

**Hog Island Work
Costly, Not Criminal**

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hinged "not so much upon the question of accomplishing it upon means, methods and expenditures."
Attached is a letter from the investigators, dated September 21, which the Attorney General transmitted to the President, referring to press reports that the program is falling behind, schedule and calling attention to the fact that the report was based upon conditions as they appeared early in July.
General Manager Piaz, of the Emergency Fleet Corporation, appearing yesterday before the Senate Commerce Committee, testified that the Hog Island yard would be completed in about sixty days; that the cost would be about \$25,000,000 and that the plant had delivered one ship and laid fifty keels.

Contract for Land Purchase
The report describes at the outset the contract entered into by the Emergency Fleet Corporation on September 13, 1917, under which the American International Corporation, of New York, agreed to purchase 144 acres of land at Hog Island, to be utilized for the purpose of the contract upon a 6 per cent rental basis; to build on this tract with funds furnished by the Emergency Fleet Corporation a shipyard of fifty ways, and to construct with funds supplied from the same source fifty or more steel cargo ships at an estimated cost of \$1,100,000 each.

On October 23 the fleet corporation placed an order for seventy additional steel ships, estimated to cost \$1,550,000 each, calling for longer ways and piers and also more shop and storage capacity. On October 27, the contractor revised the estimate of yard construction cost, adding \$3,740,000 on account of the additional seventy ships and \$3,250,000 on account of unfavorable subsoil conditions, costly labor and necessary extensions of the plant. On May 7 an order for sixty more ships to cost \$1,425,000 each was placed. All of the 180 ships were to be completed by August 4, 1919.

Cites Unwritten Agreement
The contracting company's compensation for building both the yard and the ships was fixed at a percentage of the estimated cost of the ships, with premiums for early deliveries or savings in cost and penalties for delayed deliveries or increased cost. The maximum fee un-

der this arrangement would be \$14,440,000 and the minimum fee \$8,910,000. Mr. Piaz testified yesterday that to date the plant had been paid nothing.
Although the contract was made with the American International Company, the report says there was an unwritten obligation publicly admitted by all parties, to consider the engineering firm of Stone and Webster and the New York Shipbuilding Corporation as jointly interested in the benefits and burdens.

A separate corporation, the American International Shipbuilding Corporation, was organized as the agency through which the yard and ships actually were to be built.
In a section on the status of the yard, later modified by the letter to the attorney general, the report says in less than a year after the date of the contract 444 acres of marsh land without railroad facilities "will be a complete industrial city of 30,000 men, served by two trunk lines of railroad and equipped to deliver to the government two completed 7500 ton steel cargo vessels each week." Speaking of difficulties encountered a blockade of cars loaded with material intended for Philadelphia to Norfolk, Va., is described.

The report tells in detail of the vast work involved in the investigation, of the questioning of everybody from high officials to the lowest workmen, of the examination of thousands of books, accounts, bills, diaries and other papers. It recites at length the charges made against the contractors and the answers which the investigators do not attempt to pass judgment.
This is the conclusion as to criminal liability:
"In response to the question submitted by the President, our conclusion is that

the facts do not justify criminal process; that no fraud or secret profits on the part of the officials of either the agency or the Fleet Corporation has been established; that while there were some minor frauds on the payroll, which have been prosecuted, the laborers, laborers' timekeepers and payroll supervisors were in the main honest.
"One of the accountants employed by our chief accountant criticized the latter's methods as inadequate. These criticisms were submitted to two leading firms of certified accountants—Messrs. Haskins and Sells, and Messrs. Touche, Niven & Co.—who reported in writing that the criticisms were unfounded and that the methods and scope of the accounting, taken in conjunction with other lines of inquiry, were so laid out as to bring to light extravagances and irregularities if any such existed."
"This investigation was conducted by us in the midst of other official labors. It was given precedence until we were satisfied that excepting certain minor frauds no grounds existed for criminal process and that there would probably be no delay in the delivery of ships if steel and labor were forthcoming. Those material extensions for criminal process in relation to the contractor and thereafter proceeded in the normal course to consider the issues of fact and law involved in this complicated record."
Stating conclusions as to alleged waste

and mismanagement, the report proceeds:
"In what we have next to say we do not wish to minimize the boldness of the plan of the agent and the courage and success of the undertaking, but we are not able to find affirmatively that the agent has satisfactorily accounted in the hearings before us for the expenditure of so large a sum of money in the construction of this plant.
"Waiving all minor questions of controversy, the outstanding fact is that the agent's summer and fall estimates of \$21,000,000 and its November 27 estimate of \$27,000,000 have been so far exceeded that the probable cost of the yard will be about \$81,000,000 (including \$6,000,000 for recent additions made by order of the fleet corporation). Such a discrepancy must be due to some fundamental miscalculation in the original estimate, to supervening conditions, including enlargement of the plant, to mismanagement in operation, or to a combination of these factors. A discrepancy of such magnitude would seem to call for a clear explanation from the agent, but this has not been furnished.
"Considerable effort has been made by the agent in the hearings to stultify its own estimates by claiming that they were mere guesses that nobody could rely upon. But the fleet corporation did not rely on them; and there is no contem-

poraneous evidence justifying the agent's present position. The letter of the agent transmitting the revised estimate of November 27, made after two and a half months of actual contact with the work, in no wise foreshadows anything except the normal variations of cost which might be expected in a job of this magnitude.
"The most significant single fact indicating the point of view at Hog Island was that bills for material, largely lumber, were prepaid (and properly prepaid) to the extent of over \$10,000,000, but no effort was made by the agent until our investigation to prove whether prepaid bills were in fact followed by actual receipt of the material paid for.
"Another fact of strong significance is that while the contract provided in express terms that the agent should keep a detailed plant cost account and contained very careful provisions defining cost, yet the agent at an early date took the position that since the Government paid for everything that went into Hog Island, it was unnecessary to comply with this provision. Hence, at no stage of the work since last December, could it be determined what any unit of plant construction cost.
"It was certainly possible to super-

vide the undertaking from the standpoint of cost without detriment to speed. In February, Admiral Bowles was sent to Hog Island to exercise the full power of direction and supervision. He was able to increase the efficiency of the work and yet eliminate unnecessary salaries in three departments, and rental charges for unnecessary equipment, thereby effecting a saving of several thousand dollars a day. A similar reorganization in other departments is under way."
In a footnote the report gives an account of a report that, thirty-seven men

who were on the payrolls of Stone and Webster July 1, 1917, at average salaries of \$375 each, were transferred to the Hog Island payroll in September and October of that year at an average of \$575 each.
A report of the naval technical advisers included in the report says, so far as the data before them shows, the general scope of the Hog Island plant has not been changed very materially since the November estimate of cost, and that the difference between \$27,000,000 and \$85,000,000 cannot be accounted for by expansion subsequent to November 27. It says that the November estimate is regarded as insufficient, but, after allowing for unfavorable weather, increased

cost of labor and the necessity for speed, the cost will be higher than the experts are able to account for. The total cost of about \$1,100,000 per ship at Hog Island, is compared with \$699,000 for the similar yard at Bristol and \$990,000 at Newark Bay.
The investigators refer to the contractors' claim that the Fleet Corporation cannot claim the contract was not complied with, because all substantial acts were approved by the corporation and because orders for additional ships were given after the charges of mismanagement and extravagance had been made. This, the report says, is regarded as serious, but not conclusive.

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