

Public Works

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entitled "The Canada Highway Act." The amount which was allotted to Prince Edward Island by the Dominion Government under this Act, appears to have been fully taken up. The City of Charlottetown and the Town of Summerside having then been allowed to participate in the plan, in order to ensure the expenditure of the full Federal allotment within the Province.

Responsibility for Sundry Cash Receipts

In his evidence, Mr. L. B. McMillan, Deputy Minister of Public Works, assumes full responsibility for cash receipts relative to refunds, returned cement bags, materials sold, etc., and this is borne out by the statements of the other witnesses examined. Mr. McMillan also admits responsibility for the lack of records in respect to Highway Improvement cash receipts and disbursements, which has resulted in the present general confusion in connection therewith. No cash

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book was kept, nor record of empty bags returned, materials sold, etc. Temporary memoranda relating to these matters were alleged to have been kept, but were destroyed from time to time, it is said as what Mr. McMillan calls his "liability" for the corresponding funds was disposed of. In any event it appears that no permanent records of such transactions were made, or at least none were brought to light during the present enquiry. There was consequently little that could be audited, in the sense in which the term is generally understood; all that could be done in respect to these various transactions was to try to place them together from such sources of information as were available—a rather unsatisfactory and possibly not very reliable proceeding.

Books of Account and General Method of Handling Expenditure and Receipts

Expenditure relating to Highway Improvement Account began in June 1920, with the commencement of work by the Department of Public Works; and in order that the subject in respect thereto, subject to "Federal Aid," might be clearly distinguishable from the Department's ordinary activities by the Dominion Government Auditors, a separate Bank Account was opened at the Bank of Montreal.

Evidently the intention was that all payments should be made by means of cheques, which were to be charged or entered in a special journal kept for the purpose in the Public Works Department. It would likewise seem to follow that if the records were to be kept clearly and accurately all credits or receipts applicable to Highway Improvement Account should have been similarly reflected in the same ledger, or at least in a special revenue account therefore, and the corresponding funds deposited intact in the Bank. It is a matter of record that during the first year or so this method of dealing with expenditures and receipts appears to have been consistently adhered to. In fact there seems to have been no variation in this regard.

Table with columns: Date of Cheque, Amount, How dealt with by Mr. McMillan. Lists various cheques from Dec 1921 to Feb 1929.

Regarding cheque number 12 in the foregoing list, questions relative thereto and Mr. McMillan's replies will be found in copy of the evidence, principally on pages 7, 12 and 14. It will also be noted that cheque number 13 in the foregoing list was held by Mr. McMillan from early in February, 1929, until he cashed it on May 6. The Bank of Montreal then called attention to it, as the Highway Improvement Account had been closed since February, 1929, and the Bank was apparently in doubt as to Mr. McMillan's right to endorse on behalf of the Government. Enquiries followed, with the result that Mr. McMillan refunded \$27.14, representing some four cheques that he had previously received but had not accounted for, as follows:

Table with columns: Name, Amount, Date. Lists Canada Cement Co. Ltd., DeBlois Bros. Ltd., and Jimmie Jingle Says.

It will thus be seen that DeBlois Bros., Ltd., cheque for \$102.23 was also retained by Mr. McMillan and not accounted for until more than a year had elapsed; and his explanation as to why this and the other

appears to relate to the difference found in the Bank account at that time, and a full explanation in respect thereto will be found in the evidence taken before the Provincial Auditor.

Unexplained Deposits and "Gifts" of Money

Examination of deposit slips, which were secured from the Bank, disclosed items thereon the exact origin of which it is not possible at present to explain. Mr. McMillan in his evidence states that he was in the habit of cashing outside cheques from the cash funds which he had retained in his office, in the manner already described, and that some of the items on the deposit slips referred to undoubtedly refer to cheques which came into his hands in this manner. In addition, Mr. McMillan also claims to have deposited funds which did not belong to the Government, i.e., funds which had come to him as presents from friends

and that this latter source or revenue accounts very largely for the apparent surplus receipts in respect to Highway Improvement Account. It will, of course, be obvious to you that if extraneous funds, such as the "presents" referred to by Mr. McMillan, actually found their way into the Bank or were placed with funds belonging to Highway Improvement Account, and subsequently deposited to the credit thereof, a surplus of miscellaneous deposits and disbursements over miscellaneous receipts would automatically be created. At the same time there is no guarantee that there was not additional receipts from sources of which no information has so far been disclosed, which would account partially at least for the surplus which now appears to exist. For instance, if there were additional sales of cement or gravel, of which nothing is at present known, amounting to say \$1,000.00, such receipts would at once explain and reduce the apparent surplus or unexplained deposits by a corresponding amount.

Funds Received and not Accounted for within Reasonable Period

These various cheques received from time to time from Canada Cement Co., Ltd., are referred to in detail in the evidence taken under The Audit Act by the Provincial Auditor, but for convenience I shall summarize them as follows, giving particulars of the manner in which each was dealt with:

Table with columns: Date, Amount, How dealt with. Lists various cheque entries from Dec 1921 to Feb 1929.

cheques above noted were so retained will be found in the evidence, which, briefly, is to the effect that he considered the Bank Account incorrect and was awaiting an opportunity of having it checked. He disclaims any intention of having planned to retain these funds permanently, stating positively under oath that he would have accounted for them in any event.

It is likewise claimed by Mr. McMillan that unexpended portions of moneys retained by him out of the foregoing cheques were later deposited in the Bank, which may possibly account for some of the unexplained deposits, to which reference will later be made.

In addition to the amounts received from the Canada Cement Co., Ltd., further cheques and cash payments appear to have been received by Mr. McMillan in respect to Highway Improvement Account from other sources, some of which were deposited intact and in other instances retained, as he states, to replenish the cash fund, which it is alleged it was considered necessary to maintain in the office, from which to make sundry disbursements from time to time. Whether or not all such receipts are fully accounted for in the statement referred to, it is impossible to say. It has been checked as carefully as possible, but owing to unfortunate lack of departmental records concerning all these items, complete verification at this time cannot be made.

Bank Surplus at End of 1928

The item of \$956.08 credited in the Public Accounts of 1928 as "refund for empty cement bags," in reality

work of making a re-check of these records and duplicating each entry with the Bank statements would require a great deal of time and involve considerable expense. This can be done, nevertheless, if it is desired. Meanwhile a surplus apparently exists, strange as it may seem. That it is not a satisfactory state of affairs is obvious, as it opens up too many avenues for speculation as to its actual origin and purpose. On the other hand, it may be exactly as Mr. McMillan claims, however unusual his explanation may appear.

Cash Disbursements

The practice of disbursing cash without vouchers is entirely inexcusable. Indeed it was highly improper to have paid out cash under any circumstances. All the payments which Mr. McMillan claims to have made should unquestionably have been disbursed by cheque in the regular manner. That funds were being so paid out, however, appears to have been known to Mr. Shaw and Mrs. Gallant, and according to Mr. McMillan, by the several Ministers who were successively in charge of the Department during the period in question. These cash payments, however, are said not to have been known to the Provincial Auditor, the present Provincial Treasurer or the Deputy Treasurer.

Salient Features

To the writer the most salient features in respect to this whole matter, so far as Mr. McMillan is concerned, appear to be as follows: (1) That he failed to keep proper records of public moneys entrusted to his care, with the resultant chaotic condition of these funds; (2) That he cashed Government cheques, instead of depositing all receipts intact; (3) The rather irregular manner in which certain disbursements were made; (4) The failure of Mr. McMillan to disclose the fact that he had \$827.14 of Highway Improvement funds in his possession, when the Bank Account was closed in February, 1929, which amount was acknowledged by being refunded after enquiries relating thereto had been commenced in May last; and (5) That in his capacity as an official he has apparently been in the habit of receiving cash presents from unnamed persons or firms from time to time.

These would appear to be the most serious phases of Mr. McMillan's conduct. There probably are other features open to criticism but the foregoing summarizes what are perhaps the most outstanding.

No Records Kept of Miscellaneous Revenue and Expenditures

As already pointed out and in accordance with statements of witnesses examined, practically no records were kept by Mr. McMillan in respect to refunds relative to Highway Improvement Account, sales of empty cement sacks, materials, etc., all of which he admits in his evidence. There was no cash book in which the receipts of these funds was recorded, and deposits and cash payments were likewise not entered, so that there are no departmental records or accounts which can be examined with a view to ascertaining the accuracy of the receipts and disbursement contained in Mr. McMillan's statement. It may be that this statement is accurate, but it is not possible to verify it at the present time. It is indeed strange that no record was kept of funds which ran into so large a total within a comparatively few years. True, it is alleged, such funds were looked upon as "extraordinary" revenue, which for purposes of the subsidy payable under the "Canada Highway Act," it was considered advisable to deal with specially, but apart from whatever may be said regarding the motive, it is clear that the receipts and payments in question should have been carefully recorded and promptly accounted for. As it is, public funds were received and paid out, concerning which there is no record in the Public Accounts.

Apparent Surplus Funds

With regard to the reality of the surplus indicated, there appears to be little doubt of its existence at the present time. In his evidence Mr. McMillan has admitted the possibility of errors having crept into the departmental ledger, but only a detailed check of the entire expenditure from 1920 until the account was closed would reveal such mistakes, provided any were made. There are approximately 30,000 cheques and as many vouchers, covering something in excess of 600 ledger pages, so that the

(d) Statements alleged to have been made by Mr. McMillan relative to Canada Cement Company's cheque for \$485.80 having been included in the credit item of \$956.08 shown in the 1928 Public Accounts; (e) Origin of the practice of dealing with miscellaneous receipts and expenditures on Highway Improvement Account in the manner described in report of June 18th last, and whether or not the various Ministers were aware of what was being done in respect thereto; (f) Audit of receipts on Highway Improvement Account, and (g) Transactions with D. A. McDonald in 1925-6.

Referring first to (a), it will be noted that Mr. McMillan states his own and miscellaneous Highway Improvement account funds were usually kept together in the Public Works Department safe. He says that when a Government cheque was cashed the funds were placed in this safe and if he received personal funds from any source, the cash which they represented would usually go into the same compartment. Disbursements on Government account he also states were made therefrom, advances made to employees, cheques cashed, etc., but as stated in my former report, no cash book was kept for the purpose of recording these transactions.

That such an extremely loose method of handling public funds was, to say the least, highly irregular and contrary to the clear intention of "The Audit Act" is beyond any question, and I cannot too strongly condemn the practice followed by Mr. McMillan in this respect. Dealing with (b), i.e., the circumstances that led him on May 6th to cash the Canada Cement Company's cheque for \$485.80, which appears to have been in his custody since early in February, 1929, Mr. McMillan states that he can recall no special reason for deciding to cash it at the Bank of Montreal on the date named. His replies to questions relative to this cheque, and other matters having a bearing on the subject will be found in detail on pages 4, 5, 6 and 7. He claims that as far as he is now able to recall what occurred on May 6th, he had no particular object in cashing this cheque on that date, other than it was not desirable to retain it too long.

Here again Mr. McMillan's conduct was directly in conflict with the express provisions of "The Audit Act" as set forth in Section 21, clauses (1), (2) and (3). Clause (3) specifically states that when funds are received by any department or officer, the same shall be immediately deposited with the Provincial Treasurer; and nowhere in the Act does it appear that any official is entitled, by ministerial authority or otherwise, to vary this procedure or retain departmental funds in his possession.

And this is not the only instance in which the provisions of "The Audit Act" appear to have been ignored by Mr. McMillan, as seen in the evidence in respect to Canada Cement Company's cheque for \$485.80 (the proceeds of which were retained for fifteen months); the DeBlois Bros., cheque, and other instances. It also seems that Mr. McMillan received from the Bank 20 Twenty-dollar Bank of Montreal bills and \$48.00 in bills of small denominations, when he cashed the above described cheque; and it is apparently a matter of record that 19 Twenty-dollar Bank of Montreal bills were "cleared" through the Bank of Nova Scotia the following morning. It is, of course, impossible to say whether or not the 19 Twenty-dollar bills which thus came back to the Bank of Montreal were part of the lot of 20 received by Mr. McMillan on the preceding day; but in view of other information received the fact is considered of sufficient importance in the interests of all persons concerned to be mentioned in this report, especially since reference is also made thereto in the evidence recently taken before the Provincial Auditor.

Mr. McMillan states in his evidence that he is unable at present to recall any personal transaction at the Bank of Nova Scotia on May 6th, which would have involved the use of these bills. He says he had no large personal bills or notes fall due at this time that could not have been taken care of out of his own funds, with which he was fairly well supplied on the date named. So far as he can remember, therefore, he claims he had no transactions at the Bank of Nova Scotia, but suggests that possibly he cashed cheques for persons, which may have resulted in some of the bills received from the Bank of Montreal in this way reaching the Bank of Nova Scotia.

There is a serious conflict, however, between Mr. McMillan's evidence to the effect that he had no transactions at the Bank of Nova Scotia on May 6th and that of Mr. Murray, Manager of the Bank, who was summoned by yourself as Attorney-General to make a statement before the Provincial Auditor. In his evidence relative to the matter Mr. Murray says that Mr. McMillan on May 6th paid a personal note at the Bank of

to be called to your special attention. When Mr. McMillan was questioned on June 13th concerning the item of \$144.00 paid Mr. McDonald for bags, he did not disclose the fact that the cement had, in the first place been supplied by him through the Department of Public Works; and when again queried on the subject by Mr. Lea on June 15th he was likewise reticent concerning this phase of the matter, leaving the impression that he had merely included the lot of 740 bags with a shipment belonging to the Government, as a favour to Mr. McDonald; whereas it now appears the bags (containing cement) were originally supplied through the Department of Public Works. That the Department of Public Works should thus become a brokerage agency for the convenience of contractors is almost incredible, but added to this is the fact that the records fail to show if or when payment was received for the car of cement in question, and further there is considerable ground for the belief that Mr. McMillan was personally interested in the contract for which this cement was supplied.

On page 9 of the evidence it will also be noted that Mr. McMillan admits a shortage of about \$125.00 which he says he was obliged to make up from other sources when he was called upon to pay over to the Treasury the amount of \$827.14 on May 22nd last. This in itself is a most significant admission, quite apart from the fact that in view of the express provisions of "The Audit Act" there was no justification for the retention of any of these funds in Mr. McMillan's possession.

The evidence of Miss Hogan and Miss Webster, clerks in the Department of Public Works, was also taken relative to the matter of checking bills, etc., submitted for payment. (See pages 13, 14, 15 and 16.)

Apparent Surplus

As pointed out in my previous report no records were kept in respect to certain miscellaneous receipts and disbursements on Highway Improvement account, so that there are no present means of establishing by audit the correctness or otherwise of the apparent surplus of \$1,417.08 referred to therein. By employing certain figures relative to receipts, which with the exception of the Canada Cement Company's cheques and a few other items, were obviously prepared from memory by Mr. McMillan, and deducting therefrom disbursements claimed to have been made in cash (and not supported by vouchers) as well as various unexplained bank deposits, amounting to some \$2,033.28 there is an apparent excess of disbursements and deposits over reported or traceable receipts equal to the sum stated.

It was pointed out in my report, however, that there was no guarantee that all such receipts had been accounted for. Materials may have been sold and the funds received, therefore omitted by Mr. McMillan, who states himself that proper records had not been kept; and the fact that it has since developed that there is uncertainty as to the manner in which a car of cement, said to have been sold to D. A. McDonald, in 1925) was paid for, lends further color to this view. The claim put forward by Mr. McMillan that he had augmented "Highway Improvement" receipts by means of certain cash "presents," which he states he received is not, I am bound to say frankly, a very convincing explanation, as applied to this particular phase of the matter under review. The fact that he allowed himself to become the recipient of such "presents" from the sources indicated in his evidence implies a situation which is anything but reassuring, not only insofar as "Highway Improvement" transactions are concerned but in respect to other departmental operations as well. I therefore find it increasingly more difficult not only to accept a genuine this apparent surplus itself, but also the explanations offered concerning the sources of revenue from which it is alleged to have been largely built up.

In conclusion let me say that in general the evidence taken during the recent enquiry inclines me to the view that it reveals a far more unsatisfactory condition in respect to the manner in which "Highway Improvement" affairs have been conducted than was apparent at the time my earlier report was submitted. Mr. McMillan's evidence was far from convincing, particularly during the recent enquiry, when so many of his statements were found to be at variance with other sources of information. I am accordingly led to conclude that "Highway Improvement" affairs have been loosely conducted, leaving many grounds for the belief that there have been various transactions of a grossly irregular and unwarranted nature, especially in view of the express stipulations of "The Audit Act."

Yours very truly, (Sgd.) DONALD S. HART, Chartered Accountant, Charlottetown, Prince Edward Island, June 18th, 1929.

Herewith submitted is a supplementary report relative to the investigation in respect to certain matters concerning Highway Improvement accounts, Department of Public Works. Following my report dated June 18th last, a further enquiry, in accordance with your request, has been made and a copy of the additional evidence taken before the Provincial Auditor is appended hereto for your consideration. The chief matters dealt with in the recent enquiry may be summarized as follows: (a) Method followed by Mr. McMillan in handling departmental cash; (b) Circumstances relative to the cashing of Canada Cement Company's cheque for \$448.00 on May 6th and the clearing of a number of Bank of Montreal bills through the Bank of Nova Scotia on the following day; (c) Amount of funds on hand when Mr. McMillan exhibited his cash to the Premier on or about May 21st, 1929;

Nova Scotia, in favour of C. Lyons and Co., amounting to \$264.30. This note was paid, it appears, to the first teller, by whom no funds are paid out, and it is at least an interesting fact that at the end of the day the first teller at the Bank of Nova Scotia is stated to have had on hand \$270.00 in Bank of Montreal bills.

From other enquiries made it appears that the \$270.00 in Bank of Montreal bills, which the first teller at the Bank of Nova Scotia had on hand at the end of the day on May 6th, was made up of 13 twenty-dollar bills and one ten-dollar bill, all of which it is but fair to say may have been merely a coincidence. The fact remains, nevertheless, that Mr. McMillan apparently did transact business with the Bank of Nova Scotia on May 6th, notwithstanding his evidence to the contrary.

With reference to (c), you will note that Mr. McMillan claims he had in the vicinity of \$600.00 on hand when he exhibited his cash to you on or about May 21st last. The writer, of course, has no personal knowledge of this phase of the situation, but has received from the Provincial Auditor—Mr. John Anderson—a copy of a letter which he has written you, in which Mr. Anderson states that Mr. McMillan informed him on the same day that the funds which he had previously exhibited to you amounted to about \$370.00, and not between \$500.00 and \$600.00.

There is therefore a serious conflict between the sources of information which I have concerning this matter, including your own recollection of the incident, and I cannot do other than draw the matter to your attention. Taking up item (d), Mr. McMillan states in his evidence that he did not intend to try to lead you and others on or about May 21st last, and believe that he had included the Canada Cement Company's cheque for \$485.80 in the item of \$956.08 credited as "refund for empty cement bags" in the 1928 Public Accounts; but here again I find that Mr. McMillan's evidence conflicts with the statement of the matter contained in the Provincial Auditor's letter to you already referred to, as well as your own recollections concerning the matter. According to Mr. Anderson, Mr. McMillan turned up the 1928 Public Accounts and pointing out the item of \$956.08 stated to you and the Ministers who were present that the \$485.80 cheque formed a part of this credit. Doubtless others present at the time will recall the incident.

In respect to (e), or the origin of the practice followed in dealing with cement bags and other miscellaneous Highway Improvement receipts, although the matter was the subject of a series of questions, little, if any, further light has been thrown upon the matter. The evidence as to whether or not the several Ministers who succeeded Mr. Crosby were aware of the irregular manner in which these receipts continued to be handled is neither conclusive nor satisfactory; but in any case, as has already been pointed out, all was contrary to "The Audit Act," the provisions of which none of the several Ministers had authority to vary in any way; and as an official of the Government for upwards of forty years it is inconceivable that Mr. McMillan was not aware of these regulations. Referring to (f), or the audit phase of the situation, as raised in Mr. McMillan's evidence, the writer has no data relative to the procedure followed and consequently can only refer you to the explanation offered in Mr. Anderson's statement on the subject, in which he points out the obvious impossibility of auditing receipts, concerning which there was not only no record in the books, but which in so far as the items making up the balance of \$827.14, refunded on May 22nd last, were concerned, were apparently known only to Mr. McMillan himself.

In addition to the foregoing, Mr. McMillan was also examined relative to the D. A. McDonald transactions during 1925 and 1926, and his explanations in respect thereto will be found on pages 11 and 19. Some further light was cast upon the matter by Mr. McMillan's statement that a car of cement had been sold or transferred to Mr. McDonald by the Department of Public Works in 1925, but the manner in which the invoice therefore was settled by Mr. McDonald has not been satisfactorily established. (See pages 11 and 19.) That cement or other material should have been disposed of in this way is by no means a justifiable condition of affairs, particularly in view of the fact that the evidence (see page 10) rather leads one to believe that Mr. McMillan was personally interested in some, at least, of Mr. McDonald's contracts. His replies, when questioned on the subject, at any rate, were anything but satisfactory, and since no definite record of payment covering this car of cement could be shown by Mr. McMillan, who does not deny that he was personally interested in the contract for which the cement was supplied, the matter is considered sufficiently important

to be called to your special attention. When Mr. McMillan was questioned on June 13th concerning the item of \$144.00 paid Mr. McDonald for bags, he did not disclose the fact that the cement had, in the first place been supplied by him through the Department of Public Works; and when again queried on the subject by Mr. Lea on June 15th he was likewise reticent concerning this phase of the matter, leaving the impression that he had merely included the lot of 740 bags with a shipment belonging to the Government, as a favour to Mr. McDonald; whereas it now appears the bags (containing cement) were originally supplied through the Department of Public Works. That the Department of Public Works should thus become a brokerage agency for the convenience of contractors is almost incredible, but added to this is the fact that the records fail to show if or when payment was received for the car of cement in question, and further there is considerable ground for the belief that Mr. McMillan was personally interested in the contract for which this cement was supplied.

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The evidence of Miss Hogan and Miss Webster, clerks in the Department of Public Works, was also taken relative to the matter of checking bills, etc., submitted for payment. (See pages 13, 14, 15 and 16.)

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