that time.

Mr. Greenlee filed no income tax returns for the period from 1932 to 1936, inclusive. He filed returns for the years 1937 and 1938 in which he reported a salary from the United States Government of \$10,000 a year and also salaries and dividends from the Eaddy Beverage Company and the Southwestern Beverage Company. His net income amounted to approximately \$50,000 for 1937 and about \$18,000 for 1938 as shown by his income tax returns but he has furnished financial statements to this office which indicate that he has a net worth in excess of \$100,000.

SI-Special
Preliminary Report

Information obtained during the investigation indicates that Mr. Greenlee has been a stockholder in the Handy Beverage Company since it was organized in March, 1933. The corporation had an original investment of \$500 and the stock was issued to Mr. Russell R. Handy and his wife and son.

The records of the corporation indicate that on the nominal initial investment of \$500, a total of \$197,000 was recorded as paid to Mr. Russell R. Handy and the members of his family in salaries and dividends during the period from 1933 to 1938, inclusive, but none of that money was deposited in the bank account of Mrs. Russell Handy and there is no record of a bank account in the name of the son. There are approximately \$60,000 in salary and dividend payments to Mr. Handy and his family which were not deposited in the bank account of Mr. Russell R. Handy and an analysis of his withdrawals from this account fails to establish a present net worth for him in excess of \$100,000.

The investigation has disclosed that \$34,000 of the money Mr. Handy and his family received from the Handy Beverage Company was paid to Mr. Greenlee in 1937 and prior years. Consequently, it is believed that he has been the recipient of an income from the Handy Beverage Company which was reported by Mr. Handy or other members of his family prior to 1937.

The audit work has been completed on the cases involving the Handy Beverage Company and the Southeastern Beverage Company, and analyses made of the bank accounts of Russell R. Handy, his wife, and Floss E. Greenlee but they have not been questioned thoroughly concerning these transactions.

Mr. Paul P. Fry was Excise Director of the State of Indiana from April, 1933, to May 1, 1937, at an annual salary of approximately \$5,000. His duties consisted of the issuing of licenses to beer and liquor importers, wholesalers, retailers and to breweries and distilleries. He also had under his supervision the collection of excise taxes on liquor and beer and the administration of the Alcoholic Beverages Control Law enacted by the State Assembly in 1933.

Mr. Fry also operated a Ford automobile agency at Linton, Indiana, during 1933 and 1934, but his income tax returns indicate that his investment in the agency was less than \$5,000. Mr. Fry's income tax return for 1936 discloses investments in that year in real estate aggregating \$62,375 and he also discloses for the first time an investment in the Greene County Distributing Corporation,

SI-Special
Preliminary Report

a wholesale beer distributor at Bloomfield, Indiana, from which he received a salary of \$6,000 and dividends of \$3,500. The following is a record of the income reported by him for each year that he filed:

<u>Year</u>	<u>Net Taxable Income</u>	<u>Tax Paid</u>
1933	\$ 2,901.38	None
1934	2,006.14	None
1935	2,259.67	None
1938	<u>7,076.32</u>	<u>\$142.81</u>
Total	\$14,243.71	\$142.81

The examination of the tax liability of Mr. Fry has not been started up to the present time.

Chapter VII

Paul V. McNutt for President in 1940 Club, Incorporated

This organization was incorporated in December, 1936, and not much is known about its activities, income and disbursements. It is alleged by Mr. Frank E. McKinney, the treasurer, that its activities consist in promoting the candidacy of Paul V. McNutt for president in 1940 by acquiring memberships and maintaining headquarters for promoting his candidacy. Also that the income is derived from membership dues used to maintain its headquarters and in furtherance of its purposes.

Mr. James E. Perry, an official of the club, requested advice from the Bureau of Internal Revenue with reference to the taxability of the income and on November 9, 1939, received a ruling, and extracts from same follow:

"While section 101 of the Revenue Acts of 1936 and 1938 provide for the exemption of certain classes of organizations, no provision is made for exemption of an organization, the predominant purpose, object and activities of which are directed toward electing to public office a particular candidate of a political party. * * Furthermore, there is no provision of law under which an organization of the character of yours may be held to be exempt from Federal income tax purposes. You will, therefore, be required to file returns of income for all years."

SI-Special
Preliminary Report

The above interpretation of the law is contained in a letter dated November 9, 1938. Richard K. addressed to Paul V. McNitt for President in 1940 Club, Incorporated, c/o James K. Perry, 3202 Kennedy Avenue, Indianapolis, Indiana, and is signed by Deputy Counselor F. Keeney.

Inasmuch as the ruling in the case of the above-named club indicates its income to be subject to income tax this fact tends to confirm the conclusions reached in the case of the Hoosier Democratic Club, whose predominant purpose, object and activities appeared to be the election and maintaining in public office particular members of a political party.

Chapter VIII

Probable Results

The investigation up to the present time indicates that the following estimated additional taxes may be recommended and in cases where a delinquency or fraud penalty is planned it is also noted:

Name	Years	Taxes	Penalties
Hoosier Democratic Club	1935-1938	\$166,543.02	25% delinquency
Hoosier Wine and Beer Co., Inc.	1933-1938	25,000.00	(e) 50% fraud, Section 102
State Brewing Co.	1933-1935		
Standard National Importers, Inc.	1933-1938	1,200.00	(e) 1
Central Wine & Beverage Corp. (a)	1933-1938		None
Southern Indiana Beverage Corp.	1933-1938	(b) (c)	1
I. V. B. Corporation	1933-1938	None	-
The Heady Beverage Co., Inc.	1933-1938	1(b) (c)	1
Stiedling Beverage Co., Inc.	1935-1936	700.00	(c) 50% fraud
Midwest Beverage Co., Inc.	1933-1938	4,325.00	(c) 50% fraud
Northern Distributing Corp.	1933-1938	None (e)	-
Colman Brothers, Inc.	1933-1938	None (e)	-
Gary Beverage Co., Inc.	1935-1936	(b)	1
Alliance Beverage Corp.	1937-1938	(b)	-
Bryan Distributing Co., Inc.	1935-1938	(b)	-
Michigan Beverage, Inc.	1937-1938	(b)	-
Anderman Beverage Corp.	1935-1938	(b)	1
A. & A. Beverage Corp.	1935	None	-
Hill Brothers Beverage	1937-1938	(b)	1
The Milwaukee Beverage Corp.	1937-1938	2,000.00	-
Universal Beverage Co.	1933-1938	41,000.00	1
Frank K. McNitt	1933-1938	(b)	1
Paul V. McNitt for President in 1940 Club, Inc.	1936-1938	(d)	
Total		\$240,958.02	

SI-Special
Preliminary Report

- (a) Records prior to 1937 destroyed by fire and unable to verify income as yet for earlier years.
- (b) Investigation not completed and unable to estimate additional tax. Possible fraud case.
- (c) Additional tax not yet determined to be assessed against stockholders.
- (d) Investigation not started.

Chapter II

Summary

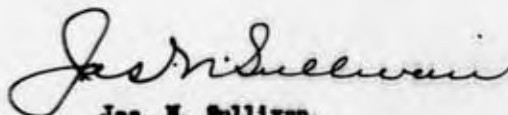
The investigation has not progressed to a point where it can be determined definitely if criminal prosecutions will be recommended in any of the cases previously mentioned.

It was realized early in the investigation that the examinations of the tax returns of the various part of entry permittees and whole-sale beer permittees would not be productive of a substantial amount of additional tax but each company had to be examined in detail to determine who the actual stockholders are, who were actually receiving salaries, and to develop a record of other irregularities.

It was found in many cases that the stockholders of record were actually dummies; that those shown as receiving salaries were not the parties who ultimately received the money; that political contributions in various forms were buried in expense accounts on the books of the companies and deducted from income for income tax purposes; that various schemes were practiced to withdraw money from companies ostensibly as legitimate business expenses whereas such items actually represented dividends; that so-called kickbacks from breweries outside of Indiana were not included in income; that permits were issued in practically all cases in payment of political debts; that those in a position to control the situation received stock in the companies either as a gift or for a small investment and thereafter either received substantial salaries for little or no services performed or received dividends, or both, and that those in control brought about agreements with certain breweries whereby they received a commission on all beer sold in a particular territory, in one instance the amount of commissions was actually added to the purchase price of the beer to the permittee thus eliminating a substantial portion of the income.

SI-Special
Preliminary Report

It is felt, however, that after the facts are disclosed with reference to the secret stockholders, secret salaries paid, and other irregularities a more substantial amount of additional tax will be recommended.



Jas. H. Sullivan,
Special Agent.

SATURDAY MORNING, NOVEMBER 18, 1939.

Entered as Second-Class
Indianapolis, Ind. Jan. 1902

McHale, Elder Quit "2 Per Cent Club," Avoid Criticism as McNutt Managers

Frank McHale and Bowman Elder severed official connection with the Hoosier Democratic Club, better known as the "Two Per Cent Club," when they retired from office at the organization's biennial five-minute election and business session in the Manufacturers' building at the Indiana state fairgrounds last night.

As the national presidential campaign picks up momentum, Mr. McHale, Democratic national committeeman from Indiana and manager of Paul V. McNutt's campaign for President, and Mr. Elder, adviser of Mr. McNutt, will have no official connection with the party's much-criticized money-raising organization in Hoosierdom.

600 Contributors Elected

Mr. McHale, director of the club, and Mr. Elder, treasurer, were retired from office as a prepared slate of candidates was elected without opposition from approximately 600 contributors who had assembled.

Frank Finney, secretary of the club, was re-elected president, and, in a brief speech, said: "The Democratic aim is to raise party finances from a large number of small contributors. It should come from the jobholders. This is a protection against large contributions from selfish interests."

Party finances are raised by contributions amounting to 2 per cent of the salaries of nearly all state job holders.

Money "Cheerfully Paid."

"There is nothing dishonest in the contributions and they are cheerfully paid," Mr. Finney added.

Besides Mr. Finney, other officers elected are George Newbauer, state insurance commissioner, re-

elected vice-president; Clarence U. Grunzelbacher of Jasper, treasurer of the Democratic state committee and a member of the State Police Board, elected treasurer to succeed Mr. Elder, and Miss Marie Dolan of the State Bureau of Motor Vehicles, secretary. All officers are state employees or executives now that Mr. McHale and Mr. Elder are not.

Directors are James L. Dentley Jr., director of the division of motor vehicles of the Public Service Commission and former secretary of the Democratic state committee, who succeeds Mr. McHale, and A. N. Purley of Hartford City, adviser of Governor M. Clifford Townsend. T. A. Thom, chairman of the State Pharmacy Commission, and Walter Forey, head of the Evansville auto license bureau, the latter three re-elected.

Business Session Over Quickly

The five-minute business session was sandwiched between a vaudeville show, including acrobats, trapeze artists, clowns and jazz makers which opened the program, and a dance which closed it.

Sandwich and refreshment stands were lined under large signs which set out: "Sandwiches and refreshments with the compliments of your club."

A large counter of free apples stood inside the main door and a cigarette girl distributed cigarettes. The cigarettes had been emptied from packs into a large tray.

For added amusement or study, the State Department of Conservation had its windowed truck containing animals and birds parked near the State Police Department's exhibition bus. There also were displays of sample license plates by the State Bureau of Motor Vehicles, as well as exhibits from the State Board of Health, the State Department of Public Welfare and the Democratic state committee.

Building Gaily Decorated

Large pictures of Mr. McNutt, now Federal Security administrator; Senator Sherman Minton; Senator Frederick Van Nuys and Governor M. Clifford Townsend were near the main entrance of the building decorated with bunting and flags.

Mr. Finney opened the business session with introduction of the nominating committee, composed of Hallie Myers, director of traffic for the State Highway Commission; Richard A. Shirley, a member of the State Alcoholic Beverage Commission, and John W. Conley, an accountant of the Public Service Commission.

Mr. Myers read the list of nomi-

Turn To Page 5, Column 7.

McHale and Elder Quit "2 Pct. Club"

Concluded From Page One

nees. Mr. Shirley took the floor and asked whether there were any nominations from the floor. There was none, and the secretary was instructed by voice vote to cast a unanimous ballot for election of the nominees.

No report was given of the club finances as Mr. Finney closed the business session with a speech and introduced the Hoosier Vagabonds, who played for the dance.

Matthew Straw being first duly sworn upon his oath says, that he and his wife reside at 4319 Winthrop Indianapolis, Indiana; that he is a graduate nurse and has been employed at the City Hospital in said City six years and nine months in the receiving ward; that he now receives \$35.00 on the 1st and 15th of each month and one meal each day; that his wife is not employed.

That on or about September 15th, 1938, upon going to the office to get his wages he was told by a girl in Dr. Myer's office "you will have to pay your campaign fund". Take your check around to Mrs. McCullum and she will cash it for you "and take out for the campaign fund". Affiant said I'll have to talk to my wife about it.

That about a week before the 15th of September, 1938, Mr. Wolf, business manager of the hospital called affiant to his office and told him "you are to be replaced by Mr. Denton according to a letter I have from Mr. Haymaker". Affiant said may I read the letter? After reading the letter which Mr. Wolf handed him, Mr. Wolf said they tell me you refused to pay into the campaign fund. Affiant said I didn't know anything about it no one asked me to pay. Mr. Wolf said I'll give you a week to consider it. How do you stand with your precinct committeeman. You better get in touch with him and see what he can do for you.

That Wednesday September 21st affiant and his wife went to Democratic headquarters over the Palace Theatre where they talked to Ira Haymaker. Mr. Haymaker said he didn't sign the letter, but said if they don't pay their campaign fund they ought to be fired. Haymaker said "I'll look into it and see if the letter was sent from headquarters".

That Oct. 1st, 1938, affiant went to the office to get his check about 2:45 P.M. and the girl said are you going to pay your "campaign fund"? Affiant said no, I can't afford it. She then said well I'll have to hold your check. He then asked her how much was I suppose to pay and she looked into a large book and said \$9.50. Affiant then asked for Dr. Myers or Mr. Wolf and she said they are not here. Mrs. McCullum came in and said we have orders from downtown to hold all checks of people who don't pay their "campaign fund". Mrs. McCullum is Dr. Myer's sister-in-law and secretary.

Affiant then went to Dr. Kollstadt and told him about the matter. Dr. Holstad said I am sorry but its orders from down town to hold all checks of those who refuse to pay their "campaign fund".

Affiant further says he has no other income and is paying on a mortgage on his home; that has not yet gotten his check.

(Signed) Matthew Straw

Subscribed and sworn to before me a notary public, in and for the county Marion State of Indiana, this 2d day of October, 1938.

(Signed) Ross Bauer

My commission expires Sept. 5, 1942.

Notary Public.

State of Indiana }
City of Marion } ss

38-A

Matthew Straw being first duly sworn upon his oath says, that and his wife reside at 4219 Winthrop Indianapolis, Indiana, that he is a graduate nurse and has been employed at the City Hospital in said City six years and nine months in the receiving ward; that he now receives \$25⁰⁰ on the 1st and 15th of each month and one meal each day; that his wife is not employed.

That on or about September 15th 1938, upon going to the office to get his wages he was told by a girl in the office, "you will have to pay your Campaign fund assessment"; take your check around to Mrs. McCallum and she will cash it for you and take out for the Campaign fund. Officiant said I'll have to talk to my wife about it.

That about a week before the 15th of September 1938, Mr. Wolf, business manager of the hospital called off to his office and told him "you are to be replaced by Mr. Danton according to a letter I have from Mr. Haynaker". Officiant said, may I read the letter? After reading the letter, Mr. Wolf said they tell me you refused to pay into the Campaign fund. Officiant said I didn't know anything about it and was asked me to pay. Mr. Wolf said I'll give you a week to consider it. How do you stand with your precinct committeeman. You better get in touch with him and see what he can do for you.

That Wednesday September 21st Officiant and his wife went to Hammond headquarters for the election.

when they talked to the Hyman's. Mr. Hyman said he didn't sign the letter, but said if they don't pay this campaign fund, they ought to be fired. Hyman said "He took into it and we if the letter was sent from headquarters."

That Oct 1st 1935 affiant went to the office to get the check about 2:45 PM and the girl said are you going to pay your campaign fund? affiant said no I can't afford it. She then said well I'll have to tell you check, there. He then asked her how much one ought to pay and she looked in a large book and said \$7.50. Affiant then asked for the money on the 10th of Nov. and she said they are not here. Mrs. W. Cullen he in and said we have orders from headquarters to hold all checks of people who don't pay their party fund. He W. Cullen is a very nice - he said nothing affiant then went to Mr. Kottelgoff and told him about the matter. Mr. Kottelgoff said I was wrong but so orders from down town to hold all checks of those who refuse to pay their campaign fund.

affiant further says he has no other money and no money in a money order in his home; that he has not yet gotten his check.

Weather Swan

Subscribed and sworn before me a Notary Public, - and for the County of Madison State of Indiana, this 1st day of October 1935.

Notary Public
My Commission Expires Oct 15, 1936 Henry F. Felle



August 18, 1939

37

Ralph O. Jarvis
723 E. 36th Street
Indianapolis, Indiana

Dear Mr. Jarvis:

Some time ago you were informed, either at a meeting of State and County employees or by letter, that the Democratic State organization had assigned to each county in the state, a quota of subscribers to the Hoosier Sentinel.

At all times we have endeavored to cooperate with our State Chairman and his organization, and, in compliance with their request we asked each State and County employee to contribute 2% of one month's salary to help us put Clay County over the top.

We are very glad to report that practically everyone we contacted has contributed, however there are a few who have not yet responded and our records show that you are one of the small group who have not yet paid.

In order that there be no misunderstanding, this payment is not optional with you. You are expected to render the same cooperation with the county organization that is expected of us by the State Committee, and we have very definite assurance from our State Chairman that he will enforce such cooperation by whatever means may be necessary.

We are sure that this has been an oversight or small negligence on your part and we have no doubt that you will immediately bring or send the amount requested from you.

With kindest personal regards, I am

Sincerely yours,

George E. Barnhart
George E. Barnhart
Clay County Chairman

enc

THE INDIANAPOLIS STAR
Statement of Debt Received

Department	Aug. 1, 1953	Year Ended				
	to Dec. 31, 1953	December 31, 1954	December 31, 1955	December 31, 1956	December 31, 1957	December 31, 1958
Adjutant General's office	\$ 488.45	\$ 1,238.00	\$ 1,111.00	\$ 1,125.00	\$ 1,228.00	\$ 1,228.00
Agricultural Board . . . . .	.....	43.00	138.00	77.00	224.00	228.00
Appellate Court	1.00	80.00	10.00	10.00	.....	21.00
Athletic Commission--Accident Prevention . . . . .	.....	.....	49.00	168.00	189.00	234.00
Attendance (school)	25.60	80.00	80.00	80.00	84.00	74.00
Attorney General . . . . .	.....	1,070.96	777.50	1,148.00	1,180.30	1,228.50
Auditor's office . . . . .	.....	167.66	283.00	370.00	411.00	444.00
Automobile License	1,847.40	3,983.00	4,453.00	4,086.00	3,930.50	3,938.00
Automobile License--Branches . . . . .	.....	6,142.96	6,778.08	7,937.18	8,106.38	7,488.59
Banking	475.30	1,228.00	2,009.00	2,013.00	1,809.00	1,412.00
Board of Accounts	32.00	2,384.00	2,652.00	2,681.00	2,811.00	2,922.50
Board of Architects	8.00	26.00	22.00	28.00	49.00	84.00
Board of Barbers	24.34	177.00	209.00	132.00	180.00	228.00
Board of Beauty Culturist Examiners . . . . .	.....	.....	77.00	214.00	220.80	221.00
Board of Education	5.36	38.00	48.00	50.00	40.00	24.00
Board of Engineering	16.96	78.00	82.00	80.00	91.00	84.00
Board of Medical Registration	4.50	14.00	22.00	36.00	69.00	36.00
Board of Nurses	27.31	123.00	99.00	120.00	135.00	120.00
Board of Pharmacy	7.22	42.00	70.50	64.00	88.00	100.00
Board of Tax Commissioners	379.41	1,014.00	1,236.00	1,186.00	1,213.00	1,206.50
Boys School, Plainfield, Ind.	199.00	623.50	1,010.50	1,507.25	1,430.00	1,478.00
Buildings and Property	180.72	607.41	614.20	715.00	711.50	679.00
Central State Hospital	513.88	5,400.30	2,827.50	2,816.50	2,840.00	2,086.60
Clerk of Supreme Court	19.19	.....	322.00	278.00	291.00	309.00
Conservation	1,167.66	3,643.95	4,330.00	4,236.90	5,158.40	6,281.50
Corporation	86.29	305.00	501.00	535.00	435.00	380.00
Criminal Investigation	98.56	234.00	200.00	162.00	170.00	142.00
Division of Labor . . . . .	.....	.....	.....	.....	1,449.90	2,120.00
Evansville State Hospital	219.00	1,014.50	1,179.00	1,306.50	1,294.00	1,296.50
Excise and Purchasing	474.19	1,088.50	.....	.....	.....	.....
Excise--Alcoholic Beverages . . . . .	.....	.....	1,578.50	2,491.00	3,259.60	3,430.48
Fire Marshal	207.00	716.14	711.50	719.50	808.00	978.00
Fort Wayne State School	425.00	1,350.00	1,951.00	2,013.50	2,131.00	2,244.00
Gasoline License . . . . .	.....	704.87	876.50	1,023.00	1,021.00	1,032.00
Girls School, Clermont, Ind.	222.50	692.50	652.00	532.50	476.00	740.00
Governor's office	203.76	507.00	589.50	583.96	627.00	725.00
Highway Commission	14,456.09	37,732.43	41,965.74	47,135.82	61,951.73	62,301.00
Indiana Industries . . . . .	.....	98.00	223.00	212.00	216.00	191.00
Industrial Board	300.47	923.00	958.00	1,035.00	510.00	.....
Industrial School for the Blind	2.00	23.00	30.00	22.00	24.00	25.00
Insurance	500.89	1,469.10	1,690.00	1,410.00	1,676.50	1,684.00
Legislative Bureau . . . . .	.....	42.00	55.00	60.00	54.00	37.00
Forward	\$ 22,254.49	\$ 73,065.79	\$ 82,650.00	\$ 90,453.59	\$ 107,776.88	\$ 118,102.65

OFFICE
Department of House Revenue

Department	Aug. 1, 1933 to Dec. 31, 1933	Year Ended				
		December 31, 1934	December 31, 1935	December 31, 1936	December 31, 1937	December 31, 1938
Brought forward	\$ 22,254.49	\$ 73,045.78	\$ 82,600.00	\$ 90,453.89	\$ 107,734.28	\$ 112,109.89
Lieutenant Governor's office . . . . .	.....	86.00	4.00	58.00	84.00	84.00
Live Stock Licensing Division . . . . .	.....	.....	118.00	108.00	118.00	130.00
Live Stock Sanitary Board	108.00	880.00	635.00	699.00	708.00	700.00
Legnawap State Hospital	384.80	1,473.00	1,555.50	1,434.00	2,114.80	1,838.00
Madison State Hospital	109.15	1,233.10	1,803.00	1,111.80	1,619.80	1,641.80
141 N. Meridian Street--janitors, etc. . . . .	.....	.....	.....	.....	.....	.....
Milk Control Board . . . . .	.....	.....	87.00	253.00	350.00	344.00
Mines and Mining	70.08	864.00	279.89	339.00	150.00	.....
Minnetonka Colony	211.87	884.00	610.00	824.80	629.80	908.00
Oil Inspection	262.81	752.68	758.00	649.00	1,095.00	1,941.00
Printing Board	60.14	119.78	165.28	212.00	192.00	808.00
Probation Department	8.00	80.00	85.00	95.00	118.00	142.00
Public Health	814.28	2,229.00	2,280.00	2,645.80	3,350.30	4,230.80
Publicity . . . . .	.....	.....	10.00	84.00	58.00	109.00
Public Service Commission	801.38	2,151.17	2,504.00	3,378.00	3,104.00	3,086.80
Public Welfare	34.00	325.00	325.00	183.00	888.00	449.00
Purchasing Division . . . . .	.....	.....	145.00	421.00	281.00	276.00
Railroad Police . . . . .	.....	.....	141.00	354.00	279.00	206.00
Reformatory	1,583.00	3,642.90	3,871.00	4,006.00	3,784.80	4,122.00
Richmond State Hospital	498.88	1,781.55	1,545.50	1,480.00	1,713.80	1,694.00
Gross Income Tax Division	984.48	3,989.80	6,423.00	7,073.00	8,803.00	9,994.00
School for the Blind	75.00	323.00	481.80	433.00	403.00	433.00
School for the Deaf	861.50	878.00	936.50	1,008.80	1,891.00	1,777.80
School Inspection	48.38	121.50	145.00	135.00	168.00	180.78
School Relief	38.73	148.00	176.00	191.00	227.00	288.00
Security Commission	68.40	195.00	327.37	424.00	487.80	479.00
Soldiers Home--Lafayette, Ind.	803.00	1,534.00	1,574.80	1,443.00	1,828.40	1,800.80
Soldiers and Sailors Children's Home	350.78	1,088.00	1,114.00	797.00	1,207.88	914.00
Special Contributions	300.10	8,066.64	4,979.83	2,348.25	1,115.00	803.00
State Farm	489.80	1,844.50	1,275.80	1,290.80	1,854.00	1,904.80
State Housing Board . . . . .	.....	.....	.....	.....	19.00	120.00
State Library	288.51	489.00	541.00	473.00	378.00	368.00
State Planning Board . . . . .	.....	.....	3.80	.....	83.00	184.00
State Police	444.98	1,685.84	2,038.80	1,980.00	3,285.00	3,809.00
State Prison--Michigan City	1,184.00	2,826.80	3,288.00	4,038.00	2,985.00	4,265.80
State Sanatorium	347.29	945.78	935.55	798.35	1,814.65	1,280.25
Superintendent of Public Instruction	56.58	281.80	276.00	259.00	420.00	412.00
Supervision of Industries . . . . .	.....	.....	.....	.....	271.28	625.00
Supreme Court Reporters . . . . .	.....	51.00	38.00	30.00	.....	.....
Forward	\$ 39,231.48	\$ 110,114.88	\$ 124,799.79	\$ 121,523.69	\$ 153,691.84	\$ 168,600.75

38

EXHIBIT D

38-3

DO NOT WRITE IN THESE SPACES

Department	Aug. 1, 1928 to Dec. 31, 1928	Year Ended				
		December 31, 1924	December 31, 1925	December 31, 1926	December 31, 1927	December 31, 1928
Brought forward	\$ 28,222.42	\$ 110,114.88	\$ 124,799.79	\$ 121,522.09	\$ 128,261.24	\$ 128,222.76
Teachers Retirement Fund	108.08	229.00	214.00	220.00	279.00	274.00
Teachers Training and License	25.80	204.80	220.00	211.00	226.00	224.00
Teachers office	119.60	127.00	224.00	223.00	226.00	224.00
Unemployment Compensation Division . . . . .	.....	.....	.....	212.00	2,014.00	1,242.00
Village of Epileptics	604.12	1,104.01	1,104.00	1,074.73	272.00	1,227.00
Vocational Education	21.80	211.00	211.00	126.00	222.00	272.00
Vocational Rehabilitation	22.98	124.50	124.00	214.00	222.00	222.00
Woman's Prison	24.44	220.00	244.00	272.00	222.00	222.00
Totals	\$ 33,127.01	\$ 112,424.67	\$ 127,212.29	\$ 124,500.44	\$ 129,147.24	\$ 127,124.76

CEFT

MAY 9, 1949

RECORDED
INDEXED

Paul V. McKeith for President in
1940 Club, Incorporated,
c/o James H. Perry,
5222 Kemwood Avenue,
Indianapolis, Indiana.

RE: -

Reference is made to the evidence submitted in support of your claim to exemption for Federal Income tax purposes.

The evidence presented discloses that you were incorporated in December 1938, not for profit, under the laws of the State of Indiana to promote the candidacy of Paul V. McKeith for president of the United States in 1940 and to take all such steps and necessary action as may be pertinent or consistent with such general purpose. It appears that your actual activities consisted in promoting the candidacy of Paul V. McKeith for president in 1940 by securing memberships in your corporation and maintaining headquarters for promoting his candidacy. Your income is derived from membership dues and is used to maintain your headquarters and in the furtherance of your purpose.

Under section 101 of the Revenue Acts of 1936 and 1938 providing for the exemption of certain classes of organizations, no provision is made for exemption of an organization, the predominant purpose, object and activities of which are directed toward electing to public office a particular candidate of a political party.

Based upon the foregoing it is held that you are not entitled to exemption under the provisions of section 101 of the Revenue Acts of 1936 and 1938. Inasmuch as section 101 of the Internal Revenue Code (26 Stat., Part 1) is similar to section 101 of the Revenue Act of 1938, this ruling is also applicable under the Internal Revenue Code. Furthermore there is no provision of law under which an organization of the character of yours may be held to be exempt for Federal Income tax purposes. You will, therefore, be required to file returns of Income for all years.

100-100000-1
E

- 2 -

Paul V. McNutt for President in
1940 Club, Incorporated.

A copy of this ruling is being transmitted to the collector
of internal revenue for your district.

By direction of the Commissioner.

Respectfully,

(Signed) T. Mooney
Deputy Commissioner.

CAH/AJ-2



OFFICE OF
CHIEF, INTELLIGENCE UNIT
BUREAU OF INTERNAL REVENUE

TREASURY DEPARTMENT

WASHINGTON

41

December 28, 1939.

MEMORANDUM FOR THE SECRETARY.

Special Agent Sullivan and Messrs. Leming and Carpenter of the Chief Counsel's office are interviewing the various witnesses in Indianapolis, with a view to laying the ground-work on which request will be made for an order of court requiring the giving of testimony, if necessary. They have been interviewing the less important individuals first, and at 11:30 to-day are taking on Pleas Greenlee, following which they will interview Elder and McHale.

Four additional special agents will report in Indianapolis tomorrow morning to assist, and five additional revenue agents have been directed to report there. This is all of the help that can be used at the present time, but additional agents will be sent as rapidly as desired.

[Handwritten signature]
D.H.

TO: Mrs. Klotz 42

AT
1/2/40

*Confidential
file*

From: Mr. IRBY



TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

December 31, 1939

PERSONAL AND CONFIDENTIAL

Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.

In re: Indiana investigation.

This report relates to what has happened during the past week with reference to the above-mentioned investigation: Checking and analyzing of the accounts and transactions of the leaders of the Hoosier Democratic Club, of the beer distributors, of Mr. Paul V. McNutt, and most of the time has been devoted to transactions relating to the so-called "slush fund."

In accordance with arrangements made in Washington on December 21, 1939, Mason B. Fleming, Assistant Chief Counsel, and J. W. Carpenter, special attorney, both of the office of the Chief Counsel for the Bureau of Internal Revenue, arrived in Indianapolis, Indiana, on December 27, 1939, to cooperate on the investigation.

During the morning of December 27th, the two attorneys previously mentioned and I called on the United States Attorney for the District of Indiana, Mr. Val Nolan. Mr. Nolan assured us that he was willing to assist in the plan to have several of the reluctant witnesses brought before the court for the purpose of having Judge Robert M. Baltzell issue orders directing them to testify and answer questions. It was stated by Mr. Nolan that he was busy preparing certain cases for trial and court action in the near future and practically all his time had to be devoted to them. Therefore, the suggestion that the attorneys from Washington prepare all the necessary documents with a view to having the record as near correct as possible met with his approval, and it is his plan to handle the actual presentation of the cases in court.

Practically all the time has been spent in questioning witnesses who are in a position to furnish valuable information with reference to contributions to the so-called slush fund. All leads tending to show that Mr. Paul V. McNutt received taxable income during the years when he failed to file income tax returns are being followed up as quickly as possible.

With reference to the so-called slush fund, the following witnesses have been interviewed during the past week:

Dick Heller, secretary to Governor Townsend,
 Pleas E. Greenlee, secretary to Governor McNutt
 from January 1, 1933, to
 January 4, 1936.

Otto L. Keeler, representative for the past
 several years of two com-
 panies selling rock as-
 phalt to the State of In-
 diana for road building.

Grace Fink, office manager of the Hoosier
 Democratic Club and secre-
 tary to Bowman Elder.

John E. Meara, a wholesale beer distributor since
 March, 1933.

William Black, a wholesale beer distributor since
 March, 1933.

Alfred Brown, a wholesale beer distributor since
 March, 1933, and also president
 of the Harrison and Auction and
 Kennel Club.

DICK HELLER

Mr. Heller related in substance that he has been an official of the Indiana Democratic Central Committee since about 1933. During the regime of Governor McNutt, he was secretary to the lieutenant governor, M. Clifflord Townsend, and continued as his secretary when the latter became governor in 1937.

The principal disclosure made by Mr. Heller was that just prior to the general election and the renewal of liquor permits and beer permits he was designated to organize a group to solicit and collect from the wholesale beer distributors contributions for the Hoosier Democratic Club. About eight men from various parts of the state engaged in the wholesale beer business were selected by Mr. Heller, and they had a meeting about the middle of October, 1938. At this meeting, a list of the wholesale beer distributors was given to the solicitors by Mr.

Heller, and they were to cover their respective territories and report back in about one week with the collections. At this meeting, it was decided that each wholesale beer distributor would contribute at least ten dollars.

As the result of this plan, the solicitors returned at the appointed time and turned over to Mr. Heller, in cash, approximately \$22,000, according to his recollection, and he personally gave the collections to Bowman Elder in the same form.

Another disclosure made by Mr. Heller was that on or about the same time Mr. Elder requested that he obtain from the proper officials of the State of Indiana a list of all the contractors who had been successful on their bids over a certain period of time, which was done and the list was submitted to Mr. Elder, ostensibly for the purpose of having the contractors solicited in the same manner as the wholesale beer distributors.

PLEAS E. GREENLEE

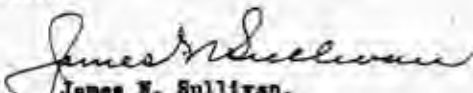
The most important disclosure made by Mr. Greenlee was that he was originator of the Hoosier Democratic Club and its principal objective and function was to sponsor, assist and finance the scheme to make Mr. Paul V. McNutt president in 1940. In other words, at the time Mr. McNutt was elected governor of Indiana in 1932 it was the plan of his backers and sponsors to have him elected president, and all their activities have been focused on that objective.

OTHER INTERVIEWS

At the other interviews previously referred to, facts were disclosed that were already known and have been mentioned or have not been verified or checked as yet.

With reference to the investigation of the leaders of the Hoosier Democratic Club, of the beer distributors and of Mr. Paul V. McNutt, nothing of importance has developed.

Inasmuch as most of the revenue agents and other agents cooperating on the investigation will return to Indianapolis Tuesday morning, January 2nd, it is expected that more rapid progress may be reported hereafter.


James N. Sullivan,
Special Agent.

January 9, 1940.

MEMORANDUM FOR THE SECRETARY.

Attached is the weekly report of Special Agent Sullivan on the Indiana situation.

Mr. Sullivan will be in Washington tomorrow morning, in company with Assistant Chief Counsel Leming, to discuss certain important matters which have come up. It is my purpose to instruct him to make every effort to ascertain the source of the leak of information to which he refers in the attached report.





INTELLIGENCE UNIT

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

January 7, 1940.

NAME OF OFFICER

JES:km

Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.

In re: Indiana investigation.

This report relates to what has happened during the past week with reference to the above-mentioned investigation. The program originally planned by me has been changed and we are now engaged on the following activities: Checking the commissions and business transactions of Otto L. Keeler, who represents the Kentucky Rock Asphalt Company and the Ohio Valley Asphalt Company; tracing the payments from wholesale beer distributors to the so-called slush fund; examining the activities of the Cantel Wax Company, referred to in a recent magazine article as the Timolat Company; continuing the examination of the tax liability of a few of the wholesale beer distributors; and laying the foundation with Bowman Elder for filing a petition with the Federal Court requiring him to answer questions.

OTTO L. KEELER

The examination of Mr. Keeler was continued with several new angles developing. He is the representative of the Kentucky Rock Asphalt Company and the Ohio Valley Asphalt Company, both of Kentucky. These companies supply approximately ninety percent of the rock asphalt used on the construction and maintenance of roads in Indiana.

The income tax returns of Mr. Keeler disclosed he received substantial commissions during the years 1934 to 1938, inclusive, and in 1936 approximately \$125,000 was credited to his account from which he actually received some \$80,000. Confidential information received indicated that he was the "pay-off man" on various large sums to state officials in the McNutt regime. Therefore, efforts are being made to trace the receipts and disbursements of

all his commissions and thereby establish, if possible, that such a situation existed.

This phase of the investigation has not progressed far enough to determine the outcome but last Friday Mr. Keeler admitted he had paid approximately \$1,600 to the Hoosier Democratic Club and submitted five receipts to establish same. One of the receipts, for \$1,000, dated in 1935 was signed personally by Mr. Elder and the others were signed by Grace Fink, secretary to Mr. Elder. Two of the checks were for odd amounts and Mr. Keeler explained that they represented two percent of the business he did directly with the state. The proceeds from these checks went into the slush fund.

It might be mentioned that the bulk of the business done by Mr. Keeler is not with the state direct but with contractors. Through his political connections he is alleged to be in a position to have inserted in the specifications certain requirements which make it necessary for the contractors to purchase his products.

In connection with these sales of rock asphalt to contractors, it has been noted that several people in political life have received substantial commissions ostensibly for promotion work, but it is believed to represent outright payments to influence the official actions of public officials.

CONTRIBUTIONS BY WHOLESALE BEER DISTRIBUTORS

Last week it was reported that Mr. Dick Heller acted as an organizer in the solicitation of political contributions from wholesale beer distributors on the eve of the 1938 general election. His statement was to the effect that he appointed several wholesale beer distributors throughout the state to solicit contributions from their customers and in this manner collected some \$22,000, which he turned over personally in the form of cash to Bowman Elder.

This week, efforts have been made to confirm his statement by questioning the solicitors, and also to establish what amounts were collected on the eve of the 1936 and 1934 general elections. Sufficient progress has not been made on the item yet to express an opinion of the probable outcome.

From the evidence now on hand it would appear that the estimate of Mr. Heller of approximately \$22,000 is materially understated, but this fact has not been definitely established.

TIMOLAT COMPANY

In the January, 1940, issue of the "American Mercury" appeared an article entitled "Great God McNutt," and therein mention was made of the following: "He had not saved any money, he told his followers, and it was a mere coincidence, he said, that his wife's family name appears in the Timolat Company, which sold goods to the state."

An investigation is being made of the facts alleged in this article now but sufficient progress has not been made to estimate the probable results. It has been determined, however, that the name of the company was the Cantol Wax Company, located at Bloomington, Indiana, and an examination will be made of their books and records. Mr. Harry M. Timolat, father of Mrs. McNutt, was the president and general manager of the Cantol Wax Company from 1920 until he died in 1937. From the evidence on hand, it would appear that the business transacted by this company would not be substantial enough to warrant large income being received.

TAX EXAMINATION OF WHOLESALE BEER DISTRIBUTORS

There is not much progress to report on this angle of the investigation. At the present time, two revenue agents are engaged on same and up to the present time nothing of real interest has been developed with reference thereto.

BOWMAN ELDER

On Monday, Mr. Elder was served with a subpoena by me calling for his appearance in this office on January 2, 1940, and the production of certain records. Mr. Elder appeared and was questioned under oath and as a result of such examination a proposed petition was drafted for filing in court. The proposed petition and copy of Mr. Elder's testimony was transmitted to Mr. Foley for instructions. You are doubtless familiar with that angle and the result.

Up to the present time, no efforts have been made to further interview the associates of Mr. Elder: Omer S. Jackson and William Storen.

Mr. Leming has advised me, however, that he plans on questioning Mr. Jackson the early part of next week.

GENERAL INFORMATION

During the past week several events of importance have taken place which are of interest and may be of importance.

As you probably realized, contacts have been made by me with sources of information which have been of material assistance. Obviously, these informants were not in sympathy with the activities of the Hoosier Democratic Club and its leaders. Up until Thursday morning of this week it has been possible to contact one of these sources of information by telephone or personally and get confidential information with reference to the background of certain items under investigation.

Naturally these informants had political ambitions and they believed that any material information submitted to me would result in favorable publicity in their behalf, namely, exposing the irregularities existing in the records of the Hoosier Democratic Club, the inability of the leaders to account for the receipts and disbursements of its funds, and the amount of money collected. This publicity could be accomplished by a petition being filed in the Federal Court to which would be attached an affidavit signed by me outlining the facts involved in the event that the leaders of the Hoosier Democratic Club failed to answer material questions, were false and evasive in their answers, or attempted to impede and obstruct the investigation being made by their failure to produce records and answer questions.

Thursday morning and the day following when Mr. Leasing was instructed by Mr. Foley that action should be withheld on filing the petition, the principal informer advised me in a guarded telephone conversation that he would be unable to cooperate hereafter as he understood that instructions had been issued by Washington not to break the publicity (referring to the proposed court action).

How or under what circumstances the informant learned that such action had been taken by officials in Washington was not disclosed. Previous conversation with the same informant and other people who have been helpful in the investigation indicated that their motive in helping me was for the purpose of exposing the activities of the Hoosier Democratic Club and thereby cleaning up a situation in a political party which they believed might affect a general election in this state at a later date.

The time when the exposure of the Hoosier Democratic Club activities would be made, of course, would be vital to the

interests of the informant, who in turn had political ambitions which apparently did not meet with the approval of the leaders of the Club previously mentioned. Therefore, their principal desire has been to make this exposure as soon as possible.

While it is realized that the question of filing petitions, which would result in publicity on the case, rests squarely with the officials in Washington, it is believed that the above-mentioned facts should be brought to their attention so that they will be in possession of all the background involved in the present investigation.

Jas. E. Sullivan
Jas. E. Sullivan,
Special Agent.



TREASURY DEPARTMENT

WASHINGTON

February 19, 1940.

MEMORANDUM FOR THE SECRETARY.

Following the suggestion of Special Agent Sullivan, and after my conversation with you, concerning the matter of discussing the entire situation with Attorney General Jackson, I talked with Mr. Helvering and made arrangements for the two of us to see Mr. Jackson whenever possible. However, just prior to Mr. Helvering's leaving Washington, Mr. Jackson's secretary telephoned that he could see him if he should come right over, and, therefore, I was not able to accompany Mr. Helvering. On his return from the Department of Justice, he told me that he had explained to Mr. Jackson something of the details of the Indiana situation and informed him that we were asking the United States Attorney's help in preparing a petition for a court order to compel Bowman Elder to testify. Mr. Jackson expressed himself to the effect that this was a Treasury Department matter and that, as he understood it, all we wanted was to have the United States Attorney's cooperation in the endeavor to secure this information. He said he felt that United States Attorney Nolan would cooperate, and, if we found that he did not, he would be glad to issue the necessary instructions.

The thing that pleased me particularly about the conversation with Mr. Jackson was that he knows when a case is properly within the jurisdiction of the Treasury Department and when it is a Department of Justice case.





TREASURY DEPARTMENT

WASHINGTON

February 20, 1940.

MEMORANDUM FOR THE SECRETARY.

In re: Indiana Investigations.

There are attached two reports of Special Agent Sullivan, one for the week ended February 10 and the other for the week ended February 17. He states in the earlier report that the question of filing petitions compelling testimony from Bowman Elder, Omer S. Jackson, William Storen, and others was discussed with the United States Attorney on his return to Indianapolis; that that officer decided to hold the matter in abeyance because he felt that proper foundation for the petition had not been laid. The matter was further delayed by the illness and subsequent death of Mr. Elder's father.

During the first week, an article appearing in the Indianapolis Star reported that the agents would be withdrawn from the investigation. On February 10th another article appeared purporting to quote Special Agent Sullivan to the effect that the examination would continue.

While tracing certain items in the account started by Bowman Elder when Mr. McNutt was candidate for governor in 1931, the agents were handed a letter addressed to Frank E. McKinney, President of the Fidelity Trust Company of Indianapolis, and signed by Frank M. McHale, in which he stated he was unable to understand the Bureau's attitude in making this examination, and advising that, although he understood he was compelled to comply by producing accounts and books, the letter was filed as a protest against the actions of the agents. This letter contains certain reasons which purport to be in support of this protest. Mr. McKinney stated to the agents that collections and contributions to the "McNutt for President Committee" have dropped to almost nothing, and that he attributed this to the unfavorable publicity given the investigation.

During the week ended February 17th, Bowman Elder, Omar Jackson, and William Storen were interviewed by the agents and their testimony reduced to writing for the use of the United States Attorney in filing petition with the court to compel them to answer questions and produce records regarding the disappearance of the funds from the Hoosier Democratic Club. The United States Attorney was absent from Indianapolis on Saturday, last, and the testimony was submitted to him on Monday, February 19. It is expected the petition will be filed either today or tomorrow.

The contractors who dealt with the State of Indiana and who are alleged to have made contributions to the Hoosier Democratic Club slush fund and wholesale liquor dealers who contributed to the general election in 1938 are still being examined.





STELLERNESS UNIT

DATE OF REPORT
JES:fm

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

Indianapolis, Indiana.

February 18, 1940.

Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.

In re: Indiana Investigation.

This report relates to what has happened during the past week with reference to the above-captioned investigation.

The principal activities have been as follows: Interviewing Bowman Elder, Omar S. Jackson and William Storm with a view of laying a proper foundation so that their testimony may be submitted to the United States Attorney for the purpose of filing a petition with the Court to order them to answer certain questions and produce records, if they exist, relating to the disappearance of approximately \$150,500.00 from the funds of the Hoosier Democratic Club; interviewing Bowman Elder to establish the aggregate amount he collected for the unidentified or so-called slush fund, and when and how it was disbursed; examining the contractors who dealt with the State of Indiana to establish, if possible, what contributions they were forced to give to the Hoosier Democratic Club; and examining the wholesale liquor dealers to establish the amount of contributions they were required to give to the Hoosier Democratic Club before the general elections in 1936 and 1938. Considerable time was also consumed in endeavoring to re-establish contacts with sources of information.

The testimony of Messrs. Elder, Jackson and Storm has been typed and is now ready for presentation to the United States Attorney, and arrangements have been made to do this on Monday inasmuch as Mr. Nolan was absent from his office on Saturday. Various petitions used in the past on this type of work have been reviewed and a tentative form has been pre-

pared which will be submitted to Mr. Nolan, together with the testimony. Copies of the various exhibits to be attached to the petition have also been prepared and are available for use.

The testimony of Messrs. Jackson and Storemunder both did not vary in any material way from the statements they had previously given in this office. Mr. Elder, however, made an important change in his testimony. When he was first interviewed, not under oath, he denied any personal knowledge of the so-called slush fund. Later, he admitted that such a fund existed, that he was the sole custodian of it, and that the gross receipts would not exceed \$10,000.00 yearly, or about \$60,000.00 for the entire period. This was the amount admitted by Mr. Elder in his previous statement under oath when he was questioned by Mr. Leasing. During the interview this week, however, he admitted that the total receipts in this fund might range from \$100,000.00 to \$125,000.00.

The examination of the records of the contractors who dealt with the State of Indiana, who are alleged to have made contributions to the Hoosier Democratic Club slush fund, has been continued but sufficient progress has not been made as yet to determine the outcome of this particular feature of the investigation.

The examination of the wholesale liquor dealers located around the State of Indiana has been continued and additional contributions aggregating \$2,425.00 to the general election in 1938, and received by Bowman Elder and handled through the unidentified fund, were established either through statements of the contributors or by documentary evidence in the form of canceled checks.

About two more wholesale liquor dealers are to be interviewed. Total known contributions made by this group to the general election in 1938, and received by Bowman Elder and handled through the unidentified fund, aggregate \$7,425.00.

Intensive efforts have been made in the past several days to re-establish contacts with sources of information and it is believed that as soon as the petitions have been filed with the United States District Court in the cases

of Mr. Elder and the others, a confession may be obtained from one of the former officials connected with the McButt regime which may prove valuable in this investigation.

Jas. H. Sullivan

Jas. H. Sullivan,
Special Agent.



INTELLIGENCE UNIT

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

Indianapolis, Indiana,
February 17, 1940.

58

HEAD OF DIVISION

JMS:tm

Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.

In re: Indiana investigation.

There are transmitted herewith two documents which are of interest in connection with the above-mentioned investigation.

The first document is a letter dated January 3, 1940, from Frank M. McHale addressed to Frank E. McKinney relating to what the former believes to be the law and procedure in connection with making inquiries with reference to income tax investigations. This letter was ostensibly prepared, not for the purpose of advising Mr. McKinney regarding the matters involved, but for delivery to the first government official who made inquiries concerning the bank accounts and any other records in the possession of Mr. McKinney relating to the Paul V. McNutt for President in 1940 Club, Inc., and a similarly named organization functioning as a committee.

On February 13, 1940, Revenue Agents Cinsay and Tolmach were endeavoring to trace certain items in a bank account started by Bowman Elder when Mr. McNutt was a candidate for governor in 1931 and continued until about November, 1938, when it was closed out. On or about the same time, it was noted that the bank account of Paul V. McNutt for President in 1940 Club, Inc., opened at the same bank, and the revenue agents were endeavoring to locate what had happened to the items which previously were handled through the Bowman Elder Treasurer account. Other information on hand indicated that the new account opened on or about November, 1938, and was started with a substantial balance.

In connection with this matter, Mr. Cisney visited the Fidelity Trust Company and asked Mr. McKinney for permission to examine the Paul V. McNutt for President in 1940 Club, Inc., and Committee accounts. Mr. McKinney permitted the revenue agent to examine the accounts and then asked that the above-mentioned letter be delivered to me.

The second document of interest relates to certain statements Mr. McKinney made while he was talking to Agent Cisney on February 14, 1940. In substance, it states that Mr. McKinney wished Agent Cisney and others connected with the Indiana investigation to read the above-mentioned letter and make it a part of the record on the case. Mr. McKinney admitted the first paragraph of the letter was in error after verifying the matter with Mr. Ohleyer, of his bank.

In the second paragraph it is related that all receipts and disbursements of the Paul V. McNutt for President in 1940 Club and the Committee by the same name had been properly recorded, that McKinney personally knew of no funds received from the Hoosier Democratic Club, and that the \$25,000 deposit in the bank account of the Committee was a fund that Mr. McNutt had brought back from the Philippines.

In the third paragraph, it is recorded that Mr. McKinney volunteered the information that the collections for the McNutt campaign had dropped off almost to nothing, which he attributed to the unfavorable publicity given the present investigation. In this connection, it was stated that they knew how a lot of the information had seeped out and indicated some subordinates in the Treasury had friends connected with the Bureau. Mr. McKinney also referred to three prominent attorneys from Washington who came out to Indianapolis to work on the case and had done a lot of unnecessary talking, which had gotten out. He mentioned that one such attorney had luncheon with a lawyer and that on another occasion he had gone out to dinner with a former schoolmate, who was now a judge or had been a judge, and on the latter occasion did a lot of talking about activities concerning the Indiana investigation. Mr. McKinney made no complaint about the agents working on the case.

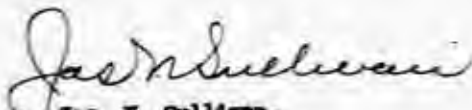
The fourth paragraph indicates that Mr. McKinney did practically all the talking during the discussion with Mr. Ciskey.

The fifth paragraph indicates that Mr. McNutt had taken this matter of publicity up with the President (referring to the use of Two Percent funds in the McNutt campaign) and that if no such abuses were found that the Treasury Department would then make a public statement to that effect.

Mr. Ciskey does not mention in his memorandum when the conversation took place between the President and Mr. McNutt but stated to me that McKinney had said it occurred on or about February 12, 1940.

With reference to the attorney mentioned in the third paragraph as having gone out to dinner with a judge, it is believed that the incident relates to Mr. Lewing's visiting the home of Judge Ryan, who was formerly connected with the Treasury Department in Washington, and the date may have been January 21, 1940, as it is recalled from conversations with Mr. Lewing that he made this visit on Sunday afternoon. The other lawyer mentioned is believed to be Ray Miller, who was also in the Treasury Department until recently, and whom Mr. Lewing knew.

Mr. McKinney has been advised by Agent Ciskey that he delivered Mr. McEale's letter to me.


Jas. H. Sullivan,
Special Agent.

Enclosures -

The following is a list of the
 names of the persons who
 have been appointed to the
 various positions in the
 various departments of the
 Government of the State of
 New York.

Mr. Frank E. Hollenbeck, President
Fidelity Trust Company
Indianapolis, Indiana

Senior President's

I have been informed that the Internal Revenue Bureau has demanded that the Fidelity Trust Company produce the bank statement of the Hubert for President Club and the record of the deposits, made by the Hubert for President Committee, and that Mr. John Shlager of your bank has properly refused the demand unless it is reinforced by a legal order.

As President of the Buffett for President Club and as Chairman of the Buffett for President Committee, I am at a loss to understand the Bureau's attitude in making an approach of this nature. It is inconceivable that the Bureau representatives would require production of the accounts and books relating to the receipts and disbursements of the Club or Committee, but if such a demand should be made upon you as Treasurer of the Buffett for President Committee and Club, there is nothing you can do but comply. Before doing so, however, I suggest that you file this letter as a protest and I will assume full responsibility.

In protesting against such a request, I desire to point out that there are two separate organizations busily engaged in promoting the Presidential candidacy of Paul V. McNutt.

- First - The McHutt for President Club is a non-profit organization, incorporated under the laws of the State of Indiana. I became President of this organization in 1958. Prior to that time I had no connection with it. The club is sustained by annual payments of \$1.00 subscribed by Democrats throughout the State of Indiana.
- Second - The Paul V. McHutt for President Committee is unincorporated. I function as Democratic National Committeeman for Indiana pursuant to the mandate of the Democrats of Indiana in the State Convention of 1958 when they offered Paul V. McHutt to the Nation as the Democratic nominee for President in 1960.

This Committee with myself as Chairman and yourself as Treasurer was organized in January, 1938, with the full consent and approval of Mr. McHitt.

- Third - Prior to the formation of this Committee, a group of very prominent attorneys searched the election laws and tax laws pertaining to such activities and learned that no report is required to be filed in the State of Indiana, or in any other State, under corrupt practices laws, by a Committee sponsoring a candidate for a Presidential nomination, or by the candidate himself, prior to nomination.
- Fourth - The Committee is non-profit and no one receives financial benefit therefrom and, therefore, it is not required to file or report any income to either the State or the Federal Government.
- Fifth - The examination made by the attorneys further disclosed that no such report has ever been filed by any candidate for the office of President of the United States, from the beginning of our Nation. Furthermore, so far as we have been able to learn, no income tax report ever has been made by any organization promoting a candidate for the Presidential nomination. As a matter of fact, this is the first time a request of this character ever has been made. Therefore, it is no more than natural that we look upon it with suspicion.
- Sixth - The record which you will have with you in your capacity as Treasurer contains, as you know, a list of the voluntary contributions made by individuals who donated to either the Club or the Committee, and it also contains a record of the disbursements. Such contributions were given and accepted without any promise, either express or implied.
- Seventh - Funds thus donated are in the nature of an implied trust. You as Treasurer and myself as Chairman, both serving without compensation, are in fact Trustees of the money donated by individuals and in behalf of the individuals.

Frank Winney

If, as is generally conceded, an individual can give money for promoting a Presidential candidacy, then there is no valid reason why two or more persons cannot voluntarily associate themselves into a club or a committee for the same purpose. It might be well in this connection to point out that the reason we maintain accurate accounts is because, in the event a surplus should be accumulated and our candidate would not be nominated, we would be obliged to distribute the balance among donors on a pro rata basis. In other words, we are acting in similar capacity to that of an "attorney in fact," spending for a group so that there is no taxable income and no legal entity that is subject to a tax.

Eighth - It is true that the Treasury Department has ruled that the Paul V. McNutt for President Club should be required to file a return on income, but it is equally true that a reconsideration of such a decision has been requested by you as Treasurer, first on November 22, 1939, and again on December 14, 1939. No such decision, however, has been rendered against the Paul V. McNutt for President Committee by the Treasury Department.

Therefore, pending the reconsideration of this question and until the department definitely rules, the books are not subject to examination. We believe very definitely that the department's ruling in the matter of the Club is erroneous, that it erred in so ruling, and that upon further study it will be so held.

In further stating our objections to such unusual procedure, permit me to point out that in the event such funds are strangely held to be taxable, no report is due until March 15, 1940; that these accounts are current and that a demand of this nature at this time is decidedly premature.

In order to complete the record, I desire furthermore to state that false reports have been disseminated by foes of Paul V. McNutt; that finances of the Hoosier Democratic Club, sometimes referred to as the "Two Percent Club," have been used to further his Presidential candidacy. Those reports are false, as even the most cursory examination will reveal, because no part of the Club funds can be used to promote the candidacy of any individual prior to nomination. Furthermore, no such money has been given to this Committee.

Frank E. *Low*

64

By no stretch of the imagination can I see where the Internal Revenue Bureau has the right to request the production of our books. It certainly does not come within the scope of an income tax inquiry.

It is the inalienable right of every free-born American citizen to become, if he so desires, a candidate for the Presidency of the United States. We believe that our fellow citizen, Paul V. McNutt, not only has the right but that he also is fully qualified to head the Democratic Party in the next campaign and to fill the exalted position of President of the United States with credit to himself, his friends, and the entire Nation.

This examination and the request for the books, coupled with the interrogation of individuals who have contributed voluntarily, already has had the effect of retarding collection of funds and contributions. To say the least, this procedure is embarrassing to those of us who are conducting this campaign.

After the examiners and their counsel have read this protest, I desire that you file it with them for the purpose of making it part of the official record. Then, if they still insist that the books be produced, we, as American Citizens, will submit to recognized authority, but we will do so only under protest.

In submitting to such a demand, we will be fully cognizant, however, that every dollar contributed to the McNutt campaign has been properly recorded, and all disbursements properly accounted for.

Sincerely,

Frank T. McNutt

McN-E

C O P Y

65

FRANK M. MCNAUL
DEMOCRATIC NATIONAL COMMITTEEMAN FOR INDIANA

CLAYPOOL HOTEL
INDIANAPOLIS, INDIANA

January
3
1940

Mr. Frank E. McKinney, President
Fidelity Trust Company
Indianapolis, Indiana

Dear Frank:

I have been informed that the Internal Revenue Bureau has demanded that the Fidelity Trust Company produce the bank statement of the McNutt for President Club and the record of the deposits, made by the McNutt for President Committee, and that Mr. John Chleyer of your bank has properly refused the demand unless it is reinforced by a legal order.

As President of the McNutt for President Club and as Chairman of the McNutt for President Committee, I am at a loss to understand the Bureau's attitude in making an approach of this nature. It is inconceivable that the Bureau representatives would require production of the accounts and books relating to the receipts and disbursements of the Club or Committee, but if such a demand should be made upon you as Treasurer of the McNutt for President Committee and Club, there is nothing you can do but comply. Before doing so, however, I suggest that you file this letter as a protest and I will assume full responsibility.

In protesting against such a request, I desire to point out that there are two separate organizations lawfully engaged in promoting the Presidential candidacy of Paul V. McNutt.

First - The McNutt for President Club is a non-profit organization, incorporated under the laws of the State of Indiana. I became President of this organization in 1939. Prior to that time I had no connection with it. The club is sustained by annual payments of \$1.00 subscribed by Democrats throughout the State of Indiana.

Second - The Paul V. McNutt for President Committee is unincorporated. I formed it as Democratic National Committeeman for Indiana pursuant to the mandate of the Democrats of Indiana

Frank L. McKinney

in the State Convention of 1938 when they offered Paul V. McNutt to the Nation as the Democratic nominee for President in 1940. This Committee with myself as Chairman and yourself as Treasurer was organized in January, 1939, with the full consent and approval of Mr. McNutt.

- Third - Prior to the formation of this Committee, a group of very prominent attorneys searched the election laws and tax laws pertaining to such activities and learned that no report is required to be filed in the State of Indiana, or in any other State, under corrupt practice laws, by a Committee sponsoring a candidate for a Presidential nomination, or by the candidate himself, prior to nomination.
- Fourth - The Committee is non-profit and no one receives financial benefit therefrom and, therefore, it is not required to file or report any income to either the State or the Federal Government.
- Fifth - The examination made by the attorneys further disclosed that no such report has ever been filed by any candidate for the office of President of the United States, from the beginning of our Nation. Furthermore, so far as we have been able to learn, no income tax report ever has been made by any organization promoting a candidacy for the Presidential nomination. As a matter of fact, this is the first time a request of this character ever has been made. Therefore, it is no more than natural that we look upon it with suspicion.
- Sixth - The record which you will have with you in your capacity as Treasurer contains, as you know, a list of the voluntary contributions made by individuals who donated to either the Club or the Committee, and it also contains a record of the disbursements. Such contributions were given and accepted without any promise, either express or implied.
- Seventh - Funds thus donated are in the nature of an implied trust. You as Treasurer and myself as Chairman, both serving without compensation, are in fact Trustees of the money donated by individuals and in behalf of the individuals.

Page three.

Frank E. McKinney

If, as is generally conceded, an individual can give money for promoting a presidential candidacy, then there is no valid reason why two or more persons cannot voluntarily associate themselves into a club or a committee for the same purpose. It might be well in this connection to point out that the reason we maintain accurate accounts is because, in the event a surplus should be accumulated and our candidate would not be nominated, we would be obliged to distribute the balance among donors on a pro rata basis. In other words, we are acting in similar capacity to that of an "attorney in fact," spending for a group so that there is no taxable income and no legal entity that is subject to a tax.

Eighth - It is true that the Treasury Department has ruled that the Paul V. McNutt for President Club should be required to file a return on income, but it is equally true that a reconsideration of such a decision has been requested by you as Treasurer, first on November 22, 1939, and again on December 14, 1939. No such decision, however, has been rendered against the Paul V. McNutt for President Committee by the Treasury Department.

Therefore, pending the reconsideration of this question and until the Department definitely rules, the books are not subject to examination. We believe very definitely that the Department's ruling in the matter of the Club is erroneous, that it erred in so ruling, and that upon further study it will be so held.

In further stating our objections to such unusual procedure, permit me to point out that in the event such funds are strangely held to be taxable, no report is due until March 15, 1940; that these accounts are current and that a demand of this nature at this time is decidedly premature.

In order to complete the record, I desire furthermore to state that false reports have been disseminated by foes of Paul V. McNutt; that finances of the Hoosier Democratic Club, sometimes referred to as the "Two Percent Club" have been used to further his Presidential candidacy. Those reports are false, as even the most cursory

Page four

Frank E. McKinney

68

examination will reveal, because no part of the Club funds can be used to promote the candidacy of any individual prior to nomination. Furthermore, no such money has been given to this Committee.

By no stretch of the imagination can I see where the Internal Revenue Bureau has the right to request the production of our books. It certainly does not come within the scope of an income tax inquiry.

It is the inalienable right of every free-born American citizen to become, if he so desires, a candidate for the Presidency of the United States. We believe that our fellow citizen, Paul V. McNutt, not only has the right but that he also is fully qualified to head the Democratic Party in the next campaign and to fill the exalted position of President of the United States with credit to himself, his friends, and the entire Nation.

This examination and the request for the books, coupled with the interrogation of individuals who have contributed voluntarily already has had the effect of retarding collection of funds and contributions. To say the least, this procedure is embarrassing to those of us who are conducting this campaign.

After the examiners and their counsel have read this protest, I desire that you file it with them for the purpose of making it part of the official record. Then, if they still insist that the books be produced, we, as American Citizens, will submit to recognized authority, but we will do so only under protest.

In submitting to such a demand, we will be fully cognizant, however, that every dollar contributed to the McNutt campaign has been properly recorded, and all disbursements properly accounted for.

Sincerely.

(Signed) Frank E. McNutt.

McN-E

C O P Y

February 14, 1946

Memorandum of Interview

29

On Feb. 13, 1940, I called Mr. Frank L. McKinney at the Fidelity Trust Co. for the purpose of making an appointment to see him on this date. The appointment was made for 10:00 A.M. at his office.

Upon arriving at Mr. McKinney's office (10:00 A.M. Feb. 14) the conversation was opened by Mr. McKinney concerning a letter of Frank M. McEale dated Jan. 5, 1940, which was addressed to him. Mr. McKinney stated that he related me and the other persons concerned in the Indiana investigation to read the letter and then make same a part of the record. At the time Mr. McKinney delivered to me the letter I called attention to the first paragraph and advised him that this was not exactly what had occurred. I advised him that I had not before the date of this letter made any demand on Mr. John Ohliger for any bank statement of the McGuffin for President Committee. I did ask Mr. Ohliger to tell me what accounts were kept at the Fidelity Trust and the approximate balances. This request was complied with, without further conversation.

In further discussion Mr. McKinney stated that he had no objections to the Bureau having the bank statements or any other of the records that he had, if such records were to be used in connection with the Two Percent Club, in trying to determine the disposition of its funds. He stated that he, as Treasurer of the McGuffin for Pres. Committee, had kept accurate records and could account for all funds received and all payments made, and that he personally knew that no funds had been received by him from the Two Percent Club. I then asked Mr. McKinney about a \$25 000.00 deposit made in the bank account of the Committee in Sept. 1939, that I happened to remember seeing. He advised that this was funds that Mr. McGuffin had brought back from the Philippines.

Mr. McKinney volunteered that the collections of the contributions had dropped off to almost nothing which he attributed to the unfavorable publicity given this investigation. I then remarked that such was beyond the power of the Bureau and certainly not intended. It was then stated by Mr. McKinney that they knew how a lot of the information had seeped out. This he said was by way of some subordinates in the Treasury who had friends connected with the Bureau. He also referred to three prominent attorneys from Washington who came out here to work on the case. He said they had known a lot of unnecessary talking which had gotten out. He mentioned that one such attorney had had lunch with a lawyer, and that on another occasion he had gone out to dinner with a former schoolmate who was now a judge, or had been a judge) and on this occasion told a lot of talking about activities concerning the Indiana investigation. Mr. McKinney made no complaint of any of the agents on the job and seemed very certain that they knew how the information had gotten out.

The conversation above related was volunteered by Mr. McKinney and with as few questions as possible asked by me.

Mr. McKinney said that Mr. McNutt had taken this matter of publicity up with the President (referring to the use of Two Percent funds in the McNutt campaign) and that if no such abuses were found that the Treasury Department would then make a public statement to that effect.

The purpose of my visit to Mr. McKinney's office was to obtain a consent fixing period of limitation upon assessment of income and profits tax relative to his own return and that of the Universal Beverage Co.

(Signed) Wayne Cisney
Internal Revenue Agent.



INTELLIGENCE UNIT

TREASURY DEPARTMENT

71

INTERNAL REVENUE SERVICE

Indianapolis, Indiana,
February 11, 1940

JJS:bm

Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.

In re: Indiana investigation.

This report relates to what has happened during the past week with reference to the above-mentioned investigation.

During the first two days I was in Washington and several of the agents were still engaged on the Louisville angle of the case which Mr. Leming had been handling. Upon my return to Indianapolis, the Louisville angle of the investigation was discontinued. This action was occasioned by the fact that Mr. Keeler communicated with me and advised that the minute books of the Kentucky Rock Asphalt Company and any other records that were believed necessary would be voluntarily offered in Indianapolis for my inspection, together with any testimony. It was stated by Mr. Keeler that Mr. Street, who represented this company in the hearings before Mr. Leming, was of the opinion that the Government was not entitled to inspect these records and that they could not be compelled to produce same through any court action threatened by Mr. Leming. At the present time, the minute books and the other records requested by Mr. Leming are in the possession of Mr. Keeler in Indianapolis and are available for inspection.

Attorneys Leming and Schwartz returned from Louisville to Washington on February 3rd and on February 6th they were withdrawn from active work in the field in connection with the present investigation. Mr. Carpenter and his secretary returned from Indianapolis to Washington on February 6th and Mrs. T. O. Herring, secretary to Mr. Leming, returned to Washington on February 7th.

The examination of the contractors among the wholesale liquor dealers was continued and those located in various parts of Indiana are being interviewed. Reports have not been received from the agents making the inquiries and no results can be reported at this time. The examination of the State of Indiana records with reference to the contractors who dealt with the State has been continued and is practically completed. At the present time, some of the contractors are being examined to establish, if possible, what irregularities existed and whether or not payments were made by them to the Hoosier Democratic Club.

Upon my return from Washington, the question of filing petitions in the cases of Bowman Elder, Oscar S. Jackson, William Storum, and possibly others, was discussed with the United States Attorney and he indicated that these will be filed as soon as proper foundations have been laid. In this connection, he examined the case of Mr. Elder, which had been prepared by Mr. Leasing, and decided it would be inadvisable to go into court with same in its present form. It will, therefore, be necessary again to interview Mr. Elder under oath after he has been served with a summons, and this will probably be done next Tuesday. The delay in the case of Mr. Elder was occasioned by the death of his father on February 7th.

Mr. Jackson was interviewed on February 9th and his case is ready for presentation to the United States Attorney. Up to the present time, it has not been possible to interview Mr. Storum but it is expected that this will be accomplished tomorrow.

After Mr. Nolan has studied the statements of Messrs. Elder, Jackson and Storum, it may be advisable to interview Frank W. McHale and possibly others, if Mr. Nolan so advises.

An article appeared in the Indianapolis Star on February 7th, attached hereto, which indicated that the agents working on the Indiana investigation would be withdrawn within a few days and has created considerable comment here. On February 10th, however, another article appeared in the same paper which purported to quote me and which indicated that the examination will continue.

During the latter part of the week work was started on checking a number of leads and clues submitted to the office in the form of anonymous communications and otherwise and work has not progressed on them sufficiently to determine if they may be profitable.

In connection with the petitions to be filed in the District Court here probably during the coming week, information is desired as to whether or not it is necessary that they be submitted first to Washington in tentative form or if the matter will be handled directly with the United States Attorney.

Jas. H. Sullivan

Jas. H. Sullivan,
Special Agent.

Inclosures -

INDIANAPOLIS STAR, FEBRUARY 7, 1940

Washington — By Raymond Clapper

WASHINGTON, Feb. 7.—A long, embarrassing search is about over for Presidential candidate Paul McNutt of Indiana. Federal revenue agents who have been on his trail in Indiana are finishing up and are leaving the state within a few days.



Ordinarily such investigations are conducted secretly but word of this got about, and the McNutt candidacy has suffered severely as a result. The mere fact that the revenue men were looking over the affairs of the McNutt group was enough to scare away support and the campaign for the Presidential nomination, which began with such a burst of activity, sank down.

The damage has been so severe that, in fairness, McNutt's friends believe some statement of exoneration should come from the Government to set the record straight. They already are at work to obtain such a statement of vindication.

Revenue agents have been working in Indiana since last fall, giving the fine-tooth comb to the entire McNutt crowd, top to bottom. They have gone through bank accounts, photostated enough papers to fill a library, and turned the affairs of the "Two Per Cent Club" inside out.

McNutt Backers Confident

On the basis of such information as they have been able to obtain from the revenue people, McNutt's friends are confident that their candidate has come through the affair without any real sticking to him. Some small fry may be caught holding out in suits reaching up to \$500 or so, but the big fish claim to be clear of the hook.

They say with some pride that none of their crowd has at any time hired a lawyer or claimed constitutional rights, and that free access has been given without question to all records.

It has been widely suspected, and the suspicion has been shared within the McNutt circle, that some of the candidate's political enemies were responsible for this investigation. This apparently is no longer the case. A large number of demands for an investigation were received by the Internal Revenue Office and Republicans in Indiana urged an investigation.

Expects Favorable Rebound

But the inquiry, so the McNutt people say now, developed following a routine check-up on Elias E. Greenlee, when he was recommended as Internal Revenue Collector by Senator Minton of Indiana. Greenlee formerly was one of the McNutt leaders and was secretary to the Governor during the early part of the McNutt administration in Indiana. He and Mr. McNutt fell out, and Greenlee was banished.

Mr. McNutt at first suspected dirty work, inasmuch as the investigation began soon after he announced his candidacy, but he is understood not to feel so any longer. Although the affair has done his candidacy much harm, he feels that he will have a favorable rebound from it.

In fact, Mr. McNutt is stepping up his campaign. He has just announced that, beginning Feb. 20, he will make a series of speeches in Oklahoma, Arkansas and Missouri.

The McNutt people are cheered by the fact that the Democratic National Convention will be held in Chicago. That is just over the line from Indiana and, unless Frank McHale's old Hoosier hand has lost its cunning, the Chicago convention galleries will be loaded with Indiana workers under orders to give McNutt a great big hand.

AGENTS CONTINUE 2 PCT. CLUB PROBE

Federal Staff Checks on Expenditures in "Un- usual" Case.

The end of the Federal government's income tax investigation of the Hoosier Democratic (Two Per Cent) Club is not yet in sight. James M. Sullivan, special agent in charge, asserted yesterday.

No report on the investigation's results will be made direct to the office of the district attorney, according to Mr. Sullivan, ace agent of the Bureau of Internal Revenue Intelligence Unit.

He said reports on the investigation are being made regularly to the Washington office and placed in the hands of Ed Foley Jr., chief counsel of the Treasury Department.

Cases of "ordinary income tax evasion" are turned over to the district attorney immediately, but reports on unusual cases, such as the Two Per Cent Club investigation, are always sent to Washington first, he explained.

Expenditures Are Traced.

If criminal action is to be taken, all data is released by the Washington office to the United States attorney general who, in turn, refers the information to the district attorney for presentation to the Federal district grand jury.

Robert H. Jackson, recently appointed attorney general, told reporters yesterday that the Department of Justice had nothing before it regarding the Two Per Cent Club investigation.

All expenditures of the Two Per Cent Club are being traced by agents who have been working here since last summer.

Income tax returns of persons who received money from the club are being investigated for all years in which the club has functioned.

NO REPORT ON PROBE.

Washington, Feb. 9.—(AP)—Robert H. Jackson told his first regular press conference as attorney general today that the Justice Department was continuing all cases left to his administration by Frank Murphy, now on the Supreme Court.

Asked specifically about the trial of M. L. Annenberg, Philadelphia publisher, on charges of evading income taxes, Jackson said the department was ready to proceed as soon as the judge in the case, James Wilkerson, is over an illness.

Jackson said that there was nothing before the department with respect to a reported investigation of the so-called "Two Per Cent Club" of the Democratic party in Indiana by the Bureau of Internal Revenue.

A reporter asked whether the department would exercise the "same vigor" in connection with recruiting of soldiers for the Finnish army as it had shown in arresting a dozen persons in Detroit and Milwaukee on charges of recruiting for the Spanish loyalist army in 1937.

"Have you stopped beating your wife?" Jackson asked by way of implying that he regarded the question as not fair. He added that he was not yet fully acquainted with the Detroit and Milwaukee cases.

3 Paroles Granted



INTELLIGENCE UNIT

NAME OF DIVISION

TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

76

Indianapolis, Ind., Feb. 8, 1940.

Memo for Mr. Irey:

This is just to advise you informally of some of the events which took place today.

Mr. Elder, Sr., died about noon today and it will probably not be advisable to attempt to interview Bowman Elder until next week. The matter was discussed with Mr. Nolan and he was of the opinion that the interview should be delayed for a reasonable time.

Mr. Nolan called me this evening and upon visiting his office he read a copy of a letter he was forwarding to Mr. Jackson today with reference to the matter discussed by me yesterday. In his letter Mr. Nolan does not ask for authority or advice about filing petitions in the cases of Elder, Jackson, Storen, and possibly others but merely brings the matter to the attention of the Attorney General in view of the prominence of the people involved.

A subpoena was served on Mr. Jackson today and he was interviewed this afternoon to lay a foundation to file a petition in his case.

A clipping from the Indianapolis Star this morning is enclosed for your information.

Jas. N. Sullivan
Jas. N. Sullivan,
Special Agent.



INTELLIGENCE UNIT

TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

Indianapolis, Indiana.
February 25, 1940.

(Name of Division)

JES:tan

Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.

In re: Indiana investigation.

This report relates to what has happened during the past week with reference to the above-mentioned investigation. The principal activities have been as follows:

Checking contributions by the breweries to the Hoosier Democratic Club which found their way into the so-called slush fund, examining the contractors who dealt with the State of Indiana to establish, if possible what contributions they were forced to give to the Hoosier Democratic Club, and tracing transactions which affected Paul V. McFutt. Considerable time was also consumed in cooperating with the United States Attorney with reference to two petitions he is preparing in the cases of Herman Elder and William Storen. The income tax examination of Otto L. Keeler has been completed by the revenue agents although their report has not been finished.

The examination of the contributions made by breweries was started this week and up to the present time \$5,000 has been traced as having been contributed before the general election in 1938 and \$2,000 before the general election in 1936, these funds not appearing on the records of the Hoosier Democratic Club and therefore handled through the slush fund. Inasmuch as there are only 15 breweries to be checked, this feature of the investigation should be completed during the coming week.

The examination of the contractors who dealt with the State of Indiana has not progressed sufficiently to determine

the outcome of this feature of the case. Several agents are engaged on this activity but because of the volume of transactions to be covered, progress has been slow.

As a result of confidential information received, the insurance agent who has been handling the insurance policies of Mr. McNutt was located and interviewed. The following comparative statement shows the policies in force at the end of 1932 and at the end of 1939:

<u>Year</u>	<u>Life</u>	<u>Accident</u>	<u>Disability</u>	<u>Total</u>
1932	\$ 43,640	\$15,000	\$15,000	\$ 73,640
1939	119,640	25,000	15,000	159,640
			Increase	\$ 86,000

During the year 1935, two policies were written by the Northwestern Mutual Life Insurance Company of \$25,000 and \$25,000, respectively, and in 1939, an additional policy with the same company of \$25,000 was written and also an additional policy of \$10,000, accident.

At the end of 1932, the total annual net premiums paid aggregated \$1,491.00 and at the end of 1935, \$3,422.88, and at the end of 1939, \$4,483.38. The figures shown are net after reducing same by the amount of dividends turned back.

Up to date, information relative to the policies of Mrs. McNutt and their daughter has not been received.

It is interesting to note that the above-mentioned premiums are all handled through a trustee account of Chester W. Albright, a special agent of the Northwestern Mutual Life Insurance Company, and each month since Mr. McNutt departed for the Philippines payments have been received in the form of checks signed jointly by Frank M. McBale and Frank E. McKinney. Both of the last-named individuals are absent from Indianapolis on campaign activities and an explanation will be obtained as soon as they are available.

In view of the statements made in the column of Harlan Miller on February 14, 1940, which appeared to be based on information supplied by Mr. McNutt or some of his associates, to the effect that from \$25 to \$300 had been received by Mr. McNutt for a speech and that his speaking income had never reached the \$5,000 a year mark, it was believed advisable to make a reasonable check of this source of income. The news-

paper files were examined and approximately 50 places outside Indiana, where Mr. McNutt made speeches during the time he was governor, were recorded and letters have been forwarded to the divisions involved to have an agent obtain all the pertinent information surrounding the engagements. Several of the engagements in the State of Indiana, where Mr. McNutt appeared as a speaker, are being checked to determine if any compensation was involved. The examination of this feature of the case has not progressed sufficiently to determine the outcome.

There is inclosed herewith a clipping from the "Indianapolis Times" of February 22, 1940, wherein portions of a speech made by Mr. McNutt at Oklahoma City on the same day are quoted as follows:

"There has been a lot of gossip about the 'Two Per Cent Club.' There are two ways to finance a campaign like that.

"One is to dangle the hat before the people who expect to get favors. . . The other is to open the way for voluntary contributions by people of your own party, men and women who are interested in a common program of government.

"The latter way is the honest way, and I prefer it. Besides, those 2 per cent contributions were not 2 per cent. They were only 1.3 per cent. And no one had to contribute for fear of losing a job."

This examination has developed up to the present time that some \$60,000, which can be proved, was collected from organizations which received favors from the public officials of the State of Indiana, namely, wholesale beer and liquor dealers and breweries. Mr. Elder, who handled the slush fund, has admitted under oath receiving between \$120,000 and \$125,000 partly from the same sources, and he is unable or unwilling to explain its distribution.

There is also inclosed for your information a schedule of the contributions collected by the Hoosier Democratic Club, which has been cleverly designed so that the bulk of the salaried employees of the State actually pay in excess

of two per cent of their salaries because their compensation falls in the lower half of each of the classes used.

Evidence is also on hand tending to show that employees were penalized for non-payment of dues to the Hoosier Democratic Club, their salary checks were held up and they were dropped.

The cases of Bowman Elder and William Storen were submitted to the United States Attorney on February 19, 1940, and several conferences have been had with Mr. Nolan since that time. In this connection, it might be stated that Mr. Nolan was already busy on an important W. P. A. case which involved one of the prominent citizens of Indianapolis and yesterday, when the defendants were arraigned, the court granted additional time for the defense attorneys to file motions of various kinds and did not fix a date for trial. It is believed that this will result in Mr. Nolan's having more time available for preparing the petitions in the cases of the two individuals previously mentioned, because after his appearance in court yesterday he called and advised he would start drafting his petitions tomorrow, Monday, and expected to have them in shape to file later in the week.

The income tax examination of Otto L. Keeler has been completed by the revenue agents and they are now writing their report. There is some question as to how a portion of the income earned by Mr. Keeler will be handled for tax purposes. If the constructive receipt theory is applied, it will result in a substantial amount of additional tax, less than \$50,000, and if this theory is not applied, there will be only a nominal amount of additional tax. Mr. Lane will write the special agent's report and it will be necessary to have a final interview with Mr. Keeler before his report can be written and submitted.

In view of the situation involving Mr. Keeler, it was believed advisable to instruct the revenue agents to make an independent examination and the special agents were not active during same nor at the interview they held with the taxpayer.

The examination of the wholesale beer distributors and the wholesale liquor distributors who made campaign contri-

butions before the general election in 1938 has been practically completed. It will be possible to prove that the total collections from the wholesale beer distributors in 1938 will run between \$45,000 and \$50,000, all of which is unaccounted for on the books of the Hoosier Democratic Club and which was handled through the slush fund. In the case of the wholesale liquor distributors, the total contributions before the general election in 1938 will aggregate approximately \$10,000, and this is also not shown on the books of the Club and was therefore handled through the slush fund. This aggregate of between \$55,000 and \$60,000 can be proved by canceled checks and documentary evidence, including statements of the contributors.

During the coming week, it is planned to resume the income tax examination of Plans H. Greenlee and the related cases, and a report will be submitted on this group of cases at an early date.

Jas. H. Sullivan
Jas. H. Sullivan,
Special Agent.

Enclosures -

POLIS TIMES

M'NUTT RAPS 4 G. O. P. LEADERS

**'Quartet of Carping Critics,'
He Says; Defends New
Deal Policies.**

OKLAHOMA CITY, Feb. 22 (U. P.).—Paul V. McNutt, candidate for the Democratic Presidential nomination, in a speech prepared for delivery here today, said the four leading Republican candidates were a "quartet of carping critics" and that the charge of the "malcontents" was getting louder and louder.

He challenged the Republicans—Senator Robert A. Taft of Ohio, District Attorney Thomas E. Dewey of New York, Senator Arthur Vandenberg of Michigan and Frank Gannett, New York publisher—to present a program superior to the New Deal policies he defended.

Mr. McNutt said his record as Governor of Indiana was "open to the public in all respects."

"And that includes the 'Two Per Cent Club' organized in Indiana to help pay campaign expenses," he said. "There has been a lot of gossip about the 'Two Per Cent Club.' There are two ways to finance a campaign like that.

"One is to dangle the bait before people who expect to get favors. . . . The other is to open the way for voluntary contributions by people of your own party, men and women who are interested in a common program of government.

"The latter way is the honest way, and I prefer it. Besides, those 2 per cent contributions were not 2 per cent. They were only 1.2 per cent. And no one had to contribute for fear of losing a job."

At a press conference Mr. McNutt said the Democratic Party must nominate a liberal to stay in power and termed his relations with James A. Farley as "cordial."

"President Roosevelt can have the nomination if he wants it," Mr. McNutt asserted. "My own candidacy hinges on his decision."

"Whoever wins the Presidency is in for a tough time. A precarious foreign situation is added to the domestic problem."

THE INDIANAPOLIS STAR
Monday, February 19, 1940

McNUTT PONDER'S BATTLING GARNER

California Primary Lures
Hoosier—Would Make
Personal Tour.

By EVERETT C. WATRINK.

Indianapolis Star Bureau.
1201 National Trust Building.

Washington, Feb. 18. — Paul V. McNutt is considering a challenge to "Jack" Garner for California's 64 delegates.

The Vice-President has announced his name will be entered in the California primary May 14.

Should he enter the California primary McNutt would campaign personally for votes. McNutt's backers have great confidence in his ability. They believe that he would be able to take the measure of Garner despite the fact that the "ham and eggs" state is overrun with exiled Texans.

Garner won the California primary in 1932. His delegates of that state and Texas were delivered to Roosevelt to clinch his nomination in the same deal that made Garner the vice-presidential nominee. Garner has an anti-New Deal reputation. McNutt would seek administration support should be decided finally to jettison with Garner. Forty-four delegates are not to be overlooked.

McNutt either will be nominated for President of the United States or be disappointed on his 60th birthday.

Birthday is July 18.

The Democratic national convention will begin July 15. It usually is on the fourth day that the balloting begins. July 19 is the McNutt birthday.

So McNutt, with a new confidence that he has overcome some of the handicaps that were cast his way a few weeks ago, is quite pleased with the convention date fixed by "Jim" Farley.

He will speak at Richmond, Va., tomorrow night and then on Tuesday night will depart on a speaking trip that will take him to eight cities in Oklahoma, Arkansas and Missouri.

Samuel R. Pettengill of South Bend, a former Jeffersonian member of Congress, considers that "Paul has been given a raw deal." He proclaimed long ago that the "Corcoran-Cohen boys" would conspire to damage the McNutt candidacy. He thinks the "Corcoran-Cohen boys" are the culprits.

Makes No Charge.

But McNutt makes no charge about who hit him in the dark. He is in the dark about who hit him. He would like to know.

Frank McIlale now is in Florida, a state considered favorable to McNutt. He is to depart from there for Oklahoma where he will meet McNutt. Oklahoma is "solid" for McNutt, according to Oklahoma members of Congress, providing President Roosevelt refrains from being a candidate.

The fact that Farley has been told three times that President Roosevelt will on a definite, but unrevealed date, announce that he is not to be considered for the nomination, is encouraging to the McNutt forces. Eliminating Roosevelt as a contender the McNutt boosters consider the Hoosier, despite "blows delivered in the dark" to be in as good a position as anyone else to win convention support.

Seeks Virginia Votes.

The visit of McNutt to Richmond tomorrow will be a bid for delegates from a state that believes in a balanced budget. McNutt's reputation for budget balancing in Indiana will be paraded before anti-New Deal Virginia Democrats. Members of the Virginia general assembly have been invited to attend the McNutt-Chen meeting that McNutt will address.

"Jack" Ewing, New York lawyer and a native of Greenwich, Ind., the Atlantic coast state manager for McNutt who recently captured the Delaware delegates for McNutt, is to be here tomorrow. He will accompany McNutt to the Virginia capital and then return to Washington for a few days to confer with members of Congress.



TREASURY DEPARTMENT

WASHINGTON

February 28, 1940.

MEMORANDUM FOR THE SECRETARY.

Mr. Carusi, one of the assistants to Attorney General Jackson, telephoned this afternoon that, at the direction of Mr. Jackson, he had telephoned to the United States Attorney's office at Indianapolis (Nolan was out of the office) and told his assistant that the Attorney General desired they go ahead and cooperate to the fullest extent with our special agent. The assistant stated that they had sent the file in with their letter of yesterday, and Mr. Carusi told me that as soon as they receive this file they will return it with written instructions to cooperate.

I have telephoned this information to Special Agent Sullivan, who is now in the United States Attorney's office pushing the matter.



FEB 28 1940



INTELLIGENCE UNIT

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

Indianapolis, Indiana.

March 3, 1940.

BUREAU OF INTERNAL REVENUE

JG:tan

Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.

In re: Indiana investigation.

This report relates to what has happened during the past week with reference to the above-mentioned investigation. The principal activities have been as follows:

Checking contributions by the breweries to the Hoosier Democratic Club which found their way into the so-called slush fund; examining the contractors who dealt with the State of Indiana to establish, if possible, what contributions they were forced to give to the Hoosier Democratic Club; and tracing transactions which affected Paul V. McHutt has been continued. Considerable time was also consumed in cooperating with the United States Attorney with reference to the two petitions he was requested to file in the cases of Emma Elder and William Storen. The income tax investigation of Otto L. Keeler has been completed and final reports submitted yesterday. The income tax investigation of Pless E. Greenlee is nearing completion and it is expected that final reports may be submitted during the coming week.

The examination of the breweries has uncovered payments in 1936 of \$6,400 and in 1938, \$4,900. These figures added to the payments traced during the previous week are \$8,400 in 1936 and \$7,800 in 1938. These two groups of payments were made before the general elections in 1936 and 1938, and inasmuch as they eventually found their way into the Hoosier Democratic Club and are not recorded on their books, it may be assumed that they became part of the slush fund. Five breweries remain to be checked in this class of contributions to the Hoosier Democratic Club and it is expected they will be completed this week.

The examination of the contractors who dealt with the State of Indiana has not progressed sufficiently to determine the outcome of this feature of the case. Several agents are engaged on this activity and a large part of the week was consumed in obtaining waivers covering the returns for the year 1936.

As a result of confidential information received, the investments of Paul V. McNutt, Frank M. McHale, Bowman Elder and others in the Journal Gazette Company, a newspaper in Fort Wayne, Indiana, were traced and disclosed some interesting facts.

In October, 1934, a petition was filed in the United States District Court for the Northern District of Indiana, at Fort Wayne, for the reorganization of the Journal-Gazette Company under Section 77B of the Federal Bankruptcy Act. Without going into the details of the movements in stock and the various exchanges under the plan of reorganization, it may be stated that the following payments were made for the stock of this company:

Currency from undisclosed sources for the purchase of 1,000 shares of old common stock	\$ 5,000.00
Deposit at Fidelity Trust Company, Indianapolis,	10,620.00
Payment of Virgil M. Simmons	3,541.66
Payment by James R. Fleming,	3,541.66
Net Payment by W. A. Kunkel, Jr.,	3,146.68
	<u>\$25,850.00</u>

Mr. Kunkel, who was the moving spirit in this reorganization and trustee, was questioned and the deposit at the Fidelity Trust Company of \$10,620.00 was traced. It was disclosed that two days before the above-mentioned stock was paid for an agreement was entered into between William A. Kunkel, Jr., and Bowman Elder, Frank M. McHale and Paul V. McNutt which stated that the Elder, McHale and McNutt group wished to purchase from Kunkel the following stocks:

875 shares of Class A no par common stock,	
680 " " " B " " "	
600 " " preferred stock.	

The purchase price of the Class A and B common stock was fixed at \$15,450.00, and in the case of the preferred

stock, Dunkel entered into a subscription agreement to sell same to Elder, McHale and McNitt as and when required.

The agreement, a copy of which is in our possession, acknowledged the receipt by Dunkel of \$13,000 from Elder, McHale and McNitt as of October 15, 1935, leaving a balance due of \$2,400.

The records of the Fidelity Trust Company were examined and it was found that on September 17, 1935, a deposit in the name of E. A. Dunkel, Jr., was made of \$10,650, consisting of two checks for \$5,500 each and a cash item of \$5,500.

The records of Frank M. McHale were examined in his absence from Indianapolis and it was disclosed that he issued his personal check on the Indianapolis National Bank for \$5,500 payable to the Fidelity Trust Company and his personal check on the American National Bank for \$5,500 payable to the Fidelity Trust Company, and had taken a demand note from Bowman Elder on the same date for \$5,500. This series of transactions would indicate that McHale furnished the cash for his and the investment of Elder and that he took a note from Elder. It also indicates that the \$5,500 in cash mentioned on the deposit ticket at the Fidelity Trust Company must have come from Paul V. McNitt.

There are no substantial withdrawals in the account of Mr. McNitt at the Indiana National Bank in or around this date. It was noted that he visited his safe deposit box at the Security Trust Company on September 17, 1935, and that on the same day he opened a commercial account at the Security Trust Company by the cash deposit of \$5,150 and immediately withdrew by check \$4,579.38. Because of the odd figures of this check, it is reasonable to assume that it has no connection with the agreement in which he, McHale and Elder were parties, and it would appear that he probably withdrew \$8,700 in cash and deposited \$5,150 in the bank and the balance of \$3,550 because the cash item on the deposit of \$10,650 in the Fidelity Trust Company.

On the other hand, Dunkel, when interviewed on February 29, 1940, admitted he received the \$10,650 from McNitt, McHale and Elder as part payment on an option to purchase,

that they have never exercised the option, that no interest has been paid them, and if they do not exercise the option, he agreed to pay them five per cent interest on their money.

From the manner in which this transaction was handled, it is apparent that there is still considerable mystery about it to be uncovered. McHale is absent from Indianapolis at the present time and cannot be questioned, and it is not advisable to interview Elder at the present time because of the pending court action. It is also not advisable to interview McMutt, and the statements made by Emkel do not appear to be correct.

At the present time, agents are endeavoring to trace the brokerage transactions and the speaking engagements of Mr. McMutt, and it is expected that sufficient data will be on hand to report on these items next week.

Final reports were submitted by the revenue agents and the special agent in the case of Otto L. Keeler yesterday wherein it was recommended that an additional tax of \$42,159.16 be assessed for the years 1936 to 1938, inclusive. In my transmittal letter, it was pointed out that in practically all the cases where there was an element of doubt as to the method of taxation, the burden was placed on the taxpayer. It is believed that these reports will dispose of this case so far as the present investigation is concerned.

The case of Mr. Greenlee is under active investigation and it is expected that final reports may be submitted during the coming week. It has not been decided up to now what recommendation will be made with reference to a prosecution. Russell Handy, Robert Handy and Greenlee have made conflicting statements with reference to stock ownership and the dates of transfer in the case of the Handy Beverage Company. An attempt is being made to obtain additional information on this feature of the case.

Action by the United States Attorney on the petitions to be filed in the cases of Bowman Elder and William Storms has been held up temporarily pending the receipt of additional instructions from Washington. In his letter of February 27, 1940, addressed to the Attorney General, Mr. Nolan submitted a copy of the proposed petition in the case of Mr.

Kider, together with a copy of his statement, and requested to be advised what action, if any, it was desired he should take in the matter.

Jas. M. Sullivan

Jas. M. Sullivan,
Special Agent.

NOV 5 1940



TREASURY DEPARTMENT
WASHINGTON

March 5, 1940.

MEMORANDUM FOR THE SECRETARY.

Mr. Foley handed me yesterday a letter addressed to him by Assistant Attorney General Clark relative to the filing of a proposed petition at Indianapolis, Indiana, by Special Agent Sullivan for a court order requiring Bowman Elder to appear, testify and produce records.

Mr. Clark states that, based on the examination of the transcript of testimony of Bowman Elder given before Agent Sullivan on February 14th (copy attached), his office is of the opinion that the issuance of a court order constitutes a doubtful legal question and he sets forth his reason for this opinion.

Upon receipt of the letter, I discussed the matter with Commissioner Helvering, and we agreed that I should telephone Special Agent Sullivan instructions to submit a statement of the basis for his questions of Bowman Elder and on what he relied to support the conclusion that Elder either evaded the truth or did not tell the truth.

The report of Special Agent Sullivan dated March 4, which is attached, has been reviewed by Commissioner Helvering and myself. While this report is twelve pages

long, we feel that it is of such importance and contains such a clear review of the situation with respect to the funds of the Hoosier Democratic Club and the connection therewith of Mr. Elder that you might find it well worth your time to review it.

It is our conclusion that the report of Special Agent Sullivan indicates clearly evasion of the truth by Mr. Elder; further, that in a number of instances the answers which he gave were not true and there is ample reason to believe that he knew they were not true.

We believe that with the information contained in the report of Special Agent Sullivan, which was not before it at the time of the writing of the letter to Mr. Foley, the Department of Justice will feel that it is fully justified in directing the United States Attorney to file the petition with the court for the order desired. It is believed that this is a necessary step to the successful carrying on of this investigation.

This memorandum is submitted at the suggestion of Mr. Helvering and expresses his conclusions, as well as my own.



Encs.

C.C. to
Mr. Helvering
Mr. Foley

- 2 -



INTELLIGENCE UNIT

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

Indianapolis, Indiana,
March 4, 1940.

32

NAME OF DIVISION

JNS:km

Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.

In re: Indiana investigation.

Reference is made to our telephonic conversation this morning relative to the above-mentioned case and particularly in connection with the proposed petition to be filed in the case of Bowman Elder for the purpose of forcing him to answer certain questions by means of a court order.

From the above-mentioned telephonic conversation, in which reference was made to a letter received from Mr. Clark, of the Department of Justice, by Mr. Foley, it was indicated that some doubt existed as to the advisability of filing the petition because of the doubtful outcome in the event Mr. Elder maintained he was unable to recall certain pertinent facts. It was also indicated that if the additional facts in my possession were submitted, it would clarify the issue.

The testimony of Mr. Elder in this office on February 14, 1940, will therefore be referred to in the following comments, the additional facts on hand will be shown where same are available, and also what comments are believed may be of value in deciding the issue. In order more clearly to reconcile the explanations with the testimony, each question and answer has been given a serial number on the pages of the transcript.

TRAILABILITY OF THE BOOSTER DEMOCRATIC CLUB AND
EXTENDED KNOWLEDGE OF INCOME TAX INVESTIGATIONS.

A series of questions were asked on page two, Nos. 1 to 7, to establish that Mr. Elder had knowledge that there

was a question of the tax liability involved in the operation of the Club. This knowledge was based on advice he had received from a certified public accountant who had been retained to install a set of books for the Club and who also made the periodic audits. This question about the taxability of the income received by the Club was first raised as early as July, 1935, according to the testimony of the representatives of the audit firm, and the fact was admitted by Mr. Elder.

On the same page, questions 8 and 9, it was also established that the present examination has been known to Mr. Elder since August, 1939, when the revenue agent and I first advised him of same, and he has had approximately six months to think the matter over carefully and refresh his recollection about the various transactions, if he so elected. Numerous witnesses interviewed have admitted that they had consulted with Elder before they visited this office to testify about contributions to the Club. Some of the witnesses admitted at a subsequent interview that they had visited Mr. Elder after being questioned to discuss the situation. In this connection, it might be stated that the following witnesses fell into this group: Knutol, Coogan, Hill, Bauer, Cianer, Morley, Beck, Funsler, Baller, Weara and Black. These witnesses all testified to collections made from the beer and liquor wholesale dealers before the 1936 and 1938 general elections. In the case of Mr. Knutol, he admitted he did not know the total of his collections and consulted with Mr. Elder before visiting this office to refresh his recollection. Cianer also testified along the same lines. It is obvious from this type of evidence that if Mr. Elder was in a position to refresh the recollection of witnesses, he is capable of explaining the same details to the Government.

So far as it has been determined, none of the witnesses was asked by Elder to understate their collections, with the exception of Baller.

Dick Baller has been secretary to Governor Townsend since he took office. In October, 1938, Elder asked Baller to arrange to take up campaign contributions from the wholesale beer dealers located in certain areas in the State. Mr. Baller testified that he made the arrangements and designated certain wholesale beer distributors to collect from their customers and, as a result, collected approximately \$22,000. Subsequently, Mr. Baller admitted his

recollection had been refreshed on the situation and that the collections he received and turned over to Mr. Elder would run between \$35,000 and \$40,000.

At the time Mr. Heller was requested to come to this office with reference to this matter, he first consulted with Mr. Elder and confidential information has been relayed to the effect that Elder tried to prevail on Heller to admit a nominal amount of \$10,000. The same source of information indicated that because of the admissions of Heller in this office of the substantial amount received a break was caused in the friendship between Heller and Elder. It is known that Elder, between his first statement before Mr. Leasing when he admitted approximately \$60,000 in collections during the years 1933 to 1938, inclusive, and his second statement on February 14, 1940, decided to raise the amount of collections to between \$100,000 and \$125,000.

All these facts tend to establish definitely that if Mr. Elder elected he could have furnished detailed information at least about some of the collections he received because it can be established, if necessary, that his recollection has been refreshed recently on some of the items involved, and he has refreshed the recollection of witnesses.

ACCURACY OF THE RECEIPTS OF THE HOOSIER DEMOCRATIC CLUB.

At the time when Revenue Agent Tolmach and I first started the examination of the records of the Club, Mr. Elder presented us with a detailed statement of the operations of the Club from the date of its organization to the end of 1938. He advised it had been prepared by a firm of certified public accountants and that it truly reflected the receipts and disbursements of the Club for the period indicated. This statement was identified by Mr. Elder, as indicated on page 2, question 10. The statement shows the disbursement by the Club to the Indiana Democratic State Central Committee of certain amounts in each year.

Again on page 8, question No. 3, Mr. Elder admitted that he submitted the periodic audit reports, which had been summarized on the statements previously mentioned, to the president of the Club and that they had been approved by that official in accordance with the by-laws.

At the time Mr. Elder submitted the statement and the audit reports to Agent Tolmach and myself, he indicated that everything pertaining to the receipts and disbursements of the Club had been checked by an outside accounting firm, that they were found to be in order, that the president had approved same, and that it would therefore be unnecessary for us to make a detailed audit of the Club. The clerk of the Club was present also at this time and assured us that all accounting records were in good order, had been audited and approved, and that the statements and audit reports submitted truly reflected the receipts, disbursements and other transactions of the Club.

The statement of Mr. Elder and his clerk at this time was incorrect and intentionally made to be misleading, as will be pointed out in subsequent comments.

ESTABLISHED IRREGULARITIES IN THE RECORDS OF THE ROOSEVELT
DEMOCRATIC CLUB

The statement presented to the examining officers of the Club, identified on page 2, question No. 10, shows the following payments were made to the Democratic State Committee:

1933	\$12,837.40
1934	84,394.51
1935	35,850.00
1936	125,600.00
1937	33,500.00
1938	176,000.00
	<u>\$466,181.91</u>

The audit reports submitted by Mr. Elder, and identified on page 8, question No. 3, also disclose the same information. Of course, the books and accounts of the Club are the same.

Beginning on page 3, questions 7, 8 and 9, and continuing on to page 4 and on page 6, questions 1, 2 and 3, Mr. Elder identified 35 checks aggregating \$93,100, and as indicated in question No. 4, page 6, his explanation is as follows: "It was spent for political purposes. I cannot give you the details, general political purposes." Nos. 5, 6, 7 and 8, page 6, refer to the same explanation when an attempt was made to obtain further details.

beginning on page 6, Nos. 9, 10 and 11, and continuing on the following pages, Nos. 1 to 5, Mr. Elder identifies 15 checks he turned from the revolving fund of the Club, aggregating \$87,400, and then asked for an explanation of how those items were disbursed, the following answer was given: "Well, I can say for general political purposes of the Democratic Party."

In No. 7, page 7, Mr. Elder testified the total of the two batches of checks, 50 in number, of \$180,500, was received by him personally and disbursed by him, and therefrom he selected his books and records were among them they allege the money was disbursed to the State Central Committee.

On page 7, No. 5, the question was asked Mr. Elder if any of the funds of the Club were paid for organization expenses outside of the State, to which he replied in substance, "No, not to my knowledge."

Confidential information has been received, which is believed to be reliable, that Eugene Coy, who was executive secretary to Mr. McNeill when he was governor, was given a substantial sum of money by Bowman Elder and asked to deliver it to a Democratic political organization in Detroit, Michigan, which he did.

In a series of questions beginning on page 8, No. 4, and continuing on page 10, the previous testimony of Mr. Elder was read wherein he had first denied the existence of any funds of the Club which were not recorded on the books of same and finally admitted that certain funds had been received, principally from those doing business with the state and from wholesale beer and liquor distributors which would aggregate approximately \$10,000 annually.

After his previous testimony had been read to Mr. Elder for the purpose of refreshing his recollection, he was asked if he had any additional remarks he wished to add to the record, page 10, No. 1, and at this point he increased the total of the unidentified fund from an average of \$10,000 annually to between \$100,000 and \$125,000 during the years 1895 to 1908, inclusive.

It will be noted at the bottom of page 9, where his previous testimony was being repeated, that Mr. Elder related the unidentified fund was kept in a safe deposit box at the Indianapolis Athletic Club. In between the times when this statement was made (December, 1939) and the present interview (February 14, 1940), an analysis was made of his various bank accounts. Contributions which were handled through the unidentified fund were traced into his bank accounts and Mr. Elder therefore makes a further explanation at the bottom of page 10 as to where the unidentified fund was kept and mentioned the bank accounts which had already been located without his assistance.

IDENTIFICATION OF VARIOUS BANK ACCOUNTS

All known bank accounts of Mr. Elder were presented to him for identification during this interview, first for the purpose of having him identify same and secondly for the purpose of having him designate which accounts contained any items which made up the unidentified fund. These questions start on page 11, No. 1, and continue to page 13, No. 8.

On page 13, beginning with No. 9, Mr. Elder identifies the accounts in which he deposited items which made up the unidentified fund.

On page 14, No. 5, it was pointed out to Mr. Elder that the analysis of the various accounts he identified and which were used to deposit items which comprised the unidentified account had been analyzed and that a balance of \$128,769.52 remained to be explained by him. His explanation is vague, indefinite and such as to impede the orderly progress of an income tax investigation. It may be summed up as follows: "Spent for general political purposes, for the benefit of the Democratic Party." This fact is particularly important when it is realized that Mr. Elder is not explaining the receipts and disbursements of his personal funds but is accounting for a fund of which he was the trustee.

IDENTIFICATION OF MISCELLANEOUS ITEMS PAID BY THE BOOSTER DEMOCRATIC CLUB

Beginning on page 18, Mr. Elder was asked a series of questions relating to various items paid by the Booster

Democratic Club which, in my opinion, could not be classified as ordinary and necessary expenses of a political organization and therefore had an important bearing on the question of the taxability of the organization.

On page 18, Nos. 3 and 4, Mr. Elder was asked about a gift made to Senator Minton for which the Club contributed a substantial portion of the purchase price.

8.

On page 18, Nos. 9, 10 and 11, Mr. Elder was asked about a hospital bill paid in the case of Wayne Coy, executive secretary to Mr. McNutt when he was governor.

The questions on page 19 and down to question No. 7 on page 22 relate to the same class of items.

The items covering expenses paid to Tom McConnell, page 22, No. 3, 6 and 7 are interesting because it developed on questioning Mr. McConnell that he was paid to promote a candidate in the American Legion for State Commander who would be favorable to Mr. McNutt and his campaign for president. Inasmuch as the American Legion is a non-partisan organization, it is difficult to reconcile such expenses as being for the good of the Democratic Party and an ordinary and necessary expense of a political organization, in view of the fact that Mr. McNutt does not represent the Democratic Party.

The item covering expense to James W. Bowlen, page 22, No. 4, is also interesting because he testified that he was given money to have the Communist Party prepare pamphlets in an attempt to influence the vote of the various unions in Indiana. The Communist Party was unable to prepare the pamphlets and it was done by the local Socialist Party representatives in Indiana.

If these recorded expenses on the books of the Hoosier Democratic Club are what Mr. Elder believes to be for the good of the Democratic Party, it is obvious that many of his unrecorded expenses must be of a similar character and therefore questionable.

CONTRIBUTIONS FROM THOSE WHO HAD RECEIVED PAYMENTS FROM
THE STATE OF INDIANA

Mr. Elder was asked on page 15, No. 5, the approximate amount he had received from the wholesale beer dealers in each of the years 1933 to 1938, inclusive, to which he replied, "I could not tell you, Mr. Sullivan."

On page 15, No. 4, he was asked about the approximate amount he had received from the wholesale liquor dealers in each of the years 1933 to 1938, inclusive, to which he replied, "I could not answer."

On page 15, No. 5, he was asked if he knew the approximate amount he had received from the breweries in Indiana during each of the years 1933 to 1938, inclusive, to which he replied, "No, sir."

On page 15, Nos. 6, 7 and 8, he was asked about contributions from the contractors who dealt with the state and, in general, his answer was "I do not know."

With reference to his answer about the contributions from wholesale beer dealers, it might be stated that he asked Mack Heller to arrange for these contributions over part of the state before the 1938 general election and, according to Mr. Heller, he received between \$25,000 and \$40,000 from this source, and Mr. Heller had a conversation with him recently in which Mr. Elder endeavored to prevail on him not to mention the correct amount but a nominal amount of some \$10,000.

As previously pointed out at least seven of the contributors or collectors of political funds before the 1936 and 1938 general elections conferred with Mr. Elder before or after they had visited this office for the purpose of refreshing their recollections about the amounts they turned over and Mr. Elder appeared to be in a position to supply them with the necessary information. Still when he was questioned under oath on an income tax investigation, he alleged he was unable to supply any of the details.

Further, Mr. Elder admits, page 16, Nos. 7 and 8, that he was trustee of the fund and no one had access to it except himself. Therefore, there is no one the Government may look to for the purpose of obtaining the details about

the items collected for and disbursed from the unclassified fund except Mr. Elder.

GENERAL QUESTIONS

On page 15, No. 1, Mr. Elder was asked about a newspaper clipping which indicated that he had forwarded at least one letter to the superintendent of the Indiana Boys School at Plainfield ordering its employees to contribute a portion of their salaries to the Club. A portion of the letter was quoted in a newspaper article, and when a search of the files of the Club was made, a copy of same could not be located, indicating that part of the correspondence file had been removed.

Mr. Elder was asked about the resignation of Frank H. McBale from the Booster Democratic Club and he advised it was approximately a week before the latter became National Committeeman. The official organ of the Club, the Booster Sentinel, contains an article in November, 1937, to the effect that at the meeting of the Club Mr. McBale was re-elected a director for two years, and this took place some time after Mr. McBale was alleged to have resigned. It is also recalled that when a request was first made of Mr. Elder to examine the books of the Club that he called Mr. McBale by telephone for the purpose of obtaining permission for us to inspect same. During an interview with Mr. McBale, he alleged he resigned from the Club and sent his notice by registered mail at the time he became National Committeeman, which is contrary to the facts recorded in the Booster Sentinel.

It is believed that a correct answer should be given to this question as it is important to show the control over the Club by McBale. (Page 17, Nos. 1 to 5.)

GENERAL COMMENTS

It is believed that the testimony of Mr. Elder clearly established that he had sole custody of the funds of the Booster Democratic Club, and this included the funds they recorded on their books and those cashed. He was functioning in the capacity of trustee, which he admitted, and he should be in a position to make an accounting of the funds

handled by him. This is a responsibility which cannot be lightly avoided on the pretext of a faulty recollection and which, in my opinion, would not be a sufficient excuse if he were ordered to supply such information by the Court.

The amount of money involved is substantial, an aggregate of \$117,500 in checks representing money disbursed and covered up on the books of the Club, and the audit reports submitted to the president of the Club for his approval in accordance with the by-laws, also the receipts and disbursements in an unidentified fund which Mr. Elder admits may be as high as \$125,000 and which the examination has indicated may exceed \$500,000.

The receipts and disbursements of this substantial amount of money cover the years 1933 to 1938, inclusive, and it is information peculiarly within his knowledge. It is therefore unreasonable to suppose that an individual handling such a substantial amount of money in the capacity of trustee cannot recall any of the details at the present time. It might also be pointed out that a substantial amount of the collections and disbursements took place around the general election in 1938, and at the time Mr. Elder was first questioned concerning same, within one year, he was unwilling or unable to furnish any details.

This information is vital in first determining whether or not the Booster Democratic Club is a taxable organization, which can only be established by analyzing their receipts and disbursements to determine their character and, as previously pointed out, the books and records as well as the audit reports are incorrect and misleading and fail to disclose this necessary information.

In the event the Bureau decides that this organization is a taxable entity, this information will be necessary and the same question will arise as to whether or not a trustee can avoid the liability imposed on him by the income tax law by failure to keep proper records and then resort to a faulty recollection when he is confronted with the necessity of making an explanation.

There is also a practical problem involved in the question of whether or not Mr. Elder can be forced to answer questions by the Court. Up to the present time,

some 75 witnesses who made contributions to the Hoosier Democratic Club have been summoned to our office and thereby forced to admit such donations and to submit proof in the form of canceled checks in a number of instances. Many of these witnesses come from points outside of Indianapolis and incurred expenses and inconveniences to assist the Government in its investigation. In some cases the contributors have refused to cooperate by alleging faulty recollections and thereby prolonged and impeded the orderly progress of the investigation. The solicitations for these contributions were infrequent and therefore difficult for the donors to recall.

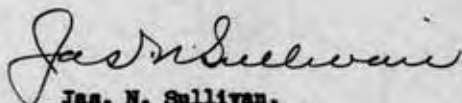
On the other hand, Mr. Elder has been a party to the organized solicitation of these contributions. He was instrumental in having Mr. Heller accept the job of arranging for the collection of contributions from the wholesale beer distributors before the 1938 general election and received such contributions in person from Mr. Heller pursuant to the arrangement. He personally accepted the contributions collected by Mr. Runkel from another section of the State and also those from Mr. Clauer who solicited the local dealers. A large part of each business day has been devoted by Mr. Elder to the affairs of the Hoosier Democratic Club and he is familiar with all their activities and, in fact, it is more or less of a "one-man" proposition, according to his testimony and our observations.

All these facts tend to establish definitely that he is in a position to furnish the necessary information to the Government, if he so elects. Also, it is believed that his ability to recall the information requested is more or less what might be termed a "jury question." In other words, if the Court believes he is making an honest effort to recall the facts requested in the light of the surrounding circumstances and he is unable to do so, at least it is entitled to have his best recollection on the matter at the present time and not the general statement that he is unable to recall, inferring he is powerless to bring to mind any details of the important transactions involved.

In this connection, it might be stated that Mr. Elder is a man of better than average intelligence and in conversations it has been noted that he readily recalled

unimportant events which took place as far back as 1917. Also, he has been active in politics for a number of years where it is necessary to recall the names and faces of thousands of individuals as well as their affiliations. Therefore, it can hardly be assumed that he is the type who would be handicapped with a poor memory. From confidential sources it is known that he does remember some of the transactions involved because of his comments concerning same. All that remains is to determine whether or not pressure in the form of a court order will be applied in the case of Mr. Elder. It is an important decision to make because it will probably have a direct bearing on whether or not the present investigation is a success.

LGP



Jas. N. Sullivan,
Special Agent.

C O P Y

DEPARTMENT OF JUSTICE

Washington, D. C.

March 2, 1940.

Honorable Edward Foley,
General Counsel,
Treasury Department,
Washington, D. C.

In re: Bowman Elder

Dear Mr. Foley:

There is inclosed herewith a copy of a proposed petition by James N. Sullivan, Special Agent, Bureau of Internal Revenue, for an order requiring Bowman Elder to appear, testify and produce records. This petition has been revised in accordance with our conference on February 29, 1940.

You will note that the inclosed petition, like the petition which was transmitted by Special Agent Sullivan to the United States Attorney, is based exclusively on the interview of the witness Elder under oath before Messrs. Sullivan and Lane, Special Agents, and Mr. Tolmach, Revenue Agent, on February 14, 1940. We have examined the transcript of the testimony of the witness given on that date, which constitutes the only evidence furnished this Department of the defendant's conduct in testifying before the Treasury agents. Based on our examination of that transcript we are of the opinion that the issuance of a court order constitutes a doubtful legal question, and that if the witness persists in his attitude that a number of material matters on which he was questioned are outside his recollection, the Court may refuse to grant the order. Furthermore, if under such circumstances the Court should grant the order, it appears doubtful whether a more complete and accurate statement of pertinent facts and information can be secured. Our opinion,

Hon. Edward Foley
7-2-40.

- 2 -

as expressed above, is, of course, subject to the possible existence of other facts which have not been brought to our attention and which might be properly persuasive with the Court.

If, after consideration of the foregoing, your Department feels that your investigation might be furthered by the filing of the petition, and you so advise us, this Department is willing to take that action and to cooperate with you to the fullest extent possible. In the event you decide to proceed we shall be glad, if you so desire, to appoint a member of your legal staff as a Special Assistant for the purpose of presenting this petition to the Court.

Respectfully,

For the Attorney General.

(Signed) Samuel O. Clark, Jr.

SAMUEL O. CLARK, JR.,
Assistant Attorney General.

Inclosure No. 318157

Statement of interview held in Room 424,
U. S. Post Office Building, Indianapolis,
Indiana, on February 14, 1940, with Mr.
Bowman Elder, in the matter of the income
tax liability of the Hoosier Democratic Club.

Present:

Mr. Bowman Elder, witness,
Mr. James N. Sullivan, special agent,
Mr. W. Harold Lane, special agent,
Mr. Louis Tolmach, revenue agent,
Miss Thelma M. Murray, stenographer.

Mr. Sullivan: Your full name is Bowman Elder?
Mr. Elder: That is right.

Q. And you are the Mr. Elder who was interviewed in this office under
oath on January 2, 1940?
A. That is right.

Q. Do you solemnly swear that the statements you are about to make
will be the truth, the whole truth and nothing but the truth, so
help you God?
A. I do.

Q. Have you held any political office at any time in the State of
Indiana?
A. No, sir.

Q. Have you been an official of any political club or organization
in Indiana?
A. I think I was treasurer of the Democratic State Committee in
1922 and 1923, I think it was, and president of the Indiana
Democratic Club.

Q. What years?
A. I do not know, several years ago, and treasurer of the Hoosier
Democratic Club.

Q. During what period?
A. 1933 to 1939.

Q. And that is all the connections you have had with political or-
ganizations from 1930 on?
A. I was treasurer of the McNutt for Governor Club.

Q. What period was that?

A. 1932, 1931 (turned to Mr. Tolmach).

Mr. Tolmach: December, 1931, might have been before.

A. December 1931 to 1934 (to Tolmach).

Mr. Tolmach: About 1934.

A. 1934.

Sullivan: Do you recall, Mr. Elder, at any time whether it was suggested to you or the club officials by Mr. Olive, the accountant, that steps be taken to determine whether the club was subject to income tax?

A. It was suggested by Mr. Olive.

Q. Do you know what action was taken?

A. We made inquiry at that time and were told verbally that we were not subject to income taxes.

Q. Do you recall who gave you that advice?

A. I do not know at this time.

Q. Was it some attorney or some member of the organization or who, in a general way, Mr. Elder?

A. I think it was the Collector of Internal Revenue here.

Q. You just had a verbal discussion, you did not give him your charter or anything like that to pass on?

A. No.

Q. And then you recall Special Agent Vaughn's going in to see you about the tax liability of the club about January of last year?

A. That is true.

Q. And Revenue Agent Tolmach and myself have been checking the club since August, 1939?

A. Yes.

Q. I show you Government exhibit No. 2031, which consists of four sheets, the first three sheets showing the detailed income of the club and the last sheet the total dues received, miscellaneous income, expense, other income, excess of income over expense, and payments to the Democratic National and State Committees for the period August, 1933, to December, 1938, and ask you if these are the statements you furnished me.

A. They are.

Q. I show you Government exhibit 2004-42, which is a check of the Hoosier Democratic Club dated July 20, 1934, payable to William Storen, treasurer, for \$500 and ask you if you remember getting the cash from Mr. Storen on that check.

- A. I do not know whether I did or not. You mean on this particular check?
- Q. Yes.
- A. I could not recall that.
- Q. I show you Government exhibit 2005-6, which is a check of the Hoosier Democratic Club dated September 8, 1934, payable to William Storen, treasurer, Democratic State Committee, \$200, and the endorsement is the stamp of the Indiana Democratic State Central Committee, William Storen, treasurer, and ask you if you recall getting the cash from Mr. Storen on that check?
- A. I do not.
- Q. I show you Government exhibit 2005-11, which is a check of the Hoosier Democratic Club dated September 18, 1934, payable to William Storen, treasurer, for \$1,000, endorsed by William Storen and Bowman Elder and ask you if that is your signature?
- A. It is.
- Q. Do you recall receiving that check from Mr. Storen and getting it cashed?
- A. I probably did.
- Q. That money was not turned over to the State Central Committee?
- A. It was not, no.
- Q. I show you Government exhibit 2005-13, which is a check of the Hoosier Democratic Club dated October 1, 1934, payable to William Storen, treasurer, Indiana Democratic State Central Committee for \$2,000, and bears the stamped endorsement of the Committee and ask you if you recall receiving \$2,000 on that check?
- A. No, I do not recall.
- Q. I show you Government exhibit 2005-18, which is a check of the Hoosier Democratic Club dated October 15, 1934, payable to William Storen for \$1,000 and endorsed by Mr. Storen and ask if you recall receiving the cash on that?
- A. No, I do not recall.
- Q. I show you Government exhibit 2005-20, which is a check of the Hoosier Democratic Club dated October 16, 1934, payable to William Storen for \$5,000 and endorsed with the stamp of the Indiana Democratic State Central Committee and ask you if you recall receiving the cash on that?
- A. I do not recall.
- Q. I show you Government exhibit 2005-22, which is a check of the Hoosier Democratic Club, dated October 29, 1934, payable to William Storen, for \$1,000, and endorsed by Mr. Storen, and ask you if you

remember receiving the cash on that?

A. I do not recall.

Q. I show you exhibit 2005-25, which is a check of the Hoosier Democratic Club dated October 31, 1934, payable to William Storen for \$2,000, and endorsed William Storen and Bowman Elder and ask you if you recognize the endorsement.

A. I do.

Q. Do you recall receiving the cash on that?

A. Probably did.

Q. Was that cash turned over to the State Committee?

A. It was not.

Q. I show you exhibit 2006-2, which is a check of the Hoosier Democratic Club dated December 4, 1934, payable to William Storen for \$2,000 and endorsed William Storen and Bowman Elder and ask if you recognize the endorsement on that as yours?

A. It is.

Q. Do you recall receiving the cash on that?

A. I do.

Q. Did it go to the State Central Committee?

A. It did not.

Q. I show you the following checks: Exhibit 2006-10 for \$2650, Exhibit 2007-3 for \$2500, 2007-9 for \$2,000, 2007-18 for \$3,000, 2007-22 for \$250 and Government exhibit 2007-25 for \$1,000, which are checks of the Hoosier Democratic Club for the year 1935 payable to William Storen, treasurer, and ask you if any of those, if you got the cash on all those checks?

A. Probably got some of the cash.

Q. On 2007-9, do you recall getting the cash on that?

A. Yes.

Q. But not on the others?

A. Not directly.

Q. I will show you the following checks for the Hoosier Democratic Club for the year 1936, 2008-25 for \$2500, 2008-31 for \$3500, 2009-3 for \$2,000, 2009-10 for \$5,000, 2009-14 for \$5,000, 2009-37 for \$3,000, 2010-4 for \$1,000, 2010-16 for \$2,000, 2010-21 for \$2500, 2010-31 for \$2,000, 2010-32 for \$4000, 2010-36 for \$3600, 2010-39 for \$1500 and ask you if you remember getting the cash on those particular checks.

- Q. I remember getting the cash on most of them.
- Q. I show you Government exhibit 2010-40, which is a check of the Hoosier Democratic Club dated January 5, 1937, payable to Omar S. Jackson, chairman, Indiana State Central Committee for \$1500 and ask if you remember getting the cash on that?
- A. I do.
- Q. I show you Government exhibit 2011-17, which is a check of the Hoosier Democratic Club, dated June 2 or 3, 1937, for \$1,000 and payable to Omar S. Jackson and ask if you remember getting the cash on that?
- A. I do.
- Q. I show you Government exhibit 2011-24, which is a check of the Hoosier Democratic Club dated July 17, 1937, payable to Louis Roberts for \$2,000 and ask if you remember getting the cash on that?
- A. I cashed the check for Louis Roberts.
- Q. Who is Louis Roberts?
- A. He is a boy in Evansville. He is a colonel in the National Guard, I think he is city attorney.
- Q. Is he a member of any political parties in Indiana?
- A. He is a democrat.
- Q. Does he hold any state or county position?
- A. No.
- Q. This particular group of checks covers the year 1938. I show you Government exhibit 2013-32, which is a check dated July 7, 1938, of the Hoosier Democratic, payable to Clarence U. Grunelapacher, for \$10,000, and ask you if you recall is that your endorsement.
- A. It is.
- Q. Do you recall getting the cash on that?
- A. I got the cash.
- Q. Government exhibit 2013-34, which is a check of the club dated October 11, 1938, payable to Clarence U. Grunelapacher, treasurer, Indiana Democratic State Central Committee for \$10,000, and ask you if that is your endorsement.
- A. Yes.
- Q. Did you receive the cash?
- A. I did.
- Q. I show you Government exhibit 2013-37, which is a check of the club dated October 25, 1938, for \$10,000, payable to Clarence U. Grunel-

speaker, treasurer, Indiana Democratic State Central Committee, and ask if that is your endorsement on that?

A. It is.

Q. You received the cash on that?

A. I did.

Q. Here is Government exhibit 2015-38, which is a check dated November 4, 1938, payable to the same party and for the same amount, and ask if that is your endorsement on that?

A. It is.

Q. You received the cash on that?

A. I did.

Q. Now referring to the 35 checks you have just identified, and the total is \$93,100, and as I get the situation you are unable to explain how this \$93,100 was disbursed at this time?

A. It was spent for political purposes. I cannot give you the details, general political purposes.

Q. Was it spent by you, disbursed by you?

A. No, it was, some of it was disbursed by Storum, some by Jackson and some by myself. Some of it was disbursed by Grunwaldspecher.

Q. So that the three men who could explain what happened to it would be Mr. Jackson, Mr. Storum and yourself?

A. Yes.

Q. Was it disbursed in behalf of any political party?

A. Disbursed on behalf of the Democratic Party.

Q. Did Mr. Jackson, Mr. Storum and you disburse that as officials of some political organization or as individuals?

A. We did that as representatives of the Hoosier Democratic Club, you might say agents for the club, agents for the Hoosier Democratic Club.

Q. Referring to Exhibit 2014-2, which is a check of Bowman Elder, treasurer, dated July 25, 1935, \$2500, payable to Omar Jackson and ask if that is your endorsement on that check?

A. It is.

Q. Did you receive the cash?

A. I did.

Q. I show you Government exhibit 2014-3, which is a Bowman Elder, treasurer check dated September 15, 1935, for \$1500, payable to Mr. Omar Jackson, and ask you if you received the cash on that check, endorsed by Elmer Flatt?

A. Yes.

Q. I show you Government exhibit 2014-9, which is one of your treasurer checks dated December 2, 1935, for \$1,000, payable to William Storen, and ask if you recall receiving the cash on that?

A. I do not recall.

Q. I show you Government exhibit 2014-10, which is one of your treasurer checks dated December 14, 1935, payable to Omer S. Jackson, for \$1500, and ask if that is your endorsement on the back?

A. It is.

Q. And you received the cash on that?

A. I did.

Q. I show you the following checks from the revolving fund for 1936: Exhibit 2015-8 for \$1500, 2015-20 for \$1800, 2015-45 for \$1500, 2015-51 for \$1500, 2015-52 for \$2500, 2015-61 for \$5000, 2015-62, for \$2,500, 2015-65 for \$600, 2015-75 for \$2,000, and ask you if you received the cash on all those?

A. I did.

Q. I show you exhibit 2016-32, which is your check dated August 10, 1937, payable to Omer S. Jackson for \$1500 and ask if you received the cash on that?

A. I did.

Q. The total cash on those 15 checks we have just identified from the revolving fund amount to \$27,400. Have you any explanation of how these items were disbursed after the cash was received by you?

A. Well, I can say for general political purposes of the Democratic Party.

Q. The total of those two groups of checks, 15 in one batch and 35 in the other, 50 checks, which is \$120,500.00, is it a fact that when the cash was received by you it was disbursed for political purposes in connection with the Democratic Party?

A. That is right.

Q. Was it all disbursed in the State of Indiana?

A. I have no way of knowing whether it was all spent in the State of Indiana. I think there may be certain occasions when travelling expenses were paid where the individuals went outside the State.

Q. Was any of the money paid for organization expenses outside the State?

A. Organization expenses? No, not to my knowledge.

Q. As I get the situation on this \$120,500.00 there is no detailed record in existence at the present time so far as you know which would show the exact nature of the disbursements and when it was

disbursed and to whom.

A. No, it is not.

Q. Can you explain, Mr. Elder, why no records were kept with reference to these items that make up the \$120,500.00?

A. In the organization of this club in 1933, this question came up and it was presented to Judge Stotsenburg and Judge Wiecking, who were the original organizers of the club, both being able lawyers, they advised me that it was not necessary to keep any record of a donation or money that was spent for political purposes.

Q. And both those gentlemen you have just mentioned have died since they gave you that advice?

A. That is true.

Q. With reference to the accuracy of the club records, you recall that in a conference in this office you were asked how the officials of the club passed on the expenditures and if you had any additional information on that point and your answer was that you were presenting the audit reports of George S. Olive and company for the period August 1, 1933, to June 30, 1935, approved by Mr. Simmons, and another report of the same firm, July 1, 1935, to December 31, 1935, approved by Frank Finney, and report by the same firm from January 1 to December 31, 1936, approved by Frank Finney, and another report by the same firm from January 1, 1937, to the end of 1937, and also one for the year 1938, both approved by Frank Finney. I was wondering how do the officials of the club pass on the receipts and disbursements outside these audit reports?

A. They do not pass on them. The president, under the by-laws, the president approved the expenditures. He chose to do that instead of by the month or week, he did it on the audits by the year.

Q. Referring to your statement in this office on December 12, 1939, Exhibit 139, I would like to draw your attention to the following questions and answers:

"Q. Now we have talked about the income from the dues of the members and the miscellaneous income and the income from the venture of the Indiana Review and shown the activities of the club with reference to the Hoosier Sentinel. Does the club itself or any members of the club receive any other income?

A. Not that I know of.

Q. During the course of this investigation, we have received direct evidence here of additional payments made to the members of the executive committee or officers of the Club and I wondered how those were accounted for.

A. I do not know.

Q. Do you know of such payments?
A. Not of first hand knowledge, no.

Q. You know such payments have been made?
A. I do not know first hand, no. I have heard it rumored that payments have been made.

A. No, instead of "first hand knowledge," because that does not answer the question. "Do you know if any such payments were made," you had better say no and stop.

Q. And also to your statement in this office on December 14, 1939, Exhibit 139, and draw your attention to the following questions and answers:

"Q. In addition to the statement you submitted, Exhibit 2031, which is the statement of income of the club for the period August 1, 1935, to December 31, 1938, was there another fund under your supervision?
A. Yes, there was another fund.

Q. That records, if any, have you relating to this fund in your possession or under your custody or available to you at the present time?
A. For a short time records were kept and discontinued and thereafter no accounting was made of this fund. I was advised to handle these funds in this way by competent attorneys and leaders of the party.

Q. So far as you know, at the present time there is no record which shows the receipts or disbursements of this fund?
A. There is none.

Q. Do you know the total amount of this fund?
A. I do not.

Q. Do you know what it aggregated approximately in any particular year?
A. Approximately \$10,000.

Q. In what form was the fund kept, in cash or a checking account?
A. In cash.

Q. Was the cash kept in a safety deposit box or in some other place?
A. In a safe deposit box at the Indianapolis Athletic Club.

Q. Who had access to the box besides you?

A. No one.

Q. How did these funds in this unidentified group differ from the funds and receipts of the club?

A. In connection with the funds recorded by the Club, they were principally received from contributions by the State employees who were members of the Club. The funds in the unidentified group were received principally from individuals who had been granted permits to sell malt and alcoholic beverages, and also from people who had dealings with the Club."

Now with reference to the last question and answer you made a supplemental statement in this office on January 2, 1940, wherein you take exception to the recording of your previous answer and make the following statement:

"First I want to say that I don't think the funds were received principally from individuals who had been granted permits to sell malt and alcoholic beverages. We received some but I wouldn't say that was altogether the principal source of the income."

and that also -

"From people who had dealings with the Club, I don't think anybody had dealings with the Club in a business way or any other way."

and that you later amended this portion of your previous answer to read -

"They would have dealings with the State of Indiana and friends of the Democratic Party."

and to the following questions, you replied as follows:

Q. And it would be from those persons that the funds would be received?

A. That is right."

Q. On that series of questions, have you any additional remarks you want to add to the record?

A. The aggregate amount of the unidentified funds for the period 1933 to 1938 ran between \$200,000.00 and \$125,000.00. It was kept partly in cash and partly in a bank account. The funds in the

unidentified group were received principally from individuals who had been granted permits to sell malt and alcoholic beverages and also from people who were friendly with the Club and the Democratic Party.

- Q. I show you copy of an account at the Fletcher American Bank in the name of Bowman Elder and ask you if that is your account, Exhibit 364 -1 to 5?
- A. That is my personal account.
- Q. And this account was active during the period January 1, 1933, to February 28, 1933, as a restricted account, and from February 28, 1933 to August 23, 1933, as an unrestricted account?
- A. Yes.
- Q. I show you a copy of an account at the Fletcher American Bank under the name of Bowman Elder, Treasurer, and ask you if this is your account, Exhibit 364-A-1 to 3. That was your account?
- A. You do not mean personal account, an account under my name.
- Q. And this account was active from January 1, 1933, to August 23, 1933?
- A. Yes.
- Q. I show you copy of an account at the Fletcher American National Bank under the name of Bowman Elder, Special, and ask you if that is your account, Exhibit 364-B, 1 to 3?
- A. Yes.
- Q. This account was active from June 8, 1933, to August 23, 1933?
- A. That is correct.
- Q. I show you copy of an account at the Fletcher American National Bank under the name of Bowman Elder, Agent, and ask you if that is your account, Exhibit 364-C, 1 to 3?
- A. Yes.
- Q. And this account was active from January 1, 1933, to May 3, 1933?
- A. Yes.
- Q. I show you copy of an account at the American National Bank under the name of Bowman Elder and ask you if that is your account, Exhibit 362 1 to 28?
- A. Yes.
- Q. This account was active from August 23, 1933, to December 31, 1938?
- A. Yes.

- Q. I show you a copy of an account at the American National Bank under the name of Bowman Elder, Treasurer, and ask you if that was your account, Exhibit 362-A 1 to 2.
- A. Yes.
- Q. This account was active from August 23, 1933, to June 2, 1936?
- A. Yes.
- Q. I will show you copy of an account at the American National Bank under the name of Bowman Elder, Special, and ask you if that is your account, Exhibit 362-B-1?
- A. Yes.
- Q. And that account was active from August 23, 1933, to June 5, 1937?
- A. Yes.
- Q. I show you copy of an account at the American National Bank under the name of Bowman Elder, Trustee, and ask you if that was your account, Exhibit 362-C-1?
- A. It is.
- Q. This account was active from August 31, 1937, to February 3, 1938?
- A. Yes.
- Q. I show you a copy of an account at the American National Bank under the name of Bowman Elder, Agent, and ask you if this is your account, Exhibit 362-D-1?
- A. It is.
- Q. This account was active from December 31, 1934, to January 3, 1936?
- A. Yes.
- Q. I show you copy of an account at the Fidelity Trust Company under the name of Bowman Elder or Bowman Elder, Special, or Bowman Elder, Treasurer, and ask you if that is your account, Exhibit 361, 1 to 13?
- A. Yes.
- Q. This account was active from May 13, 1936, to November 19, 1936?
- A. Yes.
- Q. I will show you a copy of an account at the Fidelity Trust Company under the name of Bowman Elder, Building Account, and ask you if that is your account, 361-A 1 to 2?
- A. Yes.
- Q. This account was active from February 27, 1937, to December 18, 1937?
- A. Yes.

Q With reference to the Bowman Elder special account at the Fletcher National, Exhibit 364-B 1 and 2, what did that account represent?

A That is the Indianapolis Athletic Club.

Q And none of your personal items, those of the Hoosier Democratic Club, or any other transactions other than those belonging to the Indianapolis Athletic Club appear in this account?

A That is right.

Q With reference to the Bowman Elder, Agent, account at the Fletcher American National Bank, Exhibit 364-C, 1 to 5. What did this account represent?

A 125 East Market Building.

Q None of your personal items, those of the Hoosier Democratic Club, or any other transactions other than those belonging to the 125 East Market Building appear in that account?

A They did not.

Q If that is correct, we are not interested in this account for the purpose of this examination. With reference to the Bowman Elder Special account at the American National Bank, what does that represent, 365-B-1?

A Indianapolis Athletic Club.

Q None of your personal items, those of the Hoosier Democratic Club or any other transactions other than those belonging to the Indianapolis Athletic Club appear in this account?

A They did not.

Q If that is correct, we are not interested in this account for the purpose of this examination. With reference to the Bowman Elder, Trustee, account at the American National Bank, what did that account represent, Exhibit 365-C-1.

A That was the Charles Walker account.

Q And none of your personal items or those of the Hoosier Democratic Club or any other transactions other than those belonging to Walker appear in this account?

A No.

Q We are not interested in that then. Referring to your treasurer account, which started in August 25, 1935, I guess, at the Fletcher American and was continued until August 25, 1936, at that bank and then at the American National Bank, under the name same from August 25, 1936, to June 2, 1936, and under the name of Bowman Elder or Bowman Elder, Treasurer or special at the Fidelity Trust Company from May 15, 1936, to November 19, 1936, what is your explanation of these accounts?

- Q. That account started as the McHitt for Governor Club and then—
- A. That is prior to the time he was elected governor?
- Q. Yes. (Off-the-record discussion as to the description.) Then continued as the revolving fund until November 19, 1938. The revolving fund was closed and this account was closed. In addition to the revolving fund, this account also had unidentified funds in it.
- Q. The total deposits in these treasurer accounts that you just described has aggregated \$205,656.51.
- A. That does that mean?
- Q. That is your gross deposits from 1933, starting with the Fletcher Bank, until November, 1938, at the Fidelity. From that amount that Tolmach, as the result of his analysis, has eliminated transfer of funds, \$19,000; Hoosier Democratic Club revolving fund, \$57,305.79, and loans of \$2,541.00, making a total of \$78,866.79, and taking the total deposits of \$205,656.51 and deducting the \$78,866.79 we have just described, leaves you a balance of \$126,789.52 to be explained. What is your explanation on this item?
- A. This item was money deposited in these treasurer's accounts partially from donations and partially from the box in the Indianapolis Athletic Club and spent for general political purposes, for the benefit of the Democratic Party. At times some of this money was drawn out of this fund and the cash was put in the box at the Indianapolis Athletic Club.
- Q. Of course, there was some cash put in the box at the Athletic Club which never got in the the account, this treasurer's account.
- A. That is true.
- Q. Are there any other bank accounts which we have not mentioned showing transactions affecting either the Hoosier Democratic Club, the revolving fund or the unidentified fund?
- A. No.
- Q. Are there any accounts we have not located that contain any transactions of the Hoosier Democratic Club, the revolving fund or the unidentified fund?
- A. No, none.
- Q. In these treasurer's accounts we have been talking about, were any monies deposited or handled through—than—those accounts that affected McHitt for President in 1940?
- A. None, absolutely none.
- Q. That movement was under way for several years. Do you know where they kept their funds?

- Q. Mr. Perry, of the McNutt for President Club, Inc., handled the funds.
- Q. Referring to this newspaper article here which appeared in the "News" on August 30, 1933, which states in substance that E. M. Dill, superintendent of the Indiana Boys School at Plainfield, had received a letter from Bowman Elder and the substance of your letter being posted there as a notice to employees, now I had Mr. Miller, Special Agent Miller, check your files and I learned from him that there was no copy of that particular letter in the files that had been shipped to Mr. Dill. Do you know where those copies are?
- A. I could not answer that at all, 1933, I do not know.
- Q. Do you know if all your letter files are still intact at the club?
- A. I imagine they are. I do not think there is anything that, I do not think I wrote many letters. I think most of it was handled over the telephone. I do remember that case because it was given some publicity.
- Q. Now with reference to the present examination that has been in progress since about August, 1939, and I was wondering since the examination has started if you had a chance to refresh your recollection on these various items. How much did you receive from the wholesale beer dealers each year from 1933 to 1938?
- A. I could not tell you, Mr. Sullivan.
- Q. Along the same line, how much did you receive from the wholesale liquor dealers each year from 1933 to 1938?
- A. I could not answer.
- Q. And do you know how much you received from the breweries in Indiana each year from 1933 to 1938, inclusive?
- A. No, sir.
- Q. How much did you receive from the contractors who dealt with the State of Indiana each year from 1933 to 1938?
- A. To the best of my knowledge, I never received any money from the contractors who had contracts of building roads in the State of Indiana.
- Q. I am not confining it to the road builders. It is all those who had contracts with the State either through the Central Purchasing Bureau or the Bureau of Roads.
- A. I do not know.
- Q. With reference to the other contractors for the State, sale through the Central Purchasing Bureau of materials, do you recall what you received from those in any particular year?
- A. No.

- Q. Do you recall how much you received from individuals, partnerships, corporations, etc., not specifically mentioned above during the years 1933 to 1938, inclusive?
- A. I do not.
- Q. At this time, can you give us the gross receipts and disbursements involving this unidentified fund during the years 1933 to 1938, inclusive?
- A. I cannot give you by individual year but I would say the total was \$120,000 to \$125,000.
- Q. Assuming that the Socialist Democratic Club was held to be taxable, how could we apportion that \$125,000 over the various years?
- A. I do not know, sir, I cannot tell you.
- Q. With reference to this unidentified fund, is any of that in your possession at the present time?
- A. No, none.
- Q. When did it go out of your possession? When it ceased, when you disbursed it, that was the end of it?
- A. That is right.
- Q. What is that date?
- A. I would say the end of 1938.
- Q. With reference to this unidentified fund you have described, was it your money or was it in your custody for a specific purpose? In other words, were you the trustee of it?
- A. It certainly was not my money. I was the trustee for it, it was in my custody, whichever way you want to put it.
- Q. You were the only person who had access to it either through the bank accounts or at the box of the Indianapolis Athletic Club?
- A. That is correct.
- Q. On these other funds which you handled for the railroad and Chamber of Commerce, etc., are you a trustee on those?
- A. On the Chamber of Commerce, a building corporation, I am an officer, being secretary and treasurer. On the Indiana Railroad, I am the receiver and therefore an officer of the corporation.
- Q. In connection with those positions, do you file an accounting of the funds in your possession?
- A. Yes.
- Q. I wondered how your custody of this unidentified fund differed from these others that you make an accounting on?

- Q. For the reason for that was this was money spent for political purposes for the benefit of the Democratic Party and I was advised that no accounting was necessary.
- Q. Now, with reference to Frank McHale, do you know when he resigned as a director of the Hoosier Democratic Club?
- A. He resigned, I think, the week before he was elected National Chairman.
- Q. Do you know when that was?
- A. I cannot tell you. That meeting was held at French Lick.
- Q. He has been National Chairman since 1936?
- A. Either in 1936 or 1937. The newspapers ought to be able to tell us that.
- Q. There seems to be a discrepancy in the dates. I notice in looking at the Hoosier Sentinel that he was present at the annual meeting of the club on November 12, 1937. I see he is listed here as director for the next two years.
- A. Then he resigned, he must have resigned shortly after that. It was just before he was elected National Chairman. Does it say when he was elected National Chairman?
- Q. No, I am trying to fix it.
- A. I can get that for you.
- Q. Are there any questions you have in mind, Mr. Tolmach?
- A. No.
- Q. Are there any statements you wish to make at this time, Mr. Elder?
- A. You might put this in the record. By my direction on the books of the Hoosier Democratic Club, all checks drawn to Jackson, Storen and Gramelspacher were charged to the Democratic State Committee as a matter of convenience. These said checks could have been charged to any account. The above funds were used for general political purposes and the purpose for which the Hoosier Democratic Club was organized under its by-laws and the money was in no way funds of the State Committee and never was intended to become part of the State Committee.
- Q. When these three people travelled, Jackson, Storen and Gramelspacher, they were officials of the State Central Committee?
- A. Yes, they were officials of the State Committee but they also acted for the Hoosier Democratic Club and the Democratic Party.
- Q. I wondered when you can draw a line, when they ceased to act as State officials and became agents of the Hoosier Democratic Club?
- A. I do not know as to that but whenever they travelled, they travelled on the Hoosier Democratic Club expense.

- Q. Does not the State Central Committee organization provide for travelling expenses for their officials?
- A. Yes, if they want to do it that way but they never drew any expense money from the Democratic State Committee.
- Q. In other words, they were travelling as officials of the State Central Committee and drawing their expenses from the Hoosier Democratic Club?
- A. The State Central Committee received most of its funds from the Hoosier Democratic Club.
- Q. With reference to Senator Minton, did the club buy the senator a gift here sometime ago?
- A. Yes.
- Q. Do you recall what the gift was, Mr. Elder?
- A. I think the gift was a wrist watch, and in that case the money was raised from individuals and part of it returned to the club or reimbursed to the club.
- Q. Another transaction I am interested in, there have been rumors around that the club paid for a coming out party for Mr. McVitt in Washington sometime ago.
- A. I know the club did not pay for the coming out party of Mr. McVitt.
- Q. Did any of those funds come out of the unidentified group?
- A. No, that money was raised by a group of individuals, as I recall.
- Q. Did you have anything to do with the raising of those funds?
- A. I did not.
- Q. Information reached us that a hospital bill had been paid for Wayne Coy, do you remember that, by the club?
- A. I do.
- Q. Do you remember what the amount of the bill was and when?
- A. It was 1937 and the amount was \$781.25.
- Q. What is your explanation of the club paying that hospital bill for Mr. Coy?
- A. In this case, Wayne Coy was working with the legislature to get a new welfare bill through. He was struck by a man by the name of Concilia with knuckles, which badly damaged his face, and he was sent to the hospital. There were no State funds to take care of this bill so we paid it. At the time he was hurt, he was on duty for the State of Indiana.
- Q. Do you know what his official capacity was?
- A. He was under secretary for the governor.

- Q. In connection with the travelling expenses that the club incurred on behalf of Pless Greenlee, \$1,450.77, have you any explanation, Mr. Elder, as to what this particular travel was?
- A. Pless Greenlee was secretary to the governor at the time and we paid him travelling expenses each month to cover the State of Indiana. I do not think he went outside.
- Q. For what purpose?
- A. For the benefit of the Democratic Party.
- Q. What was his specific duty in connection with the Democratic Party on these travel trips?
- A. To meet the county chairmen, find out about their appointments, go over the names with them and for general expenses of that nature.
- Q. Do you recall why the club paid the travelling expenses of \$387.00 in 1934 in the case of Albert Waltzman?
- A. I believe that was for making some speeches.
- Q. What type of speeches?
- A. Political speeches.
- Q. In connection with \$400.00 worth of expenses they paid in 1934 in the case of Joe Tyman, who was secretary to the mayor of Indianapolis, do you recall what that is for?
- A. This was probably in the case of advertising in some newspaper.
- Q. What type of advertising?
- A. Just a paid add in advertising the Democratic Party or candidates, Democratic Party.
- Q. In connection with the expense of \$585.00 charged to publicity by the club in 1934 relating to Ben E. Rogers, Legion State Band, do you recall what that was for?
- A. That was for the purpose of hiring the State Legion Band for three State political meetings.
- Q. In connection with an expense the club charged up to publicity of \$321.40 in 1934 in the case of a Wilding Pictures Production, do you recall that item, Mr. Elder?
- A. I imagine that was for the purchase of a group of political pictures.
- Witness: In connection with a subscription to the Hoosier Sentinel, each and every member of the club, each and every paid member of the club, was entitled to a free subscription?
- A. They were.

- Q. Did that also apply to the associate members?
A. All members.

Sullivan:

With reference to an expense on the books of the club for printing of \$415.68 in the case of C. A. Jackson, can you explain that?

- A. That was for printing a pamphlet for the gross income tax department which tried to sell the gross income tax to the people of Indiana.

- Q. What relation did that have for an expense of the Democratic Party?
A. The Republican newspapers were attacking the gross income tax and the Democratic Party thought it was a very good tax and they immediately tried to offset the political attacks of the Republicans.

- Q. Was the travelling expense for Fless Greenlee in 1885 of the same nature as you explained in 1884?
A. Yes.

- Q. In connection with the travelling expense of \$2,066.00 shown on the books of the club in the year 1885 relating to the Young People's Democratic Club, what is your explanation on that?

- A. That is paying the travelling expenses of the officers of the Indiana Young People's Democratic Club to the National Convention.

- Q. In connection with the travelling expenses charged on the books of the club for the year 1885 in the amount of \$625.32 in the case of W. A. Sebold, are you able to explain that?

- A. He is one of the best publicity men in the State of Indiana and this was for expense of a trip for him around the State.

- Q. Was this trip around the State in connection with what? The Democratic Party - I do not know - I cannot tell you just what that trip was.

- Q. Your explanation was, of it was for the good of the Democratic Party?
A. He has always written and handled stuff for the Democratic Party.

- Q. In connection with an item on your books of \$1,151.09 in the year 1885 paid to the Indianapolis Athletic Club, are you able to explain that?

- A. That was for committee meetings, different political committee meetings from time to time during that year at the Athletic Club.

Folsom:

In connection with promotion expenses for the year 1885 in the amount of \$3,974.07 disbursed to various people as presented to you for your verification, what does that represent?

- A. That represents political expenditures of various kinds.

Sullivan: It is noticed in 1936, Mr. Elder, that the books of the club under "Travelling Expense" show an item of \$1,718.40 in the case of Earl Crawford, would you explain what that represents?

- A. At the time of Mr. Greenlee's resignation as patronage secretary of the governor, Mr. Crawford was appointed in his place and that is his travelling expense.

- Q. In connection with an item on your books under "Party Organization Expense" of \$3,157.00 in 1936, are you able to explain that, Mr. Elder?

- A. Most of that expense was spent in contacting all the senators and representatives over the state and going over a contemplated program with them.

- Q. Did this expense have to do with the Democratic Party?

- A. Yes, these senators and representatives were all democrats and it was for the coming session of the legislature.

- Q. In connection with an item on the books of the club in 1936 under "National Tax Association Conventions" of \$3,061.25, paid to Mr. C. A. Jackson, are you able to explain that?

- A. That was for the different tax conventions in which our people assisted and also for printing up a pamphlet in connection with selling our gross income tax set-up.

- Q. What connection did that have with the Democratic Party in the State of Indiana?

- A. It was the democratic program. We were trying to help ourselves here in the state as well as nationally. These representatives were sent out to these conventions. It was one of the different Democratic platforms.

- Q. Were these conventions outside the state of Indiana?

- A. Yes.

- Q. Who is Mr. Jackson?

- A. He was director of the Gross Income Tax Division.

- Q. Of the State of Indiana?

- A. That is right.

- Q. On the books of the club for the year 1937 under "Travelling Expense," it is noted that Dick Heller was paid \$2,430.22, can you explain that?

- A. Dick Heller is the patronage secretary to Governor Townsend and he travelled the state from one end to the other, on Democratic

political business, I guess you would put it.

- Q. In connection with an expense of \$739.76 on the books of the club for the year 1937 paid to C. A. Jackson, is that for the same items that you explained under 1936?
- A. It is.
- Q. In connection with \$678.30 charged on the books of the club as an expense in 1937 in the case of Earl Crawford, can you explain that?
- A. He was chairman of the Highway Commission and he made a trip around the state, on making political speeches.
- Q. In connection with an expense of the club deducted in 1937 in the case of Tom McConnell for \$585.80, can you explain that?
- A. He was chairman of the ex-service men of the state and he travelled around on democratic business among the ex-service men.
- Q. In the year 1937, it is noted the club shows an expense of \$575.00 for travelling of James W. Bowlen.
- A. He was travelling in the interest of the Democratic Party.
- Q. What would be the nature of his travels, was he making speeches?
- A. Making contacts.
- Q. In connection with travelling and special expenses shown on the books of the club for 1938, it is noted that Tom McConnell received \$4,624.49, can you explain that item, Mr. Elder?
- A. As I said before, Mr. McConnell was chairman of the ex-service men and travelled the state continuously for several months, donating his own time and we paid his travelling expense.
- Q. Was that in connection with the Democratic Party?
- A. Yes, absolutely.
- Q. In connection with these funds you had under your custody, did you make any gifts to public officials outside those we have enumerated here?
- A. No.
- Q. Information reached this office to the effect that some of the funds under your custody were used to influence the last general election in Terre Haute, do you know anything about that?
- A. No.
- Q. Do you know that any funds were sent down there for that purpose?
- A. No.
- Q. Do you recall going down there during election yourself?

A. No, in fact, I was not in Terre Haut during election time.

Q. Were you there before the votes were counted?

A. No, sir.

Q. Are there any further statements you wish to make, Mr. Elder?

A. No, sir.

Q. I guess that is all.



TREASURY DEPARTMENT

129

WASHINGTON

April 5, 1940.

MEMORANDUM FOR THE SECRETARY:

Following are brief summaries of the four Indiana cases in which, in my judgment, our investigations should be continued. Mr. Belvering concurs.

Hoosier Wine and Beer Company, State Brewing Company.

Proposed additional tax, \$53,841.02; penalty, \$26,920.51; total liability, \$80,761.53.

These two corporations were organized by Frank M. McHale immediately after the legalization of the sale of beer in the first year of the McNutt administration. McHale had been campaign manager for McNutt and he secured for each of the corporations a port of entry permit. Such permits gave the holders an absolute monopoly on the sale of "foreign" beer in eight counties including and surrounding the city of Indianapolis. McHale owned one-half of the stock of each of these companies. William E. Clauer, a political power in Indianapolis, owned one-half of the stock of the Hoosier Wine and Beer Company, and John Burke, another politician, owned the remaining half of the stock of the State Brewing Company.

While these two corporations each had a port of entry permit, they actually operated as one business unit, and no distinctions of any kind were made as to the business done by either of the corporations.

In 1935, the State Brewing Company failed to renew its permit, and as a consequence was prohibited from engaging in the sale of beer. Despite these facts, the dual operation continued and the income from the business was divided in its tax returns, one-half being reported by each company. As the State Brewing Company could not legally engage in business, there is no basis for the division and the entire income has been taxed to the Hoosier Wine and Beer Company from and after the date on which the State Brewing Company's permit expired.

The nature of the business was such that practically no capital was required, and during the period from 1933 to 1938, inclusive, the net earnings of the two companies were approximately \$400,000.00. Despite the fact that practically no capital was required in the business, the earnings were allowed to accumulate so that at the end of 1938 there was an undistributed surplus of \$137,765.30. This was apparently for the purpose of defeating the imposition of surtaxes on the shareholders. In view of this situation, the provisions of Section 102 will be invoked.

This is probably not a criminal case.

Universal Beverage Company, Inc.,
Frank E. McKinney.

Proposed additional tax, \$61,068.46; penalty, \$30,534.23; total liability, \$91,602.69.

Frank E. McKinney is a political power in Marion County (Indianapolis), and was treasurer of the city and county from 1936 to 1939, inclusive. He organized the Universal Beverage Company when the sale of beer was legalized, and at the outset he held two-thirds of the stock. One-third of the stock was held by Owen J. (Donny) Bush, a professional baseball player.

McKinney has a power of attorney from Bush under which he may do any act that Bush himself might do, and pursuant to such power of attorney, McKinney actively manages all of Bush's affairs with respect to the beer business.

The principal business of the Universal Beverage Company consisted of the distribution and sale of beer produced by the Cook Brewing Company, of Indianapolis, Indiana. In 1935, McKinney made an arrangement with that brewery for the payment to him of a commission of 13 cents a case and a dollar a barrel for all of such beer purchased by the Universal Beverage Company. At the same time, the Cook Brewing Company arbitrarily increased the price of beer to the Universal Beverage Company by 13 cents a case and one dollar a barrel. The cost of the beer purchased by the Universal Beverage Company was inflated by these amounts, and these identical amounts were paid over to McKinney by the Cook Company.

McKinney gave Bush one-third of the amount of the commissions received by him from the Cook Brewing Company. The total commissions received during the years 1935 to 1938, inclusive, were \$164,448.70, of which McKinney retained \$110,448.70, and gave \$54,000.00 to Bush.

In 1937, the stock belonging to McKinney was transferred to the name of Bush, and McKinney contends that it was a bona fide sale of his stock to Bush. However, available evidence indicates that it was not a bona fide sale and that McKinney is still the owner of the stock.

As the manipulation could have only one purpose, the reduction of the taxes of the Universal Beverage Company, the amounts by which the purchases of the Universal Beverage Company were inflated have been disallowed as deductions in computing its taxes.

This is a possible case for criminal prosecution.

Pleas E. Greenlee,
Handy Beverage Company,
Russell R. Handy,
Robert F. Handy,
Southeastern Beverage Company.

Proposed additional tax, \$49,800.00; penalty,
\$23,850.00; total liability, \$73,650.00

From 1933 to 1936, Pleas E. Greenlee was secretary to Governor Paul V. McNutt and had charge of patronage matters for the Governor. Early in the McNutt administration, Greenlee took advantage of his position to secure 51 per cent of the stock of the Handy Beverage Company for little or no consideration. The company was given a port of entry permit. This permit, which was a great political favor, gave the company an absolute monopoly on the sale, in several counties, of beer produced outside of the State of Indiana. The business was conducted by Russell Handy, a State senator, and Greenlee's interest in the company and its affiliate, the Southeastern Beverage Company, was concealed by having his stock issued in the name of Robert F. Handy, a 23-year old son of Russell R. Handy.

The books and records of the company show the payment of dividends and salaries to Robert F. Handy, but such amounts were actually paid to Greenlee. The total of such amounts was \$66,729.84.

The amounts received by Greenlee were not reported in his income tax returns, and he explains the cash received by him from the company as representing contributions to his unsuccessful campaign for governor which were not expended for political purposes but were retained for his own use.

Memo. for the Secretary--4.

In 1937, after he had resigned as secretary to the governor and had been defeated in his campaign for governor, Greenlee publicly assumed ownership of the 51 per cent of the stock of the company.

This is a possible case for criminal prosecution.

Albert C. Brown.

Proposed additional tax, \$12,306.46; penalty, \$6,153.23; total liability, \$18,459.69.

Albert C. Brown, a politician, was president of a dog racing association which operated a track near Cincinnati, Ohio. Brown received his interest in the track in consideration for his efforts in getting "protection" to permit the track to operate.

During the years 1936, 1937, and 1938, deposits of currency were made in his bank account of \$26,600.00, \$16,020.00, and \$18,000.00, respectively. The deposits for 1937 were \$400.00 for each day the track operated, and Brown has admitted that the money so deposited and the currency deposited in 1936 were from the track and belonged to him unconditionally. He did not report these amounts in his income tax returns.

This is a possible case for criminal prosecution.

The completion of the investigation of these four cases will probably require not less than four weeks.

All other investigations have now been suspended. They will be referred to the internal revenue agents' force for routine disposition.

GRAVES.



TREASURY DEPARTMENT

WASHINGTON

April 5, 1940.

MEMORANDUM FOR THE SECRETARY:

The interview with Mr. X began this morning at 9:30. It was recessed at 12:30, to be resumed at 2:00. It will probably continue until approximately 5:00, at about which time Mr. X is leaving the city for a period of several days. It will probably be necessary to have a further interview upon his return to Washington.

The agents conducting the interview reported to me during the noon recess.

Mr. X produced his records, which are incomplete, and admittedly do not cover all transactions during the period under review (1933 to 1938, inclusive). The records produced include bank statements, a transcript of one brokerage account, and some canceled checks. No check stubs were produced, and, as I understand, the claim is made that none are available.

The morning session was taken up with an analysis of the deposits in Mr. X's bank accounts. While this analysis was not completed, the agents advise me that enough information was developed to warrant the belief that Mr. X had taxable income in excess of that reported by him in each of the years under examination, and that the probable outcome will be that he will be required to file original or amended returns for all those years. You will recall that X filed no returns during the time he was on the State pay roll.

You may be interested in the following details of unreported income now apparently admitted, for the years prior to Mr. X's departure for the Philippines in 1937:

1933 - Income from speeches	\$1,795.16
Poker winnings	2,900.00
1934 - Income from speeches	3,743.15
Poker winnings	750.00
1935 - Income from speeches	2,262.85
Poker winnings	1,050.00
1936 - Income from speeches	1,604.36
Poker winnings	2,205.00

An interesting feature is Mr. X's statement that while in the Philippines (1937-1938) his net gambling winnings amounted to \$18,000. Whether this was taxable in the United States apparently depends upon the amount of gross winnings, which our agents will undertake to ascertain by further questioning.

Another interesting feature is Mr. X's statement that in the period from 1920 to 1932, as I understand, he maintained a safe deposit box, jointly with his father-in-law, in his home city of Bloomington; that at various times during this period he placed his savings in this box; that the aggregate amount so deposited was about \$15,000; and that since 1932 amounts have been withdrawn from the box from time to time and expended or deposited in his bank accounts.

Mr. X volunteered the information that he had at one time received the sum of \$800 in currency from the Two Per Cent Club, to be used by him for travel expenses. This opens the way for questioning him regarding his relations with the Club, a thing which it was not intended to do unless Mr. X gave the opening, as he has now done.

Mr. X appeared alone for the interview. Although he was very nervous at the outset, his attitude generally was friendly and genial, and apparently cooperative.

GRAVES.



TREASURY DEPARTMENT

WASHINGTON

April 6, 1940.

MEMORANDUM FOR THE SECRETARY:

I have just received your telegram.

The following additional information was elicited from Mr. X during the afternoon session yesterday.

He stated that he brought with him from the Philippine Islands funds aggregating \$34,500, the most of which he deposited in personal bank accounts in this country. He had testified earlier that the amount of cash taken by him to the Philippines when he first went there was approximately \$400.

He was questioned in this connection with respect to the deposit of \$25,000 made upon his return from the Islands, with the Treasurer of the "McNutt For President Club." He admitted this to be in addition to the \$34,500 above referred to, but stated that this sum of \$25,000 represented contributions made by some 300 persons toward his campaign for President. He told our agents that the names of these 300 persons were of record with the Treasurer of the "McNutt For President Club" (McKinney).

Mr. X testified also that he had an account in a bank at Martinsville, Ind., with a present balance, as I understand it, of approximately \$26,000. This account was not previously known to our agents. Mr. X testified that the deposits therein were made by his father-in-law.

Mr. X repeatedly referred to the safety deposit box, which I mentioned to you in my memorandum yesterday, as the source of currency deposits or transactions, and it seems likely that the total of cash deposits and transactions claimed by him to have originated in the safety deposit box may have exceeded the sum of \$15,000, which he testified earlier was the aggregate amount in this box as of January 1, 1933.

Our agents have the impression from Mr. X's testimony that his statements regarding the safety deposit box and his gambling winnings are, at least in part, intended to cover up cash receipts from other sources.

Memo. for the Secretary--2.

The hearing was adjourned at about four o'clock for a period of ten days or two weeks, in order to permit Mr. X to secure the following additional information:

- (a) Further details regarding his Philippine account;
- (b) Further details regarding the Martinsville bank account, above referred to;
- (c) Certain details regarding claimed investments; and
- (d) Net worth statements, by years, from 1933 to 1938, inclusive.

Some of Mr. X's statements appear to be inconsistent and in conflict with facts known to our agents. Mr. Helvering and I have concluded that it would be wise to utilize the period which will elapse before the next interview in making an investigation of these apparent discrepancies. Mr. Sullivan and Mr. Carpenter are leaving to-day for Indianapolis for this purpose, and, according to present plans, Mr. Mack and I expect to join them the latter part of this coming week.

Mr. X's testimony was, of course, taken down, and I expect that the completed transcript will be available on Monday.

GRAVES.

April 9, 1940

3:10 p.m.

Present:

Mr. Helvering
Mr. Graves
Mrs. Klotz

HM, Jr: Guy, I had to do a lot of lying or stalling yesterday about what you did or did not say. Did you say that? I don't know what you did or did not say and I don't care.

Mr. Helvering: What they were questioning me about -- it happened in a very peculiar way. The President asked me to come over that morning and that was at 11:15. He had an appointment with Mr. McNutt at 11:30, which I did not know about and he did not know about mine. Nothing was said to me by the President or anybody else about McNutt except the President said he wanted to see a couple of Senators and therefore my appointment was delayed for a couple of minutes. McNutt coming on time for his appointment was there 15 minutes before I went in and the news boys saw him come in and then saw me come in so they put two and two together.

What they questioned me about was when we would complete this investigation. I said, "You will all know about it. You have made so much to do about this in your columns that a statement will be made when we finish this, which will be in a few weeks."

HM, Jr: Are you going to make a statement?

Mr. Graves: Only to that effect -- that it will be finished. That was the decision arrived at in our conference here that when this investigation was over that it would be said that it is over.

HM, Jr: Did we say that?

-2-

Mr. Graves: That's my recollection.

HM, Jr: Well, we have never done that before.

Mr. Graves: I think it was said here "in fairness to this man"

HM, Jr: What I said if there was nothing to it I would say it, but if there was something to it would I say something?

Mr. Helvering: No. We talked about it and we said when this is concluded, we all thought, in fairness to McNutt, if there was nothing in it reflecting on him, a statement would be made to that effect, but what the boys were talking to me about was when would we complete this investigation and I said we would make a statement when we were through with it.

HM, Jr: It's not important. I lost my temper yesterday, you know, at the fellow from the Indianapolis Star. That's a Republican paper and he kept after me and said you had said there would be a statement and finally I said to him, "Can't you understand English? I told you I won't make any statement about any tax case in any one of the 48 States or the territories of the United States." Then he went all over it. Then I got angry. I said, "Now, I have told you I will not make a statement," and then it gave me a chance to say all the gossip around this town on this thing has not come out of the Treasury "and I know what I am talking about".

Mr. Helvering: Yesterday morning they had a very veiled -- well, you saw

Mr. Graves: Yes, I saw Miller's column.

Mr. Helvering: They are preparing to show that Mr. McNutt's mistakes were small and inconsequential.

Before we go any farther, I want to know so

-3-

when I -- they call me and they get in by all pretexts to try to get me on the phone. For instance, last night a man called me and told the operator downstairs in the hotel that he was an old time acquaintance of mine and wanted to say hello to me, a fellow by the name of Hedges or some such name. When I got on it was an Associated Press man. What I have said to all those men, "There is only one source from which they can get information from the Treasury and that is Mr. Schwarz." Is that all right?

HM,Jr: Entirely!

What happened, this Indianapolis fellow -- Schwarz said he called him a liar when he said he did not know anything and he wanted to throw his arms around me. He was tickled pink, because he had just been making his life miserable, when I said no discussion of any tax case anywhere.

Mr. Helvering: Of course, Kintner called me a liar the other day when I came out and said we would make a statement when we are through. He says no matter what Helvering says about that, that there is no doubt I talked about it with the President. He had that in his column last Friday.

HM,Jr: You and I and Harold are of age and they have been putting the heat on us to try to smoke us out. We can take it and the reason we can take it more each day -- and Mr. Roosevelt has not said boo to me. I gave him a chance before I went South to say something to me and he hasn't. What time does your (Graves') train go?

Mr. Graves: 5:20.

HM,Jr: You have plenty of time.

I want you to put on a piece of paper, and you can give it to Miss Chauncey so we keep it just in this office, a very simple review, starting with Bowman Elder. We have sent him such and such a letter

-4-

on such and such a date. See? Mr. McKinnie. I would say a little something more -- Bowman Elder, former Treasurer of the 2% Club. Mr. McKinnie, I don't know, Treasurer of the County of Indianapolis or whatever he is?

Mr. Graves: That's right.

HM, Jr: Mr. McHale, so and so who got this. Mr. Greenlee who got this. Just a little brief thing so I can have it in my pocket for the next couple of days in case I go over and see the President. "This is the status as of today."

Mr. Graves: You don't want McKinnie in this category?

HM, Jr: Oy, yes. Five, weren't there? Bowman Elder, McHale, McKinnie, Greenlee and McNutt?

Mr. Graves: That's right.

HM, Jr: I don't why you drag in this big racing fellow. \$500.00 a day.

Mr. Graves: That is a case that can be made and there is some reason to believe that the money this fellow shows in his own account went to some of these fellows.

HM, Jr: But he was not racing dogs in Indiana.

Mr. Graves: His dog racing affair was in Ohio and he's an Indiana resident and his bank accounts were in Indiana. He took in \$400.00 a day during the racing season.

HM, Jr: From whom?

Mr. Graves: From the dog track.

HM, Jr: I thought he paid \$400.00 a day protection.

Mr. Graves: No. We don't know what it was

-5-

paid for, but \$400.00 of the receipts were paid to this man.

Mr. Helvering: That's an entirely different case.

HM, Jr.: Let's keep him out of this.

How about the road contractor fellow?

Mr. Graves: Keeler?

HM, Jr.: Yes. Does that belong in there?

Mr. Graves: No, I don't think so. His connection with these political figures is rather remote.

HM, Jr.: I think you had better keep it to these five.

Mr. Graves: I think so too.

HM, Jr.: But a little something of who they are and give it to Miss Chauncey and she can dictate it and I can put it in my pocket if I go over to see the President.

I think we are getting along swell.

What's happened about the Pennsylvania Railroad? Have you had time to see about that?

Mr. Graves: Haven't heard much. I am seeing Mr. Mack tonight. He's the fellow who is making the inquiry. He's taking the same train I do.

Mr. Helvering: Did you explain to the Secretary that McKinney's case is rather serious?

Mr. Graves: I gave him a memorandum about it. That's pretty nearly a criminal case as we see it.

HM, Jr.: Are you going to look into Mrs. McNutt

-5-

and Mrs. McNutt's papa?

Mr. Graves: Yes, and Mr. McNutt's papa. There is one angle of that I probably overlooked telling you. McNutt made a plan to our agents when he was interrogated the other day to lay off his papa; that his father was an old man and if we let him do it he would get all details of the Martindale account and I found from Mr. Mack that we had practically agreed to leave it that way. He's to bring all details of the Martindale account.

Mr. Helvering: There is one thing that would not involve the old man.

Mr. Graves: That's in Bloomington. That's the safety deposit box where he accumulated \$15,000 and went there from time to time. We have had a man at Bloomington checking that safe deposit box, to see if those visits he said were made were made at or about the time they were made.

HM, Jr: It looks bad for these five men.

Mr. Helvering: You know, Mr. Secretary, primarily everybody should keep a set of books so they could keep their tax return. If I make a tax return, I put down the total income, take off any contributions or taxes paid or interest paid and I have to pay a tax on the balance.

HM, Jr: And you don't do it in a safety deposit box.

Mr. Helvering: So.

HM, Jr: Where a fellow has to resort to a safety deposit box as a catch-all and the man is the dean of a law school of one of the big States of the Union, he knows better. He knows better.

Mr. Graves: Well, we think he did not do it.

-7-

HM, Jr: You don't think he did?

Mr. Graves: We don't think he had the box. We don't think through the roaring 20's he put \$15,000 in that inactive status.

HM, Jr: You don't think so?

Mr. Graves: No. Might have been some excuse for a man putting money in a safety deposit box in 1932 or early 1933 when he had the bank crisis, but his statement is he kept putting money in the safety deposit box from 1922 on up to 1932. That's when he put money in; hoarded money. That's the wrong time. People were not hoarding money at that time. They were speculating.

HM, Jr: The sheriff fellow did that in New York.

Mr. Helvering: But he got it where you could not tell where he got it.

HM, Jr: Well, can this fellow tell where he got it?

Well, I am no longer worried that we are prosecuting an innocent person. Are you?

Mr. Graves: No, sir?

HM, Jr: Guy?

Mr. Helvering: Well, it's hard for me to see that a fellow, during those years, would put in an inactive box a lot of money over a period of years and then when we asked him where he got \$5,000 have him say "That's what I saved up in those years." I think the best joke of the whole thing is where he admitted he was the banker of a big gambling establishment in the Philippines.

HM, Jr: That I did not know.

Mr. Graves: He said that out there was a

-3-

club, a social group of men, who met every Tuesday night.

HM, Jr: You have been holding out on me.

Mr. Graves: I held out these details, but I reported he was the banker for that group and he says his net winnings for the period he was in the Philippines were \$18,000. I gave you that.

Mrs. Elots: That is possible.

Mr. Helvering: But the peculiar thing is, it's divided equally between the years he was there, so the \$50,000 can't be in any one year because if the \$50,000 were in any one year it would be taxable.

HM, Jr: Why?

Mr. Helvering: Because it's the law in the Philippines. A man whose income is earned in the Philippines is not taxable nor is he taxable on his business in the Philippines unless over 50%, that is, more than 50% is earned from a business. When a business he is conducting in the Philippines accounts for over 50% of his income, he's taxable on the business income.

HM, Jr: But his winnings were always under 50%? That shows what a good poker player he was. He could time it.

Mr. Graves: Some doubt in the minds of our people it wouldn't be gross winnings.

HM, Jr: Gross was \$34,000.

Mr. Graves: He has not told us what the gross was.

HM, Jr: You think the gross was \$50,000?

Mr. Graves: We have no evidence at all as to gross.

Mr. Helvering: I just got that from deduction.

-9-

If you take the average run of the fellow having winnings of \$18,000, he must have done a business of at least \$56,000 and then he would be awfully lucky.

Mr. Graves: \$18,000 is an awful lot of money for an amateur to win at poker over two years.

HM, Jr: In an honest game.

Mr. Graves: Unless he played for very high stakes and was very lucky.

HM, Jr: It must be obvious who he played with.

Mr. Graves: He played with the leaders of the Philippine Government. That's what I get out of his testimony.

Mr. Helvering: The joke of the whole thing is a man, the High Commissioner of the Philippines, would be backing a poker game because when it showed this big deposit, \$4,900. What was that? "Well, that was the total amount paid in for chips?" Well, did you win all of them? "No, I had to pay it out." And here's another entry of \$2600. "I made \$2600, I paid out \$2600 to other winners."

Mr. Graves: He redeemed the chips. That's the way he computed his winnings, but we could not trace that by any means. We asked him and he's promised to supply all details of the Philippines account.

HM, Jr: What has ever happened to my so-called "movie cases", against Twentieth Century, Fox and that crowd, and particularly Schenck? That's up in New York?

Mr. Helvering: I can't give you any real late developments on it. Cahill has that under investigation relative to bringing an indictment.

HM, Jr: I want to know why that does not go along faster. Who ought I to speak to? Foley?

-10-

Mr. Helvering: No. The matter is with the Attorney General's Office.

Mr. Graves: I think it would be proper for him to speak to Foley because it's in the Department of Justice.

HM, Jr.: Let me ask Foley; say I have not heard in weeks.

Mr. Graves: That's clear out of your hands, as I understand it.

Mr. Helvering: Oh, yes!

(At this point, HM, Jr. spoke to Foley and asked for a report on the cases.)

Mr. Helvering: I don't want to get into a discussion on this, but just want to mention that I have checked up on request for rulings, and page after page of those rulings have been made as to whether or not clubs were exempt or not, and we have consistently held -- I might say that I did not lay down the principle -- but in discussing it with the boys over there I said whenever the question comes in about regularly constituted State Committee that is constituted and made up by virtue of statute in every State which prescribes that the county shall elect delegates to State Conventions, State Conventions elect their Chairman, that's a public affair and we are not going to jump into those, but where these clubs are formed by a bunch of fellows associating themselves together, then we did want to. If they had social activities and incidentally were a political club, why we would not hold them as taxable.

HM, Jr.: I see.

Mr. Helvering: And where they did not have those, a strictly political club for collecting funds and distributing it for political purposes, we told them they would have to file a return.

HM, Jr.: Guy, am I not right that we can let this thing slide for the time being?

-II-

Mr. Helvering: Oh, sure!

HM, Jr.: And by not doing something we sort of mystify the boys out there.

Mr. Graves: I think that's correct. I think the fewer steps we take

HM, Jr.: And by not doing it, it take it just among this group here.

Mr. Helvering: I just wanted you to know this thing had been up a hundred times.

HM, Jr.: I am glad to know that.

Mr. Helvering: Of course, they generally file a return and show they collect so much money and spent so much. What they have come in to us was about Social Security tax by having eight or more people employed.

HM, Jr.: I think it is going along all right. I am satisfied with the Indiana cases.

Mr. Helvering: Yes. It's kind of annoying that these damn fellows

HM, Jr.: I hit them pretty hard yesterday.

Mr. Helvering: I told them politely to go to hell.

HM, Jr.: It's all coming out of his office. His attorney. Fowler Harper is the fellow who is handling it.

Mr. Helvering: Just yesterday morning, a particular thing in Miller's column, down at the bottom, states that nothing will be found against McNutt except oversights or minor errors. In other words, they are paving the way.

HM, Jr.: Oh, yes!

-12-

Mr. Helvering: Did you tell the Secretary what he admitted?

Mr. Graves: No, I did not. He admitted in his examination before the agents, the other day, when they confronted him with his brokerage account, he said he was astonished that he had had that much income. This was for the year 1938. And he said, "At least, I have to file a return for '38." You see, that while he was Governor and did not file any tax return at all. In other words, he's admitted that he has to file a return.

HM, Jr: He was Governor for two years?

Mr. Graves: Four.

HM, Jr: And did not file a return?

Mr. Graves: No.

HM, Jr: But he did while in the Philippines?

Mr. Graves: Yes.

(At this point, there was some discussion which the Secretary asked not be recorded.)

HM, Jr: How's he going to laugh that off?

Mr. Graves: He will say it's proceeds from gambling or from the safety deposit box.

HM, Jr: That box has a bottom to it.

Mr. Graves: Our agents think he has.

HM, Jr: Did his papa have access to it?

Mr. Graves: His father-in-law.

HM, Jr: You know, his father-in-law has this business of selling supplies to the schools.

Mr. Graves: Very small business. We examined that return.

-13-

By cash? Mrs. Klotz: How did he pay the premiums.

Mr. Graves: His story is he left the money here when he went to the Philippines, in the hands of Mr. McKinney to pay the premiums on his insurance. That's McKinney's story also. Their stories, however, do not agree because McKinney said to our agents that McNutt gave \$3,000 for that purpose. \$3,000 would not begin to pay the premiums on his insurance.

HM, Jr: Mrs. Klotz asked a very intelligent question. Does the record show it was paid by cash or check?

Mr. Graves: By check.

HM, Jr: And McKinney is the fellow who got \$1.00 on every barrel of beer sold in Indianapolis.

Mr. Graves: Through his company.

HM, Jr: I most likely am going out to Indianapolis on the 18th or 19th to see the Allison Motors.

Mr. Helvering: You might give an interview out there.

HM, Jr: When you (Graves) go out there, find out if there is any town, because I will be flying, I wouldn't want to spend the night there. I will just land at Allison. I wouldn't want to spend the night there. If I leave here Friday morning there, I will spend the day and then go on to Chicago.

Mr. Graves: Then you don't want me to make any inquiry.

HM, Jr: All right, Guy. Guy, I think you are having a good time on this.

Mr. Helvering: Well, it's a damn nuisance.

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STRICTLY CONFIDENTIAL

April 9, 1980

150

INDIANA CASES

Paul V. McNutt acknowledges income, not reported to the Bureau of Internal Revenue, for the years 1933 to 1938, inclusive. Sources: speeches, stock transactions, gambling, etc. Claims substantial funds in safe deposit box as of January 1, 1933. Apparently liable, on own admission, for additional taxes for some or all of the years in question.

Frank M. McHale secured two "port of entry" beer permits for himself in 1933, and organized two corporations to operate thereunder in Indianapolis, retaining a half interest in each corporation. The two corporations operated as a single concern but filed separate tax returns, equally dividing the expenses and earnings of the joint operation. In 1935, one of the two corporations surrendered its permit and ceased paying occupational taxes to the Federal Government. Notwithstanding that this corporation was thus disqualified from engaging in the beer business, the expenses and earnings of the two corporations were thereafter divided as before equally between the two corporations in their income tax returns, reducing the liability of the enterprise, as a whole, for excess profits tax.

Frank E. McKinney, city and county treasurer, Indianapolis, from 1936 to 1939, inclusive, obtained a wholesale beer permit in 1933 and organized a corporation to carry on operations thereunder, retaining two-thirds of the stock for himself. In 1935, he made a deal with the brewery from which his corporation purchased the most of its beer, whereby the brewery increased the price of beer sold to his corporation, crediting his (McKinney's) personal account with the proceeds of this increase. The effect of this arrangement was to deprive the Government of substantial income taxes which otherwise would have been due from McKinney's corporation.

Pleas Greenlee, patronage secretary to McNutt during his term as Governor, secured a "port of entry" permit for a corporation doing business in Shelby County, placing 51 percent of the stock in the name of a dummy. This stock was transferred to Greenlee when he left the State pay roll in 1937. During the time when the stock was in the hands of the dummy, Greenlee received the dividends thereon but failed to return it for income tax purposes.

Bowman Elder was treasurer of the Two Per Cent Club until late in 1939. In this capacity he collected substantial sums from State employees and from the holders of beer and liquor permits, and other persons. He has refused to account for the expenditure of about \$350,000 of the funds so collected. A "30-day letter" has now been sent Elder, charging him with liability for income taxes, interest, and penalties in the sum of approximately \$235,000, on these undisclosed expenditures.

STRICTLY CONFIDENTIAL



INTELLIGENCE UNIT

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE COORDINATOR

P. O. Box 104,
U. S. Post Office Building
Indianapolis, Indiana

DEC 11 AM 9 14

December 9, 1939
TREASURY AGENCY
SERVICES

NAME OF DIVISION

JNS:tm

Personal - Confidential

Mr. Elmer L. Irey,
Coordinator,
Treasury Agency Services,
289 U. S. Treasury Building,
Washington, D. C.

In re: Indiana Investigation.

The following is a brief resume of what has happened during the week ended December 9, 1939.

After receiving your telephone call Wednesday morning, active work was started on the bank accounts of Paul V. McNutt, subpoenas were served on two of the local banks to produce their records and photographs have been taken of the ledger sheets, deposit tickets, etc. Work was also started on a so-called revolving fund of the Hoosier Democratic Club (Two Percent Club), and the various checks of Bowman Elder's personal account, which covered these disbursements, were photographed, as well as bills and other data he had on hand to support these expenditures. In addition, Special Agent E. H. Vaughn has been active in the examination of the wholesale beer distributors in an endeavor to finish that part of the work.

BANK ACCOUNTS OF PAUL V. McNUTT

A savings and a commercial account of McNutt were located at each of the following banks:

American National Bank of Indianapolis
Security Trust Company of Indianapolis

In addition, a safe deposit box was located in the name of Mr. McNutt at the Security Trust Company of Indianapolis.

Information is on hand that Mr. McHitt also has a bank account at Martinsville, Indiana, his home town, and it may be possible that he had other accounts in the Philippines and Washington.

Security Trust Company of Indianapolis

The commercial account in this bank was opened on September 17, 1935, and the savings account was opened on September 5, 1934. In the savings account there was a deposit of one check on the date it was opened of \$5,000.00 and there has been no activity in the account since.

The yearly deposits in the commercial account follow:

1935	\$5,225.30	(\$5,150.00 currency 9/17/35)
1936	5,307.56	(\$5,000.00 " 2/1/36)
1937	156.25	
1938	75.00	

American National Bank of Indianapolis

The commercial account in this bank was opened on September 5, 1935, and the savings account was opened on July 1, 1935. In the savings account there was a deposit of one check on the date it was opened of \$6,000.00 and there has been no activity in the account since.

The yearly deposits in the commercial account follow:

1933	\$7,400.00
1934	26,692.60
1935	22,270.21
1936	27,493.14
1937	3,615.73
1938	700.00

It is interesting to note that when the account was opened by Mr. McHitt in this bank the ledger sheet was headed as follows:

"Paul V. McHitt, & Roman Elder, City."

There is some question as to the actual salary received by Mr. McNutt while he was Governor of Indiana and Special Agent Vaughn is of the impression it was \$2,000.00. The checks deposited by Mr. McNutt while he was governor, and believed to be salary checks, were in the amount of \$666.67 bi-monthly, indicating his salary aggregated \$16,000.00 yearly.

Outside of the salary checks, a number of checks appear, some representing dividends and interest on securities, and several cash deposits, some as high as \$5,000.00 at one time.

HOOSIER DEMOCRATIC CLUB

On the books of the above-named association appears an account named the "Revolving Fund." At the time the audit was being made of the records of the Club, it was not possible to obtain very much information and details about the items involved in this account, and the analysis was held in abeyance until it would be possible to interview Mr. Elder, who had sole control over same.

This week, Mr. Elder was requested to produce his personal checks showing disbursements from this account and whatever information he had in order that same might be analyzed prior to the time he was interviewed.

The Revolving Fund shows he received the following amounts from the Club:

<u>From</u>	<u>To</u>	<u>Amount</u>
5/18/35	10/4/35	\$10,104.35
12/18/35	5/29/36	6,282.51
5/29/36	11/9/37	40,918.93
	<u>Total</u>	<u>\$57,305.79</u>

It was therefore necessary for Mr. Elder to account for the above-mentioned total. The principal items in which we are interested are as follows:

\$15,100.00	charged to the Democratic Central State Committee.
\$6,563.22	charged to miscellaneous expenses.
\$5,300.00	charged to Omer S. Jackson, Attorney General, State of Indiana, and chairman of the Democratic Central State Committee during the period involved.

\$20,000.00 diverted by Mr. Elder to his personal use from November, 1937, to November, 1938.

The \$18,000.00 item will have to be explained by Mr. Elder when he is interviewed. The records show some to have been disbursed to the Democratic State Central Committee in different amounts at various periods, and sometime later about \$13,000.00 was returned to the fund. Inasmuch as the records of the Democratic State Central Committee fail to disclose the receipt of these funds, it is possible that Mr. Elder also borrowed this amount in addition to the \$20,000.00 previously mentioned.

The \$6,563.22 item is interesting because the receipts and memoranda produced by Mr. Elder tend to establish definitely that the income of the Club inured to the benefit of certain individuals.

On September 22, 1935, Mr. and Mrs. Paul V. McNutt checked into the Hotel Statler, St. Louis, Missouri, and remained until September 25, 1935. Their bill for this period was \$77.01 and was paid on September 25, 1935, with a check signed by Mr. Elder, drawn on his personal account. Inasmuch as the signature on the check and the other writing differ, it may be assumed that Mr. Elder gave to Mr. McNutt or some other party a blank signed check which was filled in to pay this hotel bill. As previously stated, this \$77.01 was disbursed by Mr. Elder from the Revolving Fund and later entered on the books of the Hoosier Democratic Club as miscellaneous expenses.

During June, 1936, a delegation from Indiana went to the Democratic National Convention in Philadelphia, Pennsylvania, and their total expense for this trip, including railroad fares, hotels, food, etc., was \$1,878.94. This amount was disbursed in several checks issued by Mr. Elder on his personal account and withdrawn from the Revolving Fund and subsequently entered on the books of the Hoosier Democratic Club as miscellaneous expenses.

The following shows the members of the delegation and the amount charged to each, in addition to their railroad fares:

Paul V. McNutt, Governor,	\$360.72
M. Clifford Townsend, Lt. Governor,	20.00
Sherman Minton, U. S. Senator,	73.95
Frederick Van Nuys, U. S. Senator,	50.00
Osier S. Jackson, Attorney, General,	171.72

and the balance covered the expenses of about 14 people of minor political standing.

During September, 1936, Paul V. McNutt and his wife attended a Legion Convention at Cleveland, Ohio, and they occupied a suite costing \$23.00 a day. Their total bill for room, valet, restaurant, etc., aggregated \$127.25, which was paid in check by Mr. Elder from his personal bank account, withdrawn from the Revolving Fund, and ultimately charged on the books of the Hoosier Democratic Club as a miscellaneous expense.

During November, 1936, Paul V. McNutt held a party in Washington, which has been referred to as his "Champagne Party," and he was reimbursed to the extent of \$874.⁴⁵ by personal check of Mr. Elder dated November 23, 1936, which was deducted from the Revolving Fund and eventually charged on the books of the Hoosier Democratic Club as a miscellaneous expense.

During January, 1937, a delegation from Indiana attended the inaugural in Washington, D. C., and their expenses of \$1,460.20 were paid for by Mr. Elder from his personal funds, withdrawn from the Revolving Fund and eventually charged as a miscellaneous expense on the books of the Hoosier Democratic Club. This party included the following:

Governor and Mrs. M. C. Townsend,
Mr. and Mrs. Paul V. McNutt,
Mr. and Mrs. Frank McEale

The railroad fares, hotel and other expenses were paid for by Mr. Elder out of the Revolving Fund and eventually the items were charged on the books of the Hoosier Democratic Club as miscellaneous expenses. The railroad fare of Mr. and Mrs. McNutt on this occasion amounted to \$107.40.

Mr. Elder departed for Washington via plane on Friday, December 5th, at noon for the Gridiron Dinner and it will not be possible to interview him until Monday or Tuesday of next week with reference to the above and other items.

A clipping from a local newspaper today, which mentions an investigation being made by "Treasury and Justice Department agents into the tax returns of McNutt organization leaders in Indiana, operations of the Two Percent Club and other campaign fund raising methods," is inclosed and it might be stated that several local radio news broadcasts have mentioned the subject rather vaguely.

James N. Sullivan
James N. Sullivan,
Special Agent.

Inclosure -

The Indianapolis Times

FORECAST: Fair and somewhat warmer tonight with lowest temperature above freezing; tomorrow, increasing cloudiness with mild temperatures.

11—NUMBER 254

SATURDAY, DECEMBER 9, 1939

As One Candidate to Another



Times-Artist Telephoto.

Paul V. McNutt (right) greets Thomas E. Dewey at Washington. "I just told Tom that one of the privileges of being an American is that you can say what you think."

Dewey and McNutt Meet Leaving Train at Capital

Observers Wonder If F. D. R. Is Ired by Hoosier's Tours And Speechmaking.

By DANIEL M. KIDNEY
Times Staff Writer

WASHINGTON, Dec. 9.—Paul V. McNutt and his Hoosier helpers, Frank McBride and Bowman Elder, are all set for the Gridiron Dinner here. And some of the skills may make them smile.

The Federal Security Administrator returned to the city last night on the same train with Thomas E. Dewey of New York and they posed together for photographers at Union Station.

Prosecutor Dewey had been launching his Republican Presidential campaign in Minnesota, while Mr. McNutt had made speeches in Ohio and Michigan.

During the latter's absence from Washington, Secretary of Interior Harold I. Ickes had wounded off against his Presidential candidacy by saying the so-called liberals are not for him and that President Roosevelt has not indicated that he is.

To reporters who met him at the train, Mr. McNutt said: "Oh, yes, I heard about that. I can't comment on it. I just told Tom that one of the privileges of being an American is that you can say what you think."

F. D. R. Faces Center

When asked the view regarding a possible Presidential blessing for himself in 1941, the former Indiana Governor replied:

"You'll have to ask the President about that."

The President during the day had a 15-minute conference with R. Earl Peters, Indiana Federal Housing Administrator and long-time McNutt political foe. Today Mr. Peters was scheduled for a much longer conference with Mr. McNutt's arch-enemy, Postmaster General James A. Farley.

Clinging on the heels of the Ickes blast, these conferences gave rise to the rumor that the so-called "palace guards" effort to take Mr. McNutt down a peg or two may have Presidential backing.

Conservatives Cheer

The story was revived that Treasury and Justice Department agents are looking into the tax returns of McNutt organization leaders in Indiana, operations of the Two Per Cent Club and other campaign fund raising methods.

However, the Ickes statement also resulted in an epidemic of phone calls to the Federal Security Agency from old-time Democrats who wanted to congratulate Mr. McNutt on what they termed "left-wing" opposition.

They pointed out that it will be (Continued on Page Three)

M'NUTT, DEWEY MEET AT TRAIN

Capital Observers Wonder If F. D. R. Is Ired by Hoosier's Tours.

(Continued from Page One)

up to the Democrats to select their Presidential candidate next year and not Mr. Ickes, a long-time progressive Republican.

Also recalled was the fact that Mr. Ickes knew nothing about it when President Roosevelt appointed Mr. McNutt High Commissioner of the Philippines and later to his present post. Mr. Farley was not approved of the latter appointment either until Mr. McNutt called at his office and told him about it, which made no hit with the Postmaster General.

F. D. R.'s animosity now, if it does exist, is said to be due to the boldness of the McNutt campaign and to the fact that he is so often on tour making speeches instead of working at his \$12,000 job here.

But the speeches Mr. McNutt has been making all are 100 per cent New Deal and largely consist of selling his hearers on the need for continuing and expanding the various agencies over which he has been assigned control.

Addresses Welfare Group

An excellent example was Mr. McNutt's address to the several thousand who jam-packed the Wardman-Park Hotel dining room last night when he addressed the American Public Welfare Association dinner.

"If we are to do our duty successfully," he told them, "let us recognize that public welfare is not a mere luxury, but the cornerstone of democratic government, and that social security is only a new name for the age-old foundation of liberty."

"Today it is equally the first duty of Government to open new doors of opportunity, and to see to it that at no time shall any large number of Americans be trapped in unbearable circumstances with no hope of escape."

Cities Needs Served

"Our job is to let each get out of traps, but it is not so simple as in the old days when men could be liberated merely by opening new territory to the west."

He cited the new needs served by such agencies as the Public Health Service, Social Security Board, Civilian Conservation Corps, and the National Youth Administration, all of which are under his jurisdiction.

At a press conference, Mr. Dewey said "there is a boom in every well" and the new President "will balance the budget because he is going to balance it." He said that of past records a New Deal President would not balance the budget.



INTELLIGENCE UNIT

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE COORDINATOR

December 16, 1939.

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TREASURY AGENCY
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PERSONAL AND CONFIDENTIAL

Mr. Elmer L. Irey,
Coordinator,
Treasury Agency Services,
Washington, D. C.

In re: Indiana investigation.

This report relates to what has happened during the past week with reference to the above-mentioned investigation. Checking and analyzing of the accounts and transactions of the leaders of the Hoosier Democratic Club, of the beer distributors, and of Mr. Paul V. McNutt, have continued. Most of the leaders have been interviewed and a new angle of the case has been discovered in the so-called "slush fund."

HOOSIER DEMOCRATIC CLUB AND ITS LEADERS

Three conferences were held with Bowman Elder, treasurer of the Hoosier Democratic Club (hereafter referred to as the Club) from its inception in August, 1933, until November of 1939, to discover how various moneys in his custody were disbursed. Omer S. Jackson, attorney general for the State of Indiana and chairman of the Indiana Democratic State Central Committee (hereafter referred to as Central Committee), William Storen, vice-president of the Security Trust Company of Indianapolis and former treasurer of the Central Committee, and Frank M. McHale, a member of the executive committee and an alleged director of the Club during most of the period under investigation, and Democratic National Committeeman for the State of Indiana since January, 1937, were also interviewed. Statements were taken in all interviews.

The disbursements from the Club were principally made in two ways: by checks of the Club and by checks of Bowman Elder charged to the revolving fund under his custody. The records of the Club disclose that \$92,100 was disbursed by its checks and entered on the books as payments to the Central Committee, but they are not reflected as receipts on the records of the last named. The sum of \$1,000 was disbursed to Omer S. Jackson, chairman of the Central Committee, but has not been accounted for by him.

The disbursements from the revolving fund of the Club disclose that \$27,400 was paid in checks of Bowman Elder and the records of the Club indicate that \$18,100 went to the Central Committee and \$9,300 to Omer S. Jackson. The records of the Central Committee fail to disclose the receipt of the \$18,100, and Mr. Jackson gives no accounting. The total disbursements of \$120,500 were handled in the following manner:

\$52,700 was given to Mr. Storen in the form of checks which were either cashed by him or returned, after endorsement, to Mr. Elder and cashed.

24,300 was given to Mr. Jackson in the form of checks which were either cashed by him or returned, after endorsement, to Mr. Elder and cashed.

2,000 was given to Louis Roberts in the form of one check, endorsed by him and cashed by Mr. Elder.

40,000 was given to C. U. Grunewald, present treasurer of the Indiana Democratic State Central Committee, in the form of checks which were either cashed by him or returned, after endorsement, to Elder and cashed.

15,100 in the form of checks payable to cash and all cashed by Mr. Elder.

\$134,100 Total.

13,600 of the \$15,100 previously mentioned was subsequently returned to the Club after it had been in possession of Mr. Elder for a considerable time.

\$120,500 to be explained.

Three of the individuals involved in the above-mentioned transactions have been interviewed and their statements taken, namely, Elder, Jackson and Storen. The last two allege that while they received the checks they just endorsed them and either cashed them and turned the proceeds over to Mr. Elder or returned the endorsed checks, which were subsequently cashed by Mr. Elder in accordance with his instructions. Messrs. Jackson and Storen contend that they do not know what the cash was used for except that it must have been disbursed for the good of the Democratic Party.

On the other hand, Mr. Elder admits receiving all the cash as reflected by the checks mentioned and states that he disbursed same "for the good of the Democratic State Central Committee," which he requests to be changed to read "for the benefit of the Democratic Party." When pressed for details as to how this substantial amount of money, \$120,500, was disbursed, Mr. Elder would submit no details except to repeat that it was spent "for the benefit of the Democratic Party."

At the first interviews with Messrs. Jackson and Storen they did not admit receiving any of this money involved in the \$120,500 from Mr. Elder. On a subsequent interview in the presence of Mr. Elder, both admitted receiving undetermined amounts at unknown dates from Mr. Elder, considerably smaller in amount than shown by the checks made payable to them, which they in turn disbursed "for the benefit of the Democratic Party." When pressed for further details, both Jackson and Storen refused to amplify their explanation.

The reluctance of these three individuals, Elder, Jackson and Storen, to disclose the details about their disbursements of some \$120,000 was discussed in an informal way with the United States Attorney for the District of Indiana, Mr. Val Nelson. He believed their refusal to answer the questions put to them about this group of transactions was sufficient to warrant his requesting the district judge to issue a court order directing that they account for the moneys received and furnish any other details pertinent to the tax investigation now in progress.

In the early stages of the investigation of the Club, it was believed that its income was taxable and that a substantial additional tax would be collected. As the examination progressed and more irregularities were disclosed as a result of a careful analysis of their records, it became apparent that attempts had been made to mislead the audit firm they retained to submit yearly reports and to mislead any other

party examining their records. Therefore, delinquency and fraud penalties should be asserted.

When evidence was obtained about a fund which they admit might aggregate \$100,000 and which is believed to total several hundred thousands of dollars, the situation was changed. This fund was handled in cash, at the insistence of Mr. Elder, not entered on the books and records, kept secret from not only the accounting firm doing their audit work but from some of the leaders in the organization, and it is now believed that the basis for a criminal case exists.

WHOLESALE BEER DISTRIBUTORS

The investigation of this group has continued during the week, with most of the out-of-state revenue agents working on their reports and getting things in shape to depart for their posts of duty today until after the first of next year. This is in line with the instructions received from the Bureau extending their details to on or about December 15, 1939. The local agents will continue with their investigations except in cases where they are taking annual leave.

The investigation of the records and activities of people engaged in the wholesale beer distribution in this State has brought to light three checks of importance which have been of assistance in forcing the leaders of the Club to admit that a secret fund existed which does not appear on their records.

In analyzing the records of one of the wholesalers, it was noted that they had an item of \$1,700 charged to freight expense in October, 1936. Inasmuch as this amount seemed abnormally high, the check issued to cover same was traced and it was discovered same was used to purchase two cashier's checks at the Indiana National Bank, \$1,200 and \$500, respectively.

The \$1,200 cashier's check was made payable to William Storen, at that time treasurer of the Central Committee, and bears his endorsement and was cashed. When pressed for an explanation of the transaction, Mr. Storen finally admitted that he had cashed same on instructions of Bowman Elder and had turned the cash over to him as neither the leaders of the Central Committee nor the Club wished to show on their records that they had received funds from a wholesale beer distributor.

The \$500 check was made payable to the Marion County Central Democratic Committee and bears their stamped endorsement.

Inasmuch as their records and bank accounts have not been examined, it is not known if the amount was properly accounted for on their records or if they also have a so-called "slush fund."

In checking the records of another wholesaler, it was noted that they had recorded on their books about \$19,000 for sales expenses. A further check of the account disclosed that in October, 1936, they withdrew \$5,000 from the company and purchased several drafts. One of these was payable to William Storen, treasurer, for \$500, and when pressed for an explanation, he admitted this item was similar to the \$1,200 one previously mentioned.

Another beer wholesaler issued his personal check on August 10, 1936, to "Treasurer, Central Committee, Wm. Storen," for \$225, and it bears the endorsement of Mr. Storen. When pressed for an explanation, he admitted this transaction was similar to the two previously explained.

Two of the original checks are in my possession and the cashier's check is on file at the bank and available.

Nothing further of real importance was developed this week with the exception of one item; in analyzing a bank account of Al Brown, a wholesale beer distributor at Brookville, Indiana, it was noted that he had a \$5,200 deposit from a bank in Cincinnati, Ohio. An examination of the records of the bank at the latter point disclosed that Mr. Brown also had an account at this bank in which daily deposits of approximately \$400 were made during certain periods of time. Tracing the activities of Mr. Brown further, it was disclosed that he was interested in the Harrison Kennel and Auction Club, Inc., at Harrison, Indiana, a dog racing venture, and that each year during the period it was in operation he banked \$400 daily; also that the tax returns filed by this dog racing organization appear to be understated several thousand of dollars. A further check will be made of this item when time is available and some comments are made about the situation under "General Information and Comments."

PAUL V. MCNUTT

In my report dated December 9, 1939, information was submitted about the following Indianapolis bank accounts of Mr. McNutt:

<u>Banks</u>	<u>Years</u>	<u>Total Deposits</u>
Security Trust Co. (Commercial account)	1935 to 1938	\$10,768.71
Security Trust Co. (Savings account)	1934	5,000.00
American National Bank (Commercial account)	1933 to 1938	\$8,249.68
American National Bank (Savings account)	1935	6,000.00

As a result of analyzing the above-mentioned bank accounts it was disclosed that Mr. McNutt also opened a savings account in the Fletcher Trust Company on July 2, 1935, with a deposit of \$5,000 and there has been no activity in the account since. This brings the total bank deposits of Mr. McNutt for the years 1933 to 1936, inclusive, when he was Governor, to about \$110,531.41. The total known deposits since he ceased to be Governor aggregate about \$4,546.98, a decided drop.

It has been established that Mr. McNutt received a salary of \$8,000 a year while Governor for the State of Indiana. In addition, he also received approximately \$8,000 annually for the maintenance of the Governor's Mansion, a residence supplied by the State.

Other information received, and not yet confirmed, with reference to the activities of Mr. McNutt is described under "General Information and Comments."

During the past week a careful analysis has been made of the known accounts of Mr. McNutt and attempts are being made to trace some of the deposits on which sufficient information is available. In this connection, inquiries will be made in New York on several of the items during the next ten days. Some inquiries are also being made around the State of Indiana with reference to the sources of these deposits at the present time but nothing of importance has been traced as yet.

UNIDENTIFIED FUND

When Mr. Bowman Elder was questioned on Tuesday about the existence of this fund or payments thereto, he denied it existed. About all he would admit was that he had heard

rumors that such payments had been made to a fund.

On Wednesday, William Storen was interviewed and, when pressed about certain checks made payable to him and cashed, admitted that he had cashed same on instructions from Mr. Elder. The transactions were handled in this way because neither the Central Committee nor the Club wished to show on their records the receipt of contributions from people engaged in the wholesale beer business.

Mr. Frank M. McHale was questioned about the unidentified fund on Wednesday and denied any knowledge of same.

Thursday, Mr. Elder was again interviewed and on this occasion admitted that such a fund existed and preferred to term it an "unidentified fund" instead of a "slush fund." He further admitted that on his instructions all moneys for this fund had to be in cash, that he placed the money in a vault at the Indianapolis Athletic Club accessible only to himself, that he made disbursements from the fund from time to time for the "good of the Democratic Party," that no money was now in the fund, that he kept no records of the receipts or disbursements, and that he was unfamiliar with the total amount which went into the fund.

Mr. Elder was questioned repeatedly about the unidentified fund but would submit no further details except to admit that Mr. Frank M. McHale knew of the existence of the fund, and that the receipts may have run as high as \$10,000 or \$15,000 yearly during the years 1935 to 1938, inclusive.

The fact that Mr. Elder would not furnish the details of the unidentified fund was discussed in an informal way with the United States Attorney for the District of Indiana, Mr. Val Nolan, and he believes the situation warrants the request of an order from the Federal judge to require Mr. Elder to furnish the necessary information.

GENERAL INFORMATION AND COMMENTS

During the conference with Mr. McHale, the question of the taxability of both the Paul V. McNutt for President in 1940 Club, Inc., and the Paul V. McNutt for President in 1940 Committee was discussed. During November, 1939, a notice was forwarded from the Bureau of Internal Revenue advising the first-named organization that its income was subject to income tax and it was not exempt under the provisions of Section 101

of the Revenue Acts of 1936 and 1938, as claimed by its leaders. Inasmuch as there was a possibility that the Commissioner of Internal Revenue would hold that the income of the last-named organization was also subject to income tax, the question that is before the Bureau at the present time, Mr. McHale was anxious to know what provisions should be made for setting up a reserve to pay the taxes when assessed.

In this connection, he invited me to examine the records of both organizations and submit suggestions as to how the reserve should be set up, make an examination to determine the proper tax liability, and, in general, pass on their tax liabilities.

In view of the fact that many irregularities have developed with reference to the funds of the Hoosier Democratic Club in which Mr. McHale was an active leader, and receipts and disbursements could not be determined with any degree of accuracy without a prolonged investigation because of incomplete and inaccurate records, it was believed that a representative of the Bureau of Internal Revenue should not be placed in the position of making the examination requested before tax returns are filed, and the invitation was declined.

During the discussion of the two organizations of Paul V. McNutt for President in 1940, Mr. McHale stated that the corporation has on hand at the present time approximately \$38,000 and the funds of the unincorporated club exceed \$100,000. It was also stated by Mr. McHale that while the question of the taxability of these two organizations would be strenuously argued before the officials of the Bureau of Internal Revenue, the appeal, in the event of adverse rulings by the Commissioner, would not be carried further as those in charge do not wish any publicity with reference to the issues involved.

During the present week, confidential information, believed to be reliable, indicated that Mr. McNutt received approximately \$25,000 from some of his admirers in the Philippine Islands for use in his campaign for president. This money is alleged to be in the custody of Frank E. McKinney, president of the Fidelity Trust Company in Indianapolis, and general treasurer of the movements of McNutt for President in 1940 organizations.

Information was also received to the effect that Mr. McNutt had a substantial bank account in or around Chicago during the time he was Governor of the State of Indiana, but no work has been done on this angle of his case pending the receipt of additional facts. The same source of information

indicated that there might be extensive security transactions in which Mr. McNitt was involved during the same period.

From several sources, information was received tending to show either the Hoosier Democratic Club or those in charge of the Unidentified Fund contributed some \$3,600 to the "coming out party" held by Mr. McNitt in Washington, and this has not been checked pending the receipt of additional facts.

With reference to the activities of the Harrison Kennel and Auction Club, Inc., at Harrison, Indiana, information has been received to the effect that payments have been made to United States Senator Sherman Winston of Indiana for his favorable efforts in behalf of this organization, although up to the present time, no effort has been made to confirm same.

Inasmuch as information of a reliable nature has been received to the effect that in addition to soliciting contributions from the wholesale beer distributors which went to the so-called "alumni fund," successful bidders on State contracts were required to contribute to the same fund, and it is planned after the first of the year to request the proper official of the State to produce its canceled checks on all large payments and then examine the parties receiving same to uncover such payments.

It is interesting to note that both Mr. Mader and Mr. McNitt have endeavored during the recent interviews to belittle the connections of Mr. McNitt with the Club, which may account for the reluctance of Mr. Mader to explain in detail what has happened to \$120,900 of its disbursements. It may also account for the reluctance of Mr. Mader to furnish details about the money disbursed from the so-called "alumni fund."

Another item of interest is the fact that the Club installed an elaborate system of recording so-called contributions of State employees where the payments were as low as fifty cents each pay day, whereas the evidence shows that when they received a \$1,200 payment from a beer wholesaler it was placed in a vault in the Indianapolis Athletic Club and no record kept of its receipt or disbursement.

From now until the beginning of the New Year, it is not expected that much progress will be made on the investigation because of the absence of most of the agents. However, a certain amount of work will continue on the wholesale beer

distributors where it does not require inquiries at the banks, or other establishments engaged in the holiday rush of business.

As previously mentioned, the question of having court orders issued requiring several leaders in politics to render an accounting of funds handled by them has already been informally discussed with the United States Attorney. On account of the absence of Federal Judge Robert M. Baltzell, who is attending a meeting of Federal judges, no action can be taken on this matter until he returns, and it was the opinion of Mr. Egan that action should not be started until after the first of the year when no delays will be encountered because of the holidays.

James E. Sullivan
James E. Sullivan,
Special Agent.