

BEFORE THE FEDERAL ELECTION COMMISSION

In the matter of)
Ashland Oil Company)

CA 027-75

STAFF REPORT

A. Allegation

77040011006
This matter was opened on the basis of an article appearing in the New York Times on August 9, 1975, p. 1. The issue involved was whether a report filed by the Ashland Oil Company with the Securities and Exchange Commission revealed violations of 18 U.S.C. §610.

B. Report

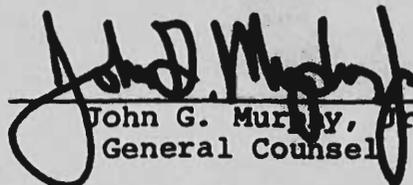
Analysis of the Ashland Report and supplemental phone conversations with Securities and Exchange Commission staff members confirms that Ashland's political gifts are protected by the three year statute of limitations.

C. Recommendation

This case should be closed because of the statute of limitations.



Orlando B. Potter
Staff Director



John G. Murphy, Jr.
General Counsel

DATE:

2/9/76

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January 7, 1976

MEMORANDUM TO: Stephen Schachman

FROM: David R. Spiegel

SUBJECT: Ashland Oil (CA 027-75)

77040011007
Upon further review of this CA I am now of the view that it probably can be closed in the not too distant future. I base this on a conversation with Joel Galloway of the SEC on January 7, 1976, in which he advised me that he is 95% sure that all of the revelations concerning Ashland's political gifts are protected by the three-year statute of limitations in 2 U.S.C. §455. This would fit the pattern for other similar mea culpas involving large corporations.

I will make a firm recommendation once I examine the report put together by Ashland on this subject. Galloway is sending me the report today.

Regardless of what we do with Ashland, I think we should look closely at the patterns revealed by the report. There may be some lessons/useful leads in it.

To Joel J.

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FEDERAL ELECTION COMMISSION

1325 K STREET N.W.
WASHINGTON, D.C. 20463

February 3, 1976

*not
accepted*

TERMINATION REPORT

CA-027-75

77040011009

Allegation: Illegal corporate contributions may be exposed in a report Ashland Oil filed with the SEC.

Report: The SEC confirms that Ashland's political gifts are protected by the 3-year statute of limitations.

Recommendation: The techniques used by Ashland to make illegal corporate gifts are listed on the attached sheet. This case should be closed because of the statute of limitations, but the techniques used by Ashland should be used as a guide to investigate other allegations of illegal corporate gifts.

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TECHNIQUES USED BY ASHLAND OIL
FOR MAKING ILLEGAL CORPORATE CONTRIBUTIONS

1. Wire transfers. Wire transfers are electronic transfers of funds. In the Ashland case, they were made from a U.S. bank. These transfers were used to move funds from one account of the corporation to another, in a foreign country.
2. Cash transactions. Many transactions involved transfers of large sums of cash. These were usually obtained by corporate checks drawn to "bearer" or to "cash".
3. Advances to and reimbursements to employees. Employees were either advanced money to make corporate contributions or made contributions from their own funds and were reimbursed.
4. Payments for consultations. Corporate payments for "consultations" were often payments or reimbursement for political payoffs.
5. A single corporate contribution would often involve several of the above techniques, for example
 - (a) A wire transfer would be sent to country X.
 - (b) In country X an employee would cash a check drawn to "cash" or "bearer".
 - (c) Cash would be delivered to a person as a reimbursement for a contribution already made or a "consultant" would be paid off in cash.
 - (d) All funds would be charged off to "explorations" for oil.

77010011009

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February 2, 1976

Termination Report

CA 027-75

Allegation: Illegal corporate contributions may be exposed in a report Ashland Oil filed with the SEC.

Report: The SEC confirms that Ashland's political gifts are protected by the 3-year statute of limitations.

Recommendation: The techniques used by Ashland to make illegal corporate gifts are listed on the attached sheet. This case should be closed because of the statute of limitations, but the techniques used by Ashland should be used as a guide to investigate other allegations of illegal corporate gifts.

77040011010

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Techniques Used by Ashland Oil
for Making Illegal Corporate Contributions

1. Wire transfers. Wire transfers are electronic transfers of funds. In the Ashland case they were made from a U.S. bank. These transfers were used to move funds from one account of the corporation to another, in a foreign country.
2. Cash transactions. Many transactions involved transfers of large sums of cash. These were usually obtained by corporate checks drawn to "bearer" or to "cash".
3. Advances to and reimbursements to employees. Employees were either advanced money to make corporate contributions or made contributions from their own funds and were reimbursed.
4. Payments for consultations. Corporate payments for "consultation" were often payments or reimbursement for political payoffs.
5. A single corporate contribution would often involve several of the above techniques, for example
 - (a) A wire transfer would be sent to country X.
 - (b) In country X an employee would cash a check drawn to "cash" or "bearer".
 - (c) Cash would be delivered to a person as a reimbursement for a contribution already made or a "consultant" would be paid off in cash.
 - (d) All funds would be charged off to "explorations" for oil.

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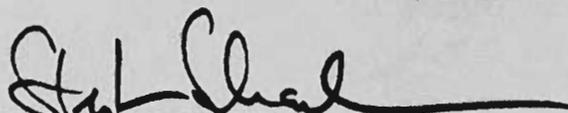
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August 20, 1975

MEMORANDUM TO THE FILE

Re: Ashland Oil
CA 027-75

On August 20, 1975, I talked with Dave Dougherty of the SEC. He indicated that he thought there were contributions directly from corporate funds to politicians after 1972. Mr. Dougherty indicated that there would be a considerable amount of information available and the best manner for us to become familiar with the matter was to talk with the SEC attorney handling the case. The SEC attorney assigned to the case is Joe Gallay (755-1968) and I will contact him Tuesday, August 26, 1975--Mr. Gallay is out of town.


Stephen Schachman

cc: Lan Potter
Jack Murphy
Peter Roman
(Original to Drew McKay)

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77040011012

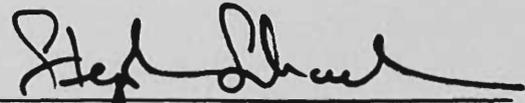
August 27, 1975

MEMORANDUM TO THE FILE

Re: CA 027-75

On August 26, 1975, I spoke with Joe Gallay of the SEC. Mr. Gallay informed me that Ashland and three officers entered a consent and understanding on May 16, 1975. The SEC was allowed to continue its investigation and Ashland was required to file certain reports--one of the reports included a schedule indicating the recipients of the illegal corporate contributions. The report of recipients is in two volumes and Mr. Gallay will make the same available to us on August 27, 1975.

Mr. Gallay said we should consider that §602 and §603 of Title 18 have five-year statute as opposed to three-year. We discussed our lack of primary jurisdiction over those sections. Mr. Gallay will also set up a meeting where we can take a look at various and sundry files of numerous other corporations involved with allegedly illegal corporate contributions.


Stephen Schachman

cc: Lan Potter
Jack Murphy
Peter Roman
(Original to Drew McKay)

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77043011013



FEDERAL ELECTION COMMISSION

1325 K STREET N.W.
WASHINGTON, D.C. 20463

October 16, 1975

Mr. Stanley Sporkin
Director
Division of Enforcement
Securities and Exchange Commission
500 North Capitol Street
Washington, D. C. 20549

Dear Mr. Sporkin:

The Federal Election Commission formally requests access and permission to reproduce copies of relevant portions of the Securities and Exchange Commission's investigatory files concerning Ashland Oil, American Ship Building, Phillips Petroleum, 3-M, and Northrop.

Your cooperation in obtaining Commission approval for the above request is deeply appreciated.

Sincerely yours,

15/

Stephen Schachman
Assistant General Counsel

cc: Mr. Tom Loughran

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77043011014

MEMORANDUM

TO: JACK MURPHY
PETER ROMAN

FROM: LAN POTTER *LP*

DATE: August 11, 1975

SUBJECT: ASHLAND OIL

770400115

In view of the widespread publicity given the Ashland Oil contributions over the past weekend, I'm wondering whether the Commission should be taking formal note of the matter and preparing a plan of action as to how it is going to respond. Possibly, this has already been contemplated, in view of the preliminary contacts with the SEC, in which case my comments may be academic. If not, however, it does seem to me that we might consider putting a proposal before the Commission in some form.

The first question really is whether the SEC is in fact going to make formal referrals to us of matters which may be under our jurisdiction. Even if they do not, we could well have an inferred responsibility under our evolving policy of taking action on matters on which there is widespread public notice. In this case, of course, most of the matters reported in the press relate to past transactions that pre-date the cutoff time of the new statute of limitations, although there were 3 ambiguous cases in the New York Times article which I circled, attached, in which no date was given.

The corollary question is why the Ashland report stops in 1972; there is room for speculation as to whether this might have been a cutoff date of convenience arranged with SEC to avoid possible further embarrassment of persons who may have received corporate contributions after the effective date of the statute of limitations. In that case, there would be a substantial question for the Commission to decide as to whether it should now undertake to make its own investigation to determine if Ashland continued any of these practices since the effective date of the statute of limitation and if so, to refer further violations to the Department of Justice.

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UNITED STATES DISTRICT COURT
FOR THE
DISTRICT OF COLUMBIA

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

ASHLAND OIL, INC.

ORIN H. ATKINS

WILLIAM R. SEATON

CLYDE H. WEBB

Defendants.

CIVIL ACTION NO.

FINAL JUDGMENT AND
ORDER OF PERMANENT
INJUNCTION AGAINST
ASHLAND OIL, INC.

77040011016

Plaintiff, Securities and Exchange Commission, having duly commenced this action by filing its Complaint, and defendant Ashland Oil, Inc., having appeared and admitted to the jurisdiction of this Court over it and over the subject matter of this action, having waived the making of any findings of fact or conclusions of law, before the taking of any testimony and without trial or adjudication of any issue of fact or law herein, without admitting or denying the allegations of the Complaint, having consented to the entry of this Final Judgment and Order of Permanent Injunction contained in the "Consent" and having entered into an Undertaking contained in the "Undertaking" both annexed hereto and incorporated herein, it is hereby

ORDERED, ADJUDGED AND DECREED that:

Defendant Ashland Oil, Inc., its officers, agents, servants, employees, directors, successors, assigns, affiliates (as defined in 17 CFR §240.12b-2(a)), subsidiaries (as defined in 17 CFR §240.12b-2(e)), and attorneys, and each of them, and those persons in active concert or participation with them are hereby permanently enjoined from:

A. using or aiding and abetting the use of corporate funds of Ashland Oil, Inc., or any of its affiliates or subsidiaries, for unlawful political contributions or other similar unlawful purposes;

B. violating Section 13(a) of the Securities Exchange Act of 1934, 15 U.S.C. §78m(a) and Rules 12b-20 and 13a-1, 17 CFR §§ 240.12b-20 and 240.13a-1, respectively, by filing or

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abetting the filing with the Securities and Exchange Commission of materially false and misleading annual and other reports on behalf of Ashland Oil, Inc., or any of its affiliates or subsidiaries, which among other things:

- (a) state as a bona fide cost or expense of Ashland Oil, Inc., or any of its affiliates or subsidiaries, any payment, disbursement, or transfer which, in fact, is used for unlawful political contributions or other unlawful purposes;
- (b) omit to state the nature and extent of any expenditure of corporate funds for unlawful political contributions or other unlawful purposes;
- (c) omit to state the extent to which any officer, employee or director of Ashland Oil, Inc., or any of its affiliates or subsidiaries, has used or aided and abetted the use of corporate funds for unlawful political contributions or other unlawful purposes, and to identify such officer, employee or director;
- (d) omit to state the nature and extent of false or fictitious entries, if any, in the books and records of Ashland Oil, Inc., or any of its affiliates or subsidiaries, the nature and extent of any fund of corporate monies or other assets which has been established or maintained without being fully and properly accounted for on said books and records, or the nature and extent of payments, disbursements or transfers, if any, which have been made therefrom;
- (e) omit to state the extent to which any officer, employee or director of Ashland Oil, Inc., or any of its affiliates or subsidiaries, has made or aided and abetted the making of false or fictitious entries, if any, in the books and records of Ashland Oil, Inc., or any of its affiliates or subsidiaries, or has established or maintained, or aided and abetted the establishment or maintenance of any fund of corporate

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monies or other assets which has not been fully and properly accounted for on said books and records, or has made or aided and abetted the making of payments, disbursements, or transfers, if any, therefrom, and to identify such officer, employee or director; or

(f) omit to state the nature of and extent to which transfers or disbursements of material amounts of corporate funds, if any, were or could be effected without the application of adequate accounting or auditing procedures or sufficient controls to insure that such transfers or disbursements were actually made for the purposes indicated in the books and records of ASHLAND, or any of its affiliates or subsidiaries, or without adequate records and controls to document whether services provided in connection therewith were commensurate with the amounts paid.

C. violating Section 14(a) of the Securities Exchange Act of 1934, 15 U.S.C. §72n(a) and Rule 14a-9 thereunder, 17 CFR §240.14a-9, by using the mails or means and instrumentalities of interstate commerce to file or aid and abet the filing with the Securities and Exchange Commission of definitive copies of proxy statements or to solicit proxies from shareholders of Ashland Oil, Inc., or any of its affiliates or subsidiaries, by means of proxy statements which are materially false and misleading in that, among other things, they:

- (a) omit to state the nature and extent of any expenditure of corporate funds for unlawful political contributions or other unlawful purposes;
- (b) omit to state the extent to which any officer, employee or director of Ashland Oil, Inc., or any of its affiliates or subsidiaries, has used or aided and abetted the use of corporate funds for unlawful political contributions or other unlawful purposes, and to identify such officer, employee or director;

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(c) omit to state the nature and extent of false or fictitious entries, if any, in the books and records of Ashland Oil, Inc., or any of its affiliates or subsidiaries, the nature and extent of any fund of corporate monies or other assets which has been established or maintained without being fully and properly accounted for on said books and records, or the nature and extent of payments, disbursements or transfers, if any, which have been made therefrom;

(d) omit to state the extent to which any officer, employee or director of Ashland Oil, Inc., or any of its affiliates or subsidiaries, has made or aided and abetted the making of false or fictitious entries, if any, in the books and records of Ashland Oil, Inc., or any of its affiliates or subsidiaries, or has established or maintained, or aided and abetted the establishment or maintenance of any fund of corporate monies or other assets which has not been fully and properly accounted for on said books and records, or has made or aided and abetted the making of payments, disbursements, or transfers, if any, therefrom, and to identify such officer, employee or director; or

(e) omit to state the nature of and extent to which transfers or disbursements of material amounts of corporate funds, if any, were or could be effected without the application of adequate accounting or auditing procedures or sufficient controls to insure that such transfers or disbursements were actually made for the purposes indicated in the books and records of ASHLAND, or any of its affiliates or subsidiaries, or without adequate records and controls to document whether services provided in connection therewith were commensurate with the amount thereof.

D. making or aiding and abetting the making of false or fictitious entries in the books and records of Ashland Oil, Inc., or any of its affiliates or subsidiaries; or establishing or maintaining, or aiding and abetting the establishment or maintenance of any fund of corporate monies

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or other assets which is not fully and properly recorded on said books and records, or making or aiding and abetting the making of any payments, disbursements, or transfers therefrom.

ORDERED, ADJUDGED AND DECREED that the annexed "Consent" and "Undertaking" be and the same hereby are incorporated herein with the same force and effect as if fully set forth herein.

IT IS FURTHER ORDERED that if the terms of said "Undertaking" are not complied with and implemented by Ashland Oil, Inc. to the full satisfaction of the Securities and Exchange Commission, the Securities and Exchange Commission may apply for appropriate relief.

IT IS FURTHER ORDERED that this Court shall retain jurisdiction of this matter for all purposes.

Dated:

at Washington, D.C.

United States District Judge

AGREED AS TO FORM:

Cravath, Swaine & Moore
One Chase Manhattan Plaza
New York, New York 10005

by: Samuel C. Butler
Samuel C. Butler
Attorneys for Defendant Ashland Oil, Inc.

Securities and Exchange Commission
500 North Capitol Street
Washington, D.C. 20549

by: Robert G. Ryan
Robert G. Ryan
Joel S. Gilby
Joel S. Gilby
Attorneys for Plaintiff
Securities and Exchange Commission

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CHEDULE I

Contributions made directly by the Corporation during the period September, 1967 through December 1972 are believed to have been made to the following candidates for public office or to persons or committees acting on their behalf:

i. September, 1967 through December 31, 1967

- | | | |
|----|-----------------|---|
| 1. | \$10,000 | John C. Watts (Democratic Member: House of Representatives, Kentucky) |
| 2. | \$25,000 | Michael J. Kirwan (Democratic Member: House of Representatives, Ohio) |
| 3. | \$12,000 | Louie B. Nunn (Republican Candidate: Governor, Kentucky) |
| 4. | \$12,000 | Louie B. Nunn (Republican Candidate: Governor, Kentucky) |
| 5. | \$ 5,000 | Henry Ward (Democratic Candidate: Governor, Kentucky) |
| 6. | \$ 2,500 | Charles Gartrell (Candidate: Mayor, City of Ashland, Kentucky) |
| | <u>\$66,500</u> | |

Total

ii. January 1, 1968 through December 31, 1968

- | | | |
|----|-----------|---|
| 1. | \$100,000 | Richard M. Nixon (Republican Candidate: President of the United States) |
| 2. | \$ 30,000 | Robert Short (For use in the 1968 Democratic Presidential Campaign) |
| 3. | \$ 3,000 | Birch E. Bayh (Democratic Candidate: U. S. Senate, Indiana) |

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- | | | |
|-----|-------------------|---|
| 4. | \$ 3,500 | R. Vance Hartke (Democratic Member:
U. S. Senate, Indiana) |
| 5. | \$ 14,000 | Katherine Peden (Democratic Candidate:
U. S. Senate, Kentucky) |
| 6. | \$ 6,000 | Marlow Cook Dinner Committee (Republican
Candidate: U. S. Senate, Kentucky) |
| 7. | \$ 3,500 | Milton R. Young (Republican Candidate:
U. S. Senate, North Dakota) |
| 8. | \$ 1,500 | Charles E. Chamberlain (Republican
Candidate: House of Representatives,
Michigan) |
| 9. | \$ 25,000 | Michael J. Kirwan (Democratic Candidate:
House of Representatives, Ohio) |
| 10. | \$ 15,000 | John C. Watts (For use in the 1968
Democratic Congressional Campaigns) |
| 11. | \$ 20,000 | Ned Breathitt (For use in the 1968
Kentucky Democratic Congressional
Campaigns) |
| 12. | \$ 3,000 | James A. Rhodes (Republican Candidate:
U. S. Senate, Ohio) |
| 13. | \$ 3,000 | Arch Moore (Republican Candidate:
Governor, West Virginia) |
| 14. | \$ 10,000 | Purchase of tickets for numerous
political fund raising events (estimate) |
| | <u> </u> | |
| | Total | \$237,500 |

7
7
0
4
0
0
1
1
0
2
2

iii. January 1, 1969 through December 31, 1969

- | | | |
|----|-----------|---|
| 1. | \$ 10,000 | Allen J. Ellender (Democratic
Member: U. S. Senate,
Louisiana) |
| 2. | \$ 10,000 | John C. Watts (Democratic Member:
House of Representatives, Kentucky) |
| 3. | \$ 10,000 | Michael J. Kirwan (Democratic
Member: House of Representatives,
Ohio) |

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- 4. \$ 6,800 Louie B. Nunn (Republican: Governor, Kentucky)
- 5. \$ 500 Charles Wheeler (Republican Candidate for Representative, Kentucky Legislature)
- 6. \$ 8,000 Amounts expended in connection with numerous state legislative campaigns

Total \$ 45,300

iv. January 1, 1970 through December 31, 1970

- 1. \$ 30,000 Robert Strauss (For use by the Democratic National Committee)
- 2. \$ 2,500 Citizens for Humphrey (Democratic Candidate: U. S. Senate, Minnesota)
- 3. \$ 1,500 Charles E. Chamberlain (Republican Candidate: House of Representatives, Michigan)
- 4. \$ 8,000 Bert Combs (Candidate, Democratic Nomination: Governor, Kentucky)
- 5. \$ 5,000 John J. Gilligan (Democratic Candidate: Governor, Ohio)
- 6. \$ 5,000 Roger Cloud (Republican Candidate: Governor, Ohio)
- 7. \$ 5,000 John McDonald (For use in Township Supervisor's election, Niles, Michigan)
- 8. \$ 4,700 Amounts expended in connection with numerous state legislative campaigns
- 9. \$ 1,000 Purchase of tickets for various political fund raising events

Total \$ 62,700

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v. January 1, 1971 through December 31, 1971

- | | | |
|-------|------------------|---|
| 1. | \$ 13,000 | Wendell Ford (Democratic Candidate:
Governor, Kentucky) |
| 2. | \$ 5,000 | Thomas D. Emberton (Republican
Candidate: Governor, Kentucky) |
| 3. | \$ 1,000 | Charles Wheeler (Republican Candidate:
Kentucky State Senate) |
| 4. | \$ 2,500 | Everett Reeves (Candidate: Mayor,
City of Ashland, Kentucky) |
| 5. | \$ 8,000 | Amounts expended in connection with
numerous state legislative campaigns |
| Total | <u>\$ 29,500</u> | |

vi. January 1, 1972 through December 31, 1972

- | | | |
|-------|------------------|---|
| 1. | \$100,000 | Finance Committee to Re-Elect the President |
| 2. | \$ 20,000 | Robert Strauss (For use by the
Democratic National Committee) |
| 3. | \$ 10,000 | Louie B. Nunn (Republican Candidate:
U. S. Senate, Kentucky) |
| 4. | \$ 2,500 | Charles E. Chamberlain (Republican
Candidate: House of Representatives,
Michigan) |
| 5. | \$ 20,000 | Arch Moore (Republican Candidate:
Governor, West Virginia) |
| 6. | \$ 5,800 | Amounts expended in connection with
various state legislative campaigns |
| 7. | \$ 13,000 | Purchase of tickets for various political
fund raising events |
| Total | <u>\$171,300</u> | |

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The persons listed in the McNelis Report as the beneficiaries of the contributions channeled by the Corporation through Carl Arnold are as follows:

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- | | | |
|--------|-----------|---|
| 1. | \$ 5,000 | Jack Daniels (Democratic Candidate:
U. S. Senate, New Mexico) |
| 2. | \$ 5,000 | Gordon Allot (Republican Candidate:
U. S. Senate, Colorado) |
| 3. | \$ 5,000 | Ed Edmundson (Democratic Candidate:
U. S. Senate, Oklahoma) |
| 4. | \$ 5,000 | James O. Eastland (Democratic Candidate:
U. S. Senate, Mississippi) |
| 5. | \$ 5,000 | Carl T. Curtis (Republican Candidate:
U. S. Senate, Nebraska) |
| 6. | \$ 5,000 | Jack R. Miller (Republican Candidate:
U. S. Senate, Iowa) |
| 7. | \$ 5,000 | John J. Sparkman (Democratic Candidate:
U. S. Senate, Alabama) |
| 8. | \$ 5,000 | J. Bennett Johnston, Jr. (Democratic
Candidate, U. S. Senate, Louisiana) |
| 9. | \$ 5,000 | B. Everett Jordan (Democratic Candidate:
U. S. Senate, North Carolina) |
| 10. | \$ 5,000 | Allen J. Ellender (Democratic Candidate:
U. S. Senate, Louisiana) |
| 11. | \$ 5,000 | Allen J. Ellender (Democratic Member:
U. S. Senate, Louisiana)* |
| 12. | \$ 50,000 | Wilbur D. Mills (Democratic Member:
House of Representatives, Arkansas)* |
| Total: | | <u>\$105,000</u> |

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* The McNelis Report states that Senator Ellender was to use these funds to assist unidentified candidates.

** The McNelis Report states that Rep. Mills was to use these funds to help re-elect a Democratic Congress.

Eugene W. Erickson's contribution of \$3,000 in July, 1970, was to the Senator Humphrey Club, and his purchase of \$2,500 in dinner tickets in October, 1970, was for the benefit of Senator Humphrey's Senatorial campaign. Other identified contributions made by Erickson from October, 1970 through 1972 are as follows:

1970

October:	Citizens for Humphrey Head for Governor Committee	\$2,500.00 500.00
	Citizens for Karth	300.00
November:	Anderson-Humphrey Dinner Committee	200.00

1972

January:	Governor Anderson Dinner Committee	400.00
	Washington County Governor's Club	200.00
	Dean Meredith	50.00
April:	Humphrey Dinner Committee	500.00
June:	Quie Dinner Committee	100.00
September:	Senator Humphrey Reception	864.65
	Mondale Volunteer Committee	600.00
November:	DFL Victory Committee	200.00
	Friends of Skip Humphrey	100.00

1973

January:	Friends of Humphrey	250.00
	Total	\$6,764.65

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George C. Hardin's contribution in February, 1972,
was to Senator John G. Tower of Texas.

Amounts reimbursed to the Corporation by political
committees or candidates are as follows:

July, 1973 - Refund from Finance Committee to Re-Elect the President	\$100,000.00
April, 1975 - Refund from Louis B. Nunn for U. S. Senate Committee	8,000.00
April, 1975 - Refund from Charles E. Chamberlain	5,500.00
May, 1975 - Refund from Kentuckians for Senator Cook	4,743.00
May, 1975 - Refund from Thomas D. Emberton	4,803.22
Total	<u>\$123,046.22</u>

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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE MONTH OF JUNE, 1975

ASHLAND OIL, INC.

Ashland Drive

Russell, Kentucky 41169

(Mailing Address P. O. Box 391,

Ashland, Kentucky 41101)

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ITEM 3.

LEGAL PROCEEDINGS.

I. The following proceedings by governmental authorities are not material legal proceedings with regard to the Registrant and while it is not possible to predict the outcome, Registrant believes that if all such proceedings were decided adversely to the Registrant there should be no material effect on the Registrant's business or its consolidated financial position; however, such proceedings have been "deemed" material by instruction 4 of this Item 3 and are hereby reported pursuant to said instruction:

A. The following proceedings by governmental authorities have commenced:

- (1) Fifteen (15) administrative civil penalty proceedings before the United States Coast Guard for the alleged discharge of oil--issue generally involved is whether Registrant's conduct violated 33 U.S.C. 1321 (b) (3).
- (2) One (1) administrative civil penalty proceeding before the United States Environmental Protection Agency for the alleged violation of unleaded gasoline marketing regulations--issue generally involved is whether conduct of Registrant constituted a violation of 40 CFR 80.21.

B. The following previously reported proceedings by governmental authorities have been terminated:

- (1) One (1) Coast Guard civil penalty proceeding generally involving the issue of whether Registrant's conduct violated 33 U.S.C. 1321 (b) (3) (previously reported in Registrant's Form 8-K for the month of October, 1974) was terminated on June 18, 1975, by payment of \$250.00.
- (2) One (1) Coast Guard civil penalty proceeding generally involving the issue of whether Registrant's conduct violated 33 U.S.C. 1321 (b) (3)

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(previously reported in Registrant's Form 8-K for the month of March, 1975) was terminated on June 2, 1975, by dismissal.

- (3) One (1) Coast Guard civil penalty proceeding generally involving the issue of whether Registrant's conduct violated 33 U.S.C. 1321 (b) (3) (previously reported in Registrant's Form 8-K for the current month) was terminated on June 17, 1975, by payment of \$150.00.
- (4) One (1) proceeding in Wisconsin Trial Court for the alleged discharge of substances without a permit, generally involving the issue of whether Registrant's conduct violated Wisconsin Statutes Section 29.29(3) (previously reported in Registrant's Form 8-K for the month of February, 1975) was terminated on June 10, 1975, by dismissal.

II. In accordance with Registrant's undertaking with the Securities and Exchange Commission entered into in connection with the consent decree filed on May 16, 1975, in the U.S. District Court for the District of Columbia referred to in Registrant's Form 8-K for the month of May, 1975, the Registrant files herewith as an exhibit hereto the Report of the Special Committee of the Registrant's Board of Directors.

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ITEM 14.

FINANCIAL STATEMENTS AND EXHIBITS.

- (a) Not applicable
- (b) Specimen copies of the following:

EXHIBIT A-1

Report of the Special Committee to the Board of Directors of Ashland Oil, Inc., Volume I.

EXHIBIT A-2

Report of the Special Committee to the Board of Directors of Ashland Oil, Inc., Volume II.

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Pursuant to the requirements of the Securities and Exchange

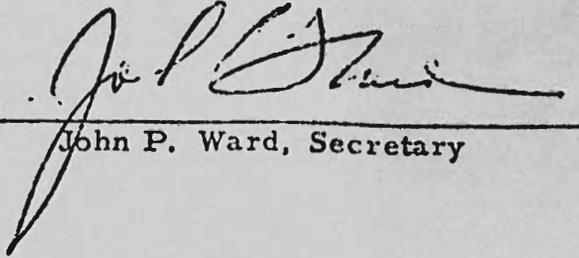
Act of 1934, Registrant has duly caused this report to be signed on its behalf

by the undersigned hereunto duly authorized.

ASHLAND OIL, INC.

July 7, 1975

By:



John P. Ward, Secretary

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REPORT OF THE SPECIAL COMMITTEE

OF

THE BOARD OF DIRECTORS

TO

ASHLAND OIL, INC.

VOLUME I

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EXHIBIT A-1 TO ASHLAND OIL, INC.'S
REPORT ON FORM 8-K FOR THE MONTH
OF JUNE, 1975

REPORT OF THE SPECIAL COMMITTEE

TO

THE BOARD OF DIRECTORS

OF

ASHLAND OIL, INC.

VOLUME I

Submitted to the Board of
Directors of Ashland Oil,
Inc. by the Special Committee

James W. Vandever, Chairman
Walter W. Hillenmeyer, Jr.
Robert S. Reigeluth

Dated as of June 26, 1975

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REPORT OF THE SPECIAL COMMITTEE

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VII. EXHIBITS

- Exhibit 1: Extract from Minutes of the Board of Directors Meeting of July 18, 1973.
- Exhibit 2: Extract from Minutes of the Board of Directors Meeting of September 26-27, 1973.
- Exhibit 3: Ernst & Ernst Report to the Board of Directors dated September 27, 1973.
- Exhibit 4: Extract from the Corporation's Form 10-K for the fiscal year ending September 30, 1973.
- Exhibit 5: Extract from the Corporation's Proxy Statement for the January 31, 1974 Meeting of Shareholders.
- Exhibit 6: Extract from Minutes of the Board of Directors
- Exhibit 7: Ernst & Ernst Report to the Board of Directors on Special Disbursements dated September 18, 1974.
- Exhibit 8: Addendum to September 18, 1974 Report to the Board of Directors on Special Disbursements dated December 10, 1974.
- Exhibit 9: Memorandum of James V. Marcum, Esq. dated December 11, 1973.
- Exhibit 10: Memorandum of James V. Marcum, Esq. dated January 28, 1974.
- Exhibit 11: Letter of William B. Saxbe, Esq. to Henry S. Ruth, Jr., Esq. dated December 12, 1974.
- Exhibit 12: Information, U. S. v. Ashland Oil, Incorporated.
- Exhibit 13: Letter of Henry S. Ruth, Esq. to Charles A. McNelis, Esq. dated December 27, 1974 and attached Appendix.
- Exhibit 14: Extract from the Corporation's Proxy Statement for the January 30, 1975 Meeting of Shareholders.
- Exhibit 15: Securities Act Release No. 5466 and Exchange Act Release No. 10673.

- Exhibit 16: Complaint for Permanent Injunction and Certain Ancillary Relief.
- Exhibit 17: Final Judgment and Order of Permanent Injunction against Ashland Oil, Inc.
- Exhibit 18: Undertaking of Ashland Oil, Inc.
- Exhibit 19: Letter of Kirkpatrick, Lockhart, Johnson & Hutchison to Ashland Oil, Inc. dated May 19, 1975.
- Exhibit 20: Coopers & Lybrand letter dated January 30, 1975 addressed to the Special Committee.
- Exhibit 21: Coopers & Lybrand letter dated June 18, 1975 addressed to the Special Committee.
- Exhibit 22: Form of Affidavit.
- Exhibit 22A: Affidavit of J. Robert Fischer.
- 3 Exhibit 22B: Affidavit of William H. Gammon.
- 4 Exhibit 22C: Affidavit of Robert D. Gordon, Jr.
- 1 Exhibit 22D: Affidavit of John R. Hall.
- 0 Exhibit 22E: Affidavit of Robert T. McCowan.
- 7 Exhibit 22F: Affidavit of Angus W. McDonald.
- 7 Exhibit 22G: Affidavit of Robert S. Reigeluth.
- 0 Exhibit 22H: Affidavit of F. H. Ross, Jr.
- 7 Exhibit 22I: Affidavit of James W. Vandever.
- 7 Exhibit 22J: Affidavit of Brian S. Downward.
- Exhibit 22K: Affidavit of Samuel C. Butler.
- Exhibit 22L: Affidavit of Walter W. Hillenmeyer, Jr.
- Exhibit 23: Form of Interrogatories.
- Exhibit 24: Form of Interrogatories.
- Exhibit 25: Form of Interrogatories.
- Exhibit 26: Form of Questionnaire and Letter of Inquiry.

REPORT OF THE SPECIAL COMMITTEE

I. THE ESTABLISHMENT OF THE SPECIAL COMMITTEE

On December 3, 1974, the Board of Directors of Ashland Oil, Inc. (the "Corporation")* unanimously adopted the following resolution:

RESOLVED, that Messrs. Hillenmeyer, Reigeluth and Vandever be, and they hereby are, appointed a special committee of this Board of Directors with full authority to investigate all aspects of the making of political contributions from the Corporation's funds since January 1, 1967, and to make recommendations to this Board of Directors as to the further action, if any, which this Board of Directors should take with respect to such contributions and the additional payments, if any, which should be made to the Corporation by various officers in this connection; and that such committee be, and it hereby is, authorized and directed to incur such expenses in connection with its investigation as such committee shall, in its sole discretion, deem necessary or desirable, including the fees and expenses of any outside legal counsel, in addition to Cravath, Swaine & Moore, and/or any independent public accounting firm, in addition to Ernst & Ernst, which the committee may select to advise it in this connection.

On May 16, 1975, the Securities and Exchange Commission

* Unless the context otherwise indicates, the term "Corporation" as used herein means Ashland Oil, Inc. and all subsidiary corporations of which a majority of the voting stock is owned, directly or indirectly, by Ashland Oil, Inc.

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REPORT OF THE SPECIAL COMMITTEE

I. THE ESTABLISHMENT OF THE SPECIAL COMMITTEE

On December 3, 1974, the Board of Directors of Ashland Oil, Inc. (the "Corporation")* unanimously adopted the following resolution:

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On May 16, 1975, the Securities and Exchange Commission

* Unless the context otherwise indicates, the term "Corporation" as used herein means Ashland Oil, Inc. and all subsidiary corporations of which a majority of the voting stock is owned, directly or indirectly, by Ashland Oil, Inc.

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(the "Commission") filed in the United States District Court for the District of Columbia a Complaint for Permanent Injunction and Certain Ancillary Relief (the "Complaint") naming as defendants the Corporation and certain of its officers. The same day, the Corporation and each such officer consented to the entry of final judgments and permanent injunctions and entered into certain Undertakings, the terms of which were incorporated in such injunctions.

The Corporation, in its Undertaking, agreed to direct the Special Committee to continue its investigation in accordance with the Board's resolution of December 3, 1974, and to:

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Authorize and direct the Special Committee to inquire into, examine and review the Company's books and records, including those of its affiliates and subsidiaries, with respect to the matters alleged in the complaint of the Securities and Exchange Commission in the action herein, and with respect to all other relevant matters as may be revealed in the course of such investigation.

The Committee now submits to the Board of Directors of the Corporation for its consideration the Report of the investigation which it has conducted or caused to have conducted pursuant to the Board's Resolution of December 3, 1974, and the Corporation's Undertaking of May 16, 1975.

This Report sets forth the scope and nature of the Committee's investigation; its factual findings based upon that

investigation; and its recommendations to the Board as to those actions which the Committee believes should be taken with respect to the matters under review, together with a summary of the considerations which underlie each specific recommendation.

This Report is intended to be read and considered in its entirety: the Committee's findings and recommendations are naturally related one to the other, and the several recommendations constitute a comprehensive, interdependent and related set of remedial actions which are intended to be acted upon as a whole.

This Report and each of its recommendations are submitted to the Board with the full support of each member of the Special Committee.

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II. THE FACTUAL BACKGROUND

The Resolution of December 3, 1974, was adopted by the Board of the Corporation in response to a series of disclosures concerning certain illegal political contributions which were made by the Corporation from corporate funds. As of December 3, 1974, the fact that the Corporation had made political contributions had been disclosed to various representatives of the federal government, and the Corporation's political contributions were the subject of ongoing review by the Watergate Special Prosecutor, the Securities and Exchange Commission and the Internal Revenue Service.

The Corporation's disclosure of its political contributions and the federal government's several investigations of the matters disclosed have provided the basic context for the Committee's investigation. In addition, the Corporation's initial investigation of these matters, which was conducted in conjunction with the voluntary disclosure of its political contributions to federal authorities, generated a body of information which provided this Committee with a starting point and frame of reference for its independent inquiry. The Corporation's disclosures and investigation and the inquiries of the federal government are, therefore, briefly summarized.

A. MATTERS PRIOR TO DECEMBER 3, 1974

1. The Initial Disclosure to the Board

At its meeting of July 18, 1973, the Board of Directors of the Corporation was informed by Orin E. Atkins ("Atkins"), Chairman of the Board and Chief Executive Officer of the Corporation, that the Corporation, through a subsidiary, had made a substantial contribution to the Finance Committee to Reelect the President ("FCRP") in early 1972 and that the Corporation had so informed the Special Prosecutor who had been appointed by the Attorney General to investigate and prosecute all offenses arising out of the 1972 presidential election and certain other matters. (See Exhibit 1: Extract of Minutes of the Board of Directors Meeting of July 18, 1973). At the Board meeting of July 18, 1973, Atkins stated that the Corporation's contribution to FCRP had been returned to the Corporation by FCRP; he also expressed his anticipation that there would be further investigation of the matter by the Special Prosecutor and that proceedings might be brought by that office.*

* There is conflicting evidence as to the precise date on which the FCRP reimbursement was received by the Corporation. Reimbursement was requested on July 16, 1973, by letter of counsel to the Corporation addressed to Maurice H. Stans, Chairman, FCRP. By letter dated July 16, 1973, the Treasurer of FCRP forwarded to the Corporation its check in the amount of \$100,000. The Report of Ernst & Ernst to the Board of Directors of the Corporation which is dated September 27, 1973, and which was in substance rendered verbally to the Board at its meeting of that date states that the contribution was returned on July 26, 1973. (See Exhibit 3 attached hereto). A letter of Arloe W. Mayne, Esq., Administrative Vice President and General Counsel of the Corporation, to Alan B. Morrison, Esq. dated February 19, 1974 states that the contribution was reimbursed to the Corporation on July 20, 1973.

The handwritten notes of Angus W. McDonald, then Secretary of the Corporation reflect that Atkins also informed the Board at that meeting that the Corporation had made other contributions, including a small contribution to the 1960 presidential campaign of John F. Kennedy, contributions to the presidential campaigns of Richard M. Nixon and Hubert H. Humphrey, and other unidentified contributions to Democratic candidates. These notes substantially correspond with Atkins' present recollection of the disclosure made at the July 18, 1973 Board meeting.

C In view of Atkins' disclosure of the 1972 FCRP gift, the Board directed the officers of the Corporation to cooperate with any subsequent investigation and concluded that no further political contributions should be made by the Corporation or any of its subsidiaries unless authorized by law and that any officer making illegal contributions would be subject to appropriate disciplinary action. Atkins indicated at that meeting that this action by the Board would be conveyed to all officers of the Corporation.

2. The Further Review of Political Contributions

The Board next met on September 26 and 27, 1973. At that meeting Atkins stated that he had requested Ernst & Ernst ("E & E"), the Corporation's independent public accountants, to study all transfers of funds to affiliated overseas companies during the preceding five years and to report such transfers to

the Board.* (See Exhibit 2: Extract of Minutes of the Board of Directors Meeting of September 26, 1973). Such a report was made orally at that meeting by E & E, represented by Messrs. Keller, Carpenter and Gardner, all partners of E & E.**

The stated principal purpose of the investigation conducted by E & E was to list all items, other than those theretofore disclosed, which might be open to question by outside authorities and to gather all available supporting documents for such items. Three categories of items were apparently identified by E & E as requiring further consideration: expense advances to officers and employees which were not properly supported; payments to foreign consultants and attorneys recorded as the cost of foreign concessions or of the acquisition of crude oil; and certain cash payments to officers of the Corporation in 1968, 1971 and 1972 which were recorded as foreign concession costs. In addition, E & E made certain recommendations to the Board, for whatever action it might deem appropriate, with respect to the use of overseas wire transfers and the accounting for and documentation of such transfers.

E & E has advised the Committee that in response to these recommendations the Corporation's Treasury Department has

* The five years under review represented the period during which the Corporation's political contributions were apparently concentrated.

** At the same meeting, Arloe W. Mayne, Esq., Administrative Vice President and General Counsel of the Corporation, reported to the Board on the discussions with the Special Prosecutor with respect to the contribution to FCRP and the probable disposition of that matter.

instituted procedures which require written authorization from persons originally requesting bank transfers on a verbal basis and has begun to maintain a central file of documentation supporting wire transfers; in addition, since September, 1974, all wire transfers in excess of \$50,000 have required the approval of two senior officers.*

In connection with its oral report to the Board at its meeting of September 27, 1973, E & E delivered a written report of its investigation conducted in cooperation with the Corporation's accounting and treasury department personnel into certain transactions in the preceding five fiscal years and in the balance of the then current fiscal year. (See Exhibit 3: Ernst & Ernst Report to the Board of Directors dated September 27, 1973).

The E & E report assumes the prior disclosure to the Board of additional contributions from corporate funds of \$100,000 to the 1968 presidential campaign of Richard M. Nixon and \$50,000 to the 1968 presidential campaign of Hubert H.

* The mechanics of overseas funds transfers are reviewed in more detail below, at pp. 112 - 116.

Humphrey, and Mr. Keller, on behalf of Ernst & Ernst, has stated his recollection that he read to the Board the text of E & E's letter report of September 27, 1973 (Exhibit 3).*

3. The Initial Disposition of Criminal Charges

In late 1972 or early 1973, Atkins had discussed with Mayne the fact that political contributions had been made by the Corporation. In early 1973 growing public attention focused on alleged violations of the Federal Election Campaign Act of 1971 (the "Campaign Act"). Also in the early part of 1973, Atkins had received, but did not take, several calls from Maurice H. Stans ("Stans"), the Chairman of FCRP. Atkins then requested Clyde M. Webb ("Webb"), Vice President - External Affairs of the Corporation, to contact Stans and determine his reason for attempting to contact Atkins. Thereafter, Stans suggested to Webb that Atkins supply FCRP with the list of persons who should be scheduled by FCRP as the contributors of the

* Based upon the information available to the Committee, it appears that \$30,000 was contributed for the benefit of the 1968 Humphrey national campaign, and that an additional \$20,000 was contributed for the benefit of Humphrey's presidential campaign in Kentucky.

\$100,000 contribution to FCRP; that contribution was apparently listed on FCRP records as having been made by Atkins and his wife. Atkins declined to supply any such list of persons.

During this same period of time, Atkins and Mayne consulted, and engaged on behalf of the Corporation, Fred M. Vinson, Jr., Esq. ("Vinson"), of the Washington, D.C. firm of Reasoner, Davis & Vinson, to represent the Corporation with respect to this matter. In the following months, the Corporation and its counsel gave increasing attention to this matter.

In early July, 1973, the Special Prosecutor stated that the voluntary and early disclosure by corporations of Campaign Act violations would be considered a mitigating circumstance in considering what charges to bring against any such corporation. On July 12, 1973, Vinson discussed with Thomas F. McBride, Esq. ("McBride"), a member of the Special Prosecutor's office, the Corporation's 1972 contribution to FCRP and its apparent violation of 18 U.S.C. §610 prohibiting political contributions by a corporation to any candidate for federal office. The Corporation was the second company to make such voluntary disclosure.

Further discussions with the Special Prosecutor were the principal responsibility of Vinson. As a result of these discussions and the Corporation's disclosure of the FCRP contribution, it was agreed between Vinson and the Special Prosecutor that

the Corporation would be charged with a one count violation of 18 U.S.C. §610 and that the primarily responsible corporate officer - in this case, Atkins - would be charged with a one count misdemeanor charge under 18 U.S.C. §610. It was further agreed that the Special Prosecutor would not oppose the entry of a nolo contendere plea by Atkins.

In the course of the Corporation's disclosures to the Special Prosecutor, the Special Prosecutor informally interviewed Atkins, Webb and William R. Seaton ("Seaton"), Vice Chairman of the Board of the Corporation, with respect to these matters; these interviews took place in July and August, 1973. As a result of these discussions and interviews, the Special Prosecutor was aware that the Corporation had made contributions in addition to the FCRP contribution, including, specifically two substantial contributions made in connection with the 1968 presidential election. At that time, the Corporation did not have a record of all contributions which had in fact been made, but its representatives did not reveal to the Special Prosecutor's office all contributions of which they were then aware.*

As a result of these discussions, a criminal information was filed on November 13, 1973, in the U. S. District Court for

* The nature and extent of the disclosures which were made are discussed in more detail below, at pp. 99 - 106.

the Eastern District of Kentucky against Ashland Petroleum Gabon Corporation ("Ashland Gabon"), a wholly-owned subsidiary of the Corporation, charging an unlawful violation of 18 U.S.C. §610 by virtue of the \$100,000 contribution to FCRP; Ashland Gabon pleaded guilty to and was convicted of such violation and was fined \$5,000. At the same time Atkins pleaded no contest to and was convicted on a misdemeanor charge of aiding and abetting Ashland Gabon in its violation of 18 U.S.C. §610; he was fined \$1,000.

The fact of these pleas and convictions and of the \$100,000 FCRP contribution was revealed by the Corporation in its Form 10-K filed with the Securities & Exchange Commission with respect to its fiscal year ending September 30, 1973. (See Exhibit 4: Extract from the Corporation's Form 10-K for the fiscal year ending September 30, 1973). The same disclosure was made in the December 20, 1973, Proxy Statement for the Annual Meeting of Shareholders scheduled for January 31, 1974. (See Exhibit 5: Extract from the Corporation's Proxy Statement for the January 31, 1974 Meeting of Shareholders). No public disclosure was made of any other political contribution at that time.

4. Other Events Prior to December 3, 1974

a. Reimbursement with Respect to the FCRP Contribution

As indicated above, the \$100,000 contribution to FCRP was returned to the Corporation at its request in July, 1973. In

addition, prior to and in anticipation of the Annual Meeting of Shareholders to be held on January 31, 1974, Atkins stated to the Board in writing that, after discussion with Vinson, Mayne and Samuel C. Butler, Esq., a director of the Corporation and a partner of Messrs. Cravath, Swaine & Moore, outside counsel to the Corporation, he had decided to reimburse the Corporation for the amount of its fine, for interest on the \$100,000 contribution to FCRP during the period of time for which it was outstanding, and for the legal fees incurred by the Corporation in connection with the proceedings before the Special Prosecutor.

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Prior to January 30, 1974, Atkins, together with Seaton, who had participated in the making of political contributions, paid to the Corporation \$20,000 in equal shares. That amount was slightly in excess of the \$5,000 fine; interest of \$7,719.17 computed at the prime rate in effect from time to time from April 2, 1972 to July 20, 1973; and legal fees of \$7,175 relating to the services of Messrs. Reasoner, Davis & Vinson in connection with the criminal proceeding leading to the conviction of Ashland Gabon.*

* The figure for legal fees was supplied by Vinson at the request of the Corporation. Vinson has stated that the apportionment of legal fees to the criminal investigation and proceeding was based upon his firm's time records and its usual hourly rates and that the fee in question did not embrace the firm's services rendered in connection with the Senate Select Committee, the return of the FCRP contribution, certain grand jury inquiries and other unidentified matters.

At its meeting on January 30, 1974, the Board accepted the reimbursement theretofore tendered and resolved that no further action or payment should be required or requested of Atkins in connection with the FCRP contribution.* (See Exhibit 6: Extract from Minutes of the Board of Directors Meeting of January 30, 1974).

b. The Second Report of E & E

As indicated above, Atkins had the Corporation engage E & E to examine certain overseas funds transfers in conjunction with the Corporation's own review and investigation of its unlawful political contributions. On September 18, 1974, E & E submitted to the Board a second written report relating to these matters. (See Exhibit 7: Report to the Board of Directors on Special Disbursements dated September 18, 1974). That report summarized E & E's further investigation of the three problem areas identified in its report of September 27, 1973, and the additional

* The Minutes of that meeting do not indicate that the Board was informed that the reimbursement of \$20,000 had been made in equal shares by Atkins and Seaton.

Atkins has stated his belief that the full Board was not so informed. He has further stated that this omission was based upon his desire to shield Seaton from the unfavorable publicity which would accompany the disclosure at that time of Seaton's involvement in the making of political contributions; such publicity had already been focused upon Atkins by virtue of his plea to the charge brought by the Special Prosecutor. While the judgment not to disclose Seaton's contribution to the reimbursement may be questioned, the Committee is satisfied that Atkins' intention was to assume full responsibility for the political contributions himself and not to mislead the Board or the Corporation's shareholders.

procedures adopted by the Corporation with respect to those areas. Based upon its review during 1974, E & E reported to the Board that it believed that the corporate procedures with respect to overseas funds transfers had been significantly improved; that it had found no evidence during 1974 of items which might appear to contain disbursements for political purposes; and that identified payments made in fiscal 1974 to foreign consultants appeared to be reasonable under the circumstances.

By an addendum to this report, E & E informed the Board that their review of disbursements since July, 1973, had revealed no evidence of items which appeared to contain disbursements for illegal political purposes. (See Exhibit 8: Addendum to September 18, 1974 Report to the Board of Directors on Special Disbursements dated December 10, 1974).

c. The Internal Revenue Service Investigation

The funds used for political contributions were generally reflected on the Corporation's books as charges to the exploration/production asset accounts of the Corporation's subsidiaries which were involved in foreign operations. The amounts were so reflected because of the Corporation's intention that the amounts expended for political contributions would not be deducted

for federal income tax purposes.*

In fact, at the time the Corporation wrote off its entire investment in Libya (approximately \$26,000,000 to \$27,000,000) in fiscal 1970 and 1971, it mistakenly claimed deductions for payments totalling \$429,997 which had been made in prior years and which were apparently expended for political contributions. The fact that some such contributions had been improperly deducted was first discovered by the Corporation in the fall of 1973, as a result of a review of the Corporation's federal income tax returns which was conducted by James V. Marcum, Esq. ("Marcum"), the Corporation's General Tax Counsel, acting pursuant to the direction of Atkins. At that time, however, the Corporation did not have full knowledge of the extent of its political contributions or of its improper deductions.

Thereafter, the Corporation voluntarily disclosed to the Internal Revenue Service (the "IRS") the fact that some improper deductions had been taken by inadvertence. Moreover, in the course of its discussions with the Special Prosecutor leading to the disposition of criminal charges against Ashland

* At the time this accounting treatment was decided upon for tax reporting purposes, it was anticipated that these amounts would be capitalized and, after the commencement of production, expensed through percentage depletion (not a function of capitalized cost) rather than cost depletion. Thus, it would be possible to eliminate completely the Corporation's cost basis in these investments and also eliminate any reflection of the capitalized expense in the Corporation's tax returns.

Gabon and Atkins, the Corporation had undertaken to disclose to the IRS all political contributions which it had made. To supplement the Corporation's initial informal disclosure to the IRS and pursuant to the Corporation's undertaking with the Special Prosecutor, Marcum prepared a memorandum for the IRS audit agents setting forth adjustments relating to the Corporation's taxable years 1967 through 1972 which the Corporation deemed appropriate; this memorandum was delivered to the IRS on January 17, 1974. (See Exhibit 9: Memorandum of James V. Marcum, Esq. dated December 11, 1973).*

Thereafter, the IRS requested information from the Corporation, including the names of the recipients of the political contributions, the identity and location of any supporting documents regarding the information already supplied and the analysis of overseas funds transfers conducted by E & E and the Corporation's accounting department in the summer and early fall of 1973.

* In addition, Marcum informed the IRS that minor amounts of corporate assets might have been expended for political purposes during the Corporation's fiscal years ending September 30, 1961 through September 30, 1967, but that the Corporation had no record of any such expenditures. (See Exhibit 10: Memorandum of James V. Marcum, Esq. dated January 28, 1974). Because of the possibility that some expenditures were made for political purposes in those years and the two succeeding fiscal years, the Corporation and the IRS agreed upon an adjustment in the Corporation's tax liability for the fiscal years ending September 30, 1963 through September 30, 1969, and pursuant to that agreement, the Corporation paid roughly \$2,500 in additional taxes for each of the seven years in question.

To assist it in developing this and other information required by the IRS, the Corporation subsequently engaged Charles A. McNelis, Esq. ("McNelis") of the Washington, D.C. firm of Welch & Morgan to act as special outside tax counsel with respect to these matters. McNelis worked with corporation personnel and representatives of E & E in reviewing the categories of transactions identified in the E & E report of September 27, 1973, and a list of transfers about which the IRS had requested additional information in April, 1974. McNelis was assisted by L. L. Leatherman, Esq. ("Leatherman") of the Louisville, Kentucky firm of Greenebaum, Doll, Matthews & Boone.

The result of that review and the end product of the Corporation's undertaking to make full disclosure to the IRS was the so-called "McNelis Report" which was forwarded to the IRS on August 6, 1974, by McNelis and Leatherman. The McNelis Report was supplemented by letters addressed to the IRS by Leatherman dated September 14, 1974, October 5, 1974, and October 7, 1974, and by a memorandum dated September 23, 1974; those documents revised and corrected certain of the details contained in the McNelis Report in the light of information then available.

Beginning with the Corporation's engagement of McNelis, a series of discussions took place between the Special Prosecutor's office and McNelis and other representatives of the Corporation. As a result of McNelis' disclosures to the Special Prosecutor and

of the IRS's disclosure to the Special Prosecutor of the information contained in the McNelis Report, the Special Prosecutor became aware that the political contributions made by the Corporation were substantially greater than those which had been disclosed to the Special Prosecutor prior to November 13, 1973.

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Although representatives of the Corporation, including McNelis, initially believed that these additional disclosures were not a matter of concern to the Special Prosecutor, a meeting between Vinson, McNelis and Thomas F. McBride of the Special Prosecutor's office on October 30, 1974, revealed the opposite to be the case. In the course of further discussions between the Special Prosecutor and McNelis, it became clear that the Corporation's case before the Special Prosecutor with respect to political contributions had been reopened; that members of the Special Prosecutor's office believed that the Corporation or its representatives had intentionally or inadvertently misled them with respect to the extent of the Corporation's political contributions; and that the Special Prosecutor's misunderstanding had materially influenced the basis upon which it had allowed the charges against the Corporation to be disposed of in November, 1973.* This further problem with the Special Prosecutor was

* The nature of, and apparent responsibility for, this misunderstanding is treated in more detail below, at pp. 99 - 106.

made known to the Board at its meeting, on December 3, 1974.

B. MATTERS SUBSEQUENT TO DECEMBER 3, 1974

1. The Second Guilty Plea

Because of the passage of the Federal Election Campaign Act Amendments of 1974 (the "1974 Amendments"), which shortened the statute of limitations applicable to violations of 18 U.S.C. §610, the Special Prosecutor apparently determined that any additional charges to be brought against the Corporation should be asserted prior to January 1, 1975. Accordingly, the Special Prosecutor wrote to William B. Saxbe, Esq. ("Saxbe"), then Attorney General of the United States, requesting that Saxbe delegate to the Special Prosecutor's office the authority to prosecute the Corporation for violations of 18 U.S.C. §610 other than those related to the 1972 Presidential election.

Responding by letter dated December 12, 1974, Saxbe assigned to the Special Prosecutor the authority to investigate and prosecute the Corporation's possible violations of 18 U.S.C. §610 during the period January 1, 1969 through December 31, 1972. (See Exhibit 11: Letter of William B. Saxbe, Esq. to Henry S. Ruth, Jr., Esq. dated December 12, 1974). Saxbe's letter stated, in material part:

Although campaign contribution and related violations occurring other than in connection with the 1972 Presidential election would not normally fall within your jurisdiction, I agree with you that it is both prudent and necessary for you to pursue investigation and to prosecute all possible violations in this particular area.

Acting under the authority so conferred, the Special Prosecutor caused a five-count information to be filed against the Corporation in the United States District Court for the District of Columbia on December 30, 1974. (See Exhibit 12: Information, U.S. v. Ashland Oil, Incorporated). The information filed against the Corporation alleged certain violations of 18 U.S.C. §610 which may be summarized as follows:

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Count One charged the Corporation with having reimbursed persons who had contributed a total of \$6,864.65 to political committees organized in support of Hubert H. Humphrey's campaign for election to the United States Senate in 1970 and his 1972 presidential campaign;

Count Two charged the Corporation with having contributed \$50,000 in cash to Robert Strauss, Treasurer of the Democratic National Committee between June, 1970, and February, 1972, for the use of the Democratic National Committee in connection with the 1972 elections;

Count Three charged the Corporation with having delivered \$100,000 in cash to Carl Arnold for redelivery by Arnold to

candidates for the United States Senate and the House of Representatives in 1972;

Count Four charged the Corporation with having reimbursed persons who had contributed \$2,500 to a political committee organized to promote the 1972 campaign of John Tower for election to the United States Senate; and

Count Five charged the Corporation with having contributed \$10,000 in cash to Louie B. Nunn for use in his 1972 campaign for election to the United States Senate.

Prior to the filing of the Information, the Special Prosecutor had advised McNelis that it did not intend to name the primarily responsible corporate officer - Atkins - in the Information or charge Atkins with an additional violation of 18 U.S.C. §610; this decision to proceed only against the Corporation represented a departure from the Special Prosecutor's normal policy of charging both the corporation and the primarily responsible officer in all such cases. The reasons for this departure from ordinary policy were stated by the Special Prosecutor in an Appendix to his letter to McNelis which reviewed the circumstances of the pleas entered by Ashland Gabon and Atkins in November, 1973. The Prosecutor's letter to McNelis and the Appendix were subsequently filed with the District Court. (See Exhibit 13: Letter of Henry S. Ruth, Jr., Esq. to Charles A. McNelis, Esq. dated December 27, 1974 and attached Appendix).

On December 30, 1974, the Corporation appeared before Judge George L. Hart, Jr., pleaded guilty to each count in the Information, and was fined \$25,000. At that time, McNelis stated in open court that he was authorized to say that Atkins would reimburse the Corporation for any fine imposed upon the Corporation.

2. The Continuation of the Internal Revenue Service Investigation

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As reported above, the McNelis Report was submitted to the IRS in August, 1974, and was updated by materials subsequently delivered to the IRS. Although it is possible that the Corporation will have some additional tax liability as a result of the deduction of amounts expended for corporate political contributions and other matters under review by the IRS, there is, as of this date, no final determination of the Corporation's additional liability. Several aspects of the IRS investigation are, however, pertinent to the Committee's inquiry.

First, in the course of its investigation, the IRS has reviewed in detail the personal federal income tax returns and personal financial records of several of the Corporation's officers in an effort to determine whether there is evidence that any such officer diverted any corporate assets to his personal benefit. The IRS has advised representatives of the Committee that this review has uncovered no such evidence.

Secondly, the [redacted] has questioned the timing of the Corporation's write-off of its entire Libyan investment. Such investment was principally written-off in 1970; it now appears that the IRS will contend that the deductions in question should have been taken in 1971 or 1972. The reallocation of such deductions, if accepted by the Corporation or successfully asserted by the Service, will substantially increase the Corporation's tax liability for 1970 and correspondingly decrease its liability for subsequent years.

Thirdly, the IRS has informally advised the Corporation that it presently intends to seek a 5% negligence penalty with respect to the taxable years 1970 and 1971.* Under the terms of Section 6653(a) of the Internal Revenue Code, such penalty would apply to all deficiencies in income tax asserted for the years in question and not simply to those matters which caused the imposition of such penalty. While the Corporation's improper deduction of political contributions may well be a factor in the IRS's present intention to seek such a penalty, representatives of the IRS have advised the Corporation that they would seek to impose such a penalty even if no political contributions had been made. Their conclusion in this regard rests upon certain other problems in the preparation of and support for the Corporation's tax returns and is consistent with the Service's recently adopted policy of assessing the negligence penalty against public corporations as part of an effort to force them to keep better tax records.

* The Corporation has an opinion of counsel that the IRS cannot successfully assert the negligence penalty against the Corporation for these years because of the matters in question.

3. Matters Involving the Securities and Exchange Commission

On December 19, 1974, the Corporation mailed its Proxy Statement for the Annual Meeting of Shareholders scheduled for January 30, 1975. (See Exhibit 14: Extract from the Corporation's Proxy Statement for the January 30, 1975 Meeting of Shareholders). These proxy materials disclosed that in November, 1973, Ashland Gabon had entered a guilty plea to a charge of having illegally contributed \$100,000 to FCRP in 1972 and that Atkins had pleaded nolo contendere to a charge of aiding and abetting the making of that contribution.* The proxy materials also disclosed the Board's resolution of July 18, 1973, prohibiting illegal political contributions and the Board's resolution of December 3, 1974, creating the Special Committee. Such materials further disclosed that other political contributions made in 1972 and earlier years had been reported to the Special Prosecutor's office and to the IRS, but no details were provided with respect to those contributions.

On December 30, 1974, the Corporation entered a plea of guilty to the five-count Information charging additional

* On March 8, 1974, the Securities and Exchange Commission had issued Securities Act Release No. 5466 and Exchange Act Release No. 10673. (See Exhibit 15: Release dated March 8, 1974). Each Release stated that the conviction of a corporation or of a corporate officer on, or the officer's plea of guilty or no contest to, charges of having made political contributions in violation of 18 U.S.C. § 610 were "material to an evaluation of the integrity of the management of the corporation as it relates to the operation of the corporation and the use of corporate funds" and should therefore be disclosed to such a corporation's shareholders, particularly in the context of a proxy statement. The Releases further stated that corporate management should determine on a case by case basis the need to disclose illegal political contributions which had been made but which had not become the subject of formal criminal proceedings.

violations of 18 U.S.C. §610.

On December 31, 1974, John P. Ward, then Deputy Secretary of the Corporation, was informed by Fred M. Santo, the member of the staff of the Division of Corporate Finance of the Securities and Exchange Commission (the "Commission") who was responsible for reviewing the Corporation's proxy materials, that he (Santo) thought it would be appropriate for the Corporation to supplement its December 19 Proxy Statement in light of the December 30 guilty plea. The Corporation thereafter supplied the Commission with a draft supplement to the previously mailed proxy materials and with subsequent revisions of that supplement.

Following a series of discussions between the staff of the Commission's Division of Enforcement and representatives of the Corporation, it was determined that the supplement to the proxy materials, as revised, would be mailed to the Corporation's shareholders; that the Corporation's annual meeting would be held as scheduled; but that at that meeting, the shareholders would not be asked to vote upon the nominees for the Board of Directors, and the meeting would be adjourned and reconvened at a later date for the purpose of electing Directors. It was anticipated that such reconvened shareholders meeting would take place after this Committee had completed its investigation and made its report to the Board and after the Board had acted upon the Committee's recommendations. This course of action was

in fact followed at the shareholders' meeting on January 30, 1975.

During the course of the discussions between the staff of the Commission and the representatives of the Corporation which took place in January, 1975, the staff indicated the Commission's intention to seek an injunction against the Corporation and certain of its officers, enjoining any further use of corporate assets for unlawful political purposes. This matter was discussed throughout the first part of 1975. Such discussions focused principally on the terms of a decree to which the Corporation and its officers might consent.

Such an agreement between the Commission and the Corporation and its officers was in fact reached, and on May 16, 1975, the Commission filed a Complaint against the Corporation and Atkins, Seaton and Webb. (See Exhibit 16: Complaint for Permanent Injunction and Certain Ancillary Relief). The Complaint alleged, among other things, that the Corporation, Atkins, Seaton, Webb and others had maintained a secret fund for unlawful political contributions and other purposes; that the Corporation, Atkins, Seaton and others had made payments from 1967 to the date of the Complaint aggregating in excess of \$4,000,000 without the application of adequate accounting or auditing procedures or sufficient controls or documentation; and that the Corporation, Atkins, Seaton, Webb and others had caused false entries to be made on the Corporation's books and records.

The Complaint further alleged that the defendants had failed adequately to disclose the above described activities in proxy materials, annual reports and other documents filed with the Commission during the period in question, all in violation of the federal securities laws.

Without admitting or denying the allegations of the Complaint, the Corporation, Atkins, Seaton and Webb consented to an entry of final judgment permanently enjoining each of them from doing any of the above described acts and from failing to disclose any such acts in proxy materials, annual reports and other filings with the Commission. (See Exhibit 17: Final Judgment and Order of Permanent Injunction against Ashland Oil, Inc.).

As indicated above, the Corporation entered into an Undertaking in connection with the consent decree which provided, among other things, that the Corporation should authorize and direct the Special Committee to continue its investigation in accordance with the resolution of the Board of Directors dated December 3, 1974, and to examine and review the Corporation's books and records with respect to all matters alleged in the Commission's Complaint and such relevant matters as might be revealed in the course of its investigation. (See Exhibit 18: Undertaking of Ashland Oil, Inc.). By letter dated May 19, 1975, counsel to the Special Committee advised the Corporation that,

in its opinion, this Undertaking did not enlarge the scope of the Special Committee's investigation. (See Exhibit 19: Letter of Kirkpatrick, Lockhart, Johnson & Hutchison to Ashland Oil, Inc. dated May 19, 1975).

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III. THE SPECIAL COMMITTEE'S INVESTIGATION

A. THE SCOPE OF THE INVESTIGATION

The Resolution of the Board of Directors which was un-
animously adopted on December 3, 1974, charged the Special Com-
mittee with the following responsibilities:

1. To investigate all aspects of the making of polit-
ical contributions from the Corporation's funds since January 1,
1967;
2. To recommend any further action which this Board
should take; and
3. To recommend any further payments which should be
made to the Corporation by its various officers in this connection.

In the judgment of the Committee, that Resolution, ad-
dressed as it is to a comprehensive review of the making of poli-
tical contributions and to appropriate remedial actions, has
necessitated the consideration of matters which, on first im-
pression, appear somewhat removed from the question of political
contributions. Specifically, the fact that unlawful political
contributions could be made with corporate assets over a six
year period without detection or disclosure raises a series of
questions: what funds were used to effect such contributions;
how the funds so used were generated and their use concealed on

the Corporation's books; whether other corporate funds were used for unrecorded or improper purposes or diverted by any officer of the Corporation for his own use; and whether any defects in the Corporation's accounting procedures, operating policies or basic organization have made such contributions possible or rendered their detection less likely. These questions appear to involve the current structure of Ashland Oil, Inc., and the Committee has from the beginning felt an obligation to address them.

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Consequently, the examination of political contributions parallels to a material degree the review of such alleged payments.

The investigation conducted by the Committee with respect to these questions substantially anticipated the charge placed upon it in the Undertaking entered into by the Corporation in United States v. Ashland Oil, Inc. et al referred to above. That charge looks to the investigation of payments allegedly made by the Corporation without the application of adequate accounting and auditing procedures and without adequate controls or documentary support; many of the payments alleged to have been so made involved overseas funds transfers of the type used to provide the moneys used for political contributions.

In view of the responsibilities placed upon the Committee and the Committee's peculiar obligation to the Board, the Corporation and its shareholders, this investigation has addressed five major areas of concern:

1. The making of political contributions;
2. The transactions which generated the funds used to make political contributions;
3. Certain transactions which are inadequately accounted for on the books and records of the Corporation or for which adequate documentation is not available or which in the judgment of the Committee or its advisors required particular review;
4. The conduct and activities of the principal officers of the Corporation and of other individuals insofar as they are pertinent to the remedial actions considered for recommendation to the Board; and
5. The procedures, policies and governing structure of the Corporation insofar as they affect the specific problem areas indicated above.

B. THE PROCEDURES OF THE SPECIAL COMMITTEE

Since its appointment in December, 1974, the Special Committee has met, in formal session, on twelve occasions. The dates and places of such meetings are as follows:

January 8, 1975	New York, N.Y.
January 23, 1975	Ashland, Ky.
January 29-30, 1975	Ashland, Ky.

February 20, 1975	Pittsburgh, Pa.
March 20, 1975	Louisville, Ky.
April 10, 1975	Pittsburgh, Pa.
April 16, 1975	Lexington, Ky.
April 24, 1975	Pittsburgh, Pa.
May 15, 1975	Pittsburgh, Pa.
June 4, 1975	Pittsburgh, Pa.
June 5, 1975	New York, N.Y.
June 18, 1975	Dallas, Texas

Initial meetings of the Committee addressed the identification of those persons who would be required to assist the Committee in performing its assigned functions.

In recognition of its need for professional assistance, the Committee retained Messrs. Kirkpatrick, Lockhart, Johnson & Hutchison ("KLJ&H"), attorneys, of Pittsburgh, Pennsylvania, as counsel to the Committee and Messrs. Coopers & Lybrand ("C & L"), independent public accountants, to advise and assist the Committee in connection with its investigation.

Subsequent meetings have been devoted to a review of the progress of the investigations conducted by KLJ&H and C & L, the findings developed in the course of those investigations and the resolution of those questions of policy which the investigations have presented from time to time. Most recently, the Committee's sessions have been devoted to a detailed consideration of the alternative courses of action available to the Corporation

and of the recommendations which the Committee now proposes to the Corporation for adoption. Finally, the Committee has reviewed in detail successive drafts of this Report.

In addition, to the formal Committee meetings, each member of the Committee has devoted a substantial amount of time to reviewing various materials submitted by KLJ&H and C & L, including legal memoranda, factual analyses and materials relating to violations of 18 U.S.C. §610 by other companies, and there have been numerous informal conferences among the Committee members and between Committee members and the Committee's professional advisors.

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C. PROFESSIONAL ASSISTANCE TO THE SPECIAL
COMMITTEE

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At the outset of its investigation the Special Committee determined that it would need professional assistance in order to discharge properly its responsibilities, and it has relied upon KLJ&H and C & L to provide that assistance.

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As counsel to the Committee, KLJ&H was responsible for certain aspects of the Committee's investigation and for advising the Committee with respect to all legal matters embraced by its investigation. In addition, counsel had the principal responsibility for assisting the Committee in the drafting of this Report; certain aspects of the Report, however, are primarily based upon the investigation conducted and the expertise supplied

by C & L. The nature of counsel's'investigative procedures is set forth in more detail below, at pp. 39-70.

The areas of C & L's responsibility were initially set forth in their engagement letter dated January 30, 1975, addressed to the Special Committee. (See Exhibit 20). The scope of C & L's investigative efforts and the nature of their findings are set forth in their letter of June 18, 1975 addressed to the Special Committee (See Exhibit 21), and C & L's investigation is described in more detail below, at pp. 39-70.

In addition to their investigative role, C & L have advised the Committee with respect to the Corporation's accounting controls and procedures in general and its disbursement procedures in particular, and the Committee has relied upon the advice and expertise of C & L in formulating certain of the recommendations contained in Section V of this Report.

D. THE FACTUAL INVESTIGATION

1. Limitations on the Scope of the Investigation

In considering and acting upon this Report, the Board should be aware of certain limits upon the completeness and accuracy of the Committee's findings. Some of those limitations are inherent in the nature of the special undertaking assumed by the Special Committee and, correlatively, by its professional

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advisors. Other such limitations are inherent in the subject matter under investigation. Certain of the more important general limitations may be categorized as follows:

1. Many of the events with which this Report is concerned occurred several years ago. In addition, many of the transactions under review were complex but were conducted informally, without ordinary documentation or any significant supporting records. Some persons who might have provided factual information about certain transactions are now deceased or are otherwise unavailable. Consequently, it has been necessary to attempt to reconstruct detailed transactions relying principally upon the fallible or partial recollections of those persons involved who are now available and willing to render assistance to this investigation. This reliance upon the co-operation and memory of such individuals necessarily limits the definitiveness of the Committee's findings.

2. Much of the information developed in the course of the investigation derives from personal interviews with knowledgeable individuals. To encourage frank and complete disclosure, such interviews were not transcribed or otherwise recorded. To the extent possible, such interviews have been conducted by at least two members of the investigative effort. Nonetheless, the necessary reliance upon the recollections and notes of these interviewers is an additional constraint upon the definitiveness of the Committee's findings.

3. With respect to C & L, the procedures employed in the investigation were those deemed by them to be applicable to a special investigation of this nature rather than to an examination in accordance with generally accepted auditing standards. Much of the information which forms the basis for the Committee's factual findings was not, and frequently could not have been, subjected to independent audit verification.

Notwithstanding these limitations, the Committee does not believe that any of its recommendations have an inadequate factual basis. In addition, in reaching a determination that further investigation was not mandated to enable it to fulfill its charge, the Committee has considered the following factors:

1. No information has been obtained which has indicated that the investigation conducted by the Committee or on its behalf has not been sufficient to identify examples of those types of transactions which might be used to cover the making of corporate political payments or which might involve other matters within the scope of the Committee's investigation.

2. No information has been obtained which has pointed to a significant area material to the subjects of the Committee's investigation which has not been subjected to investigative procedures.

3. Considered business and professional judgments by the Committee and by the professionals it has engaged have

been applied in establishing appropriate termination points for certain investigative efforts, and the Committee believes that practical time constraints and allocation of resources have been judiciously applied.

4. In many cases, different individuals' recollections of past events are at variance, and it has not in all cases been possible to reconcile these differences. The Committee has attempted to reflect these differences, where appropriate, in reporting its findings.

5. The Committee has operated within certain economic and temporal constraints. As a practical matter, it has of course not been possible to review all transactions of the Corporation over the period in question; nor has it been deemed necessary to follow in detail every conceivable course of investigation. Those avenues of inquiry have been pursued which seemed most likely to involve problems or abuses of the sort under review.

Similarly, the Committee has believed it important to the Corporation and its shareholders to conclude this investigation as quickly as possible, consistent with the goal of conducting a thorough investigation and of developing a sound and adequate basis for recommending full and effective remedial actions. This belief rests in part upon the need to develop and act upon all appropriate remedial actions promptly and to

inform and assure the Corporation's shareholders and the appropriate federal regulatory agencies that proper corrective actions have been taken. It rests equally upon the Committee's conviction that the matters before us need to be aired fully, remedied, and put to rest so that the Corporation's officers may go forward with the affairs of the Corporation, acting under such improved procedures and policies as this investigation may produce.

2. Investigative Procedures and Techniques

a. Affidavits

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At an early stage in the investigation, each incumbent member of the Board of Directors was requested to execute a sworn Affidavit in a form prepared by KLJ&H, stating that he had not had knowledge of the making of political contributions from the Corporation's funds prior to the disclosure of such contributions to the Board on July 18, 1973. (See Exhibit 22: Form of Affidavit). Nine directors have executed such Affidavits, and three other directors executed such Affidavits as amended in details which neither the Committee nor its counsel deemed material. Schedule A sets forth the Directors who fall in each category and the dates upon which such Affidavits were executed. Copies of the executed Affidavits are attached hereto as Exhibits 22-A through 22-L. The five directors who did not execute an Affidavit, as drafted or with modifications in detail, were requested to complete a detailed set of written Interrogatories.

SCHEDULE 'A

RESPONDENTS TO AFFIDAVITS ADDRESSED TO THE BOARD OF DIRECTORS

Affidavits Executed:

<u>Director</u>	<u>Date Executed</u>
J. Robert Fisher	February 20, 1975
William H. Gammon	February 1, 1975
Robert D. Gordon, Jr.	January 29, 1975
John R. Hall	February 26, 1975
Robert T. McCowan	February 17, 1975
Angus W. McDonald	January 29, 1975
Robert S. Reigeluth	January 29, 1975
F. H. Ross, Jr.	January 29, 1975
James W. Vandever	January 29, 1975

Affidavits, As Modified, Executed:

<u>Director</u>	<u>Date Executed</u>
Brian S. Downward*	February 14, 1975
Samuel C. Butler**	February 3, 1975
Walter W. Hillenmeyer, Jr.***	January 29, 1975

* Mr. Downward was not present at the Board meeting on July 18, 1973, and his Affidavit states that his first knowledge of the Corporation's political contribution came when he read the minutes of the July 18 meeting.

** Mr. Butler was advised by Atkins of the fact that political contributions had been made by the Corporation at a meeting on July 16, 1973, two days before the Board meeting at which a general announcement was made.

*** Mr. Hillenmeyer was first elected to the Board in January, 1974; his Affidavit states that his first knowledge of the Corporation's political contributions was obtained from public announcements which were carried in the media following the July 18, 1973. Board meeting.

b. Interrogatories

Counsel to the Committee drafted and the Committee reviewed and approved three sets of interrogatories. One set of interrogatories was designed to elicit basic information about the political contributions made from corporate funds and about certain overseas transactions; the means by which such contributions and transactions were accomplished and recorded on the Corporation's books; and the persons who had knowledge of or responsibility for such contributions and transactions. (See Exhibit 23: Form of Interrogatories).

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These interrogatories were served upon each member of the Board who did not execute an Affidavit; upon each employee of the Corporation who the Special Committee believed might have knowledge of the political contributions or other matters pertinent to this inquiry; upon one executive in each operating division of the Corporation; and upon certain employees with responsibility over the Corporation's funds transfers or other areas of potential abuse in connection with the subjects under review. All recipients were requested to answer these interrogatories under oath and to return the completed interrogatories to the Committee.

Schedule B sets forth the recipients of these interrogatories and the dates of their responses.

SCHEDULE B

RECIPIENTS OF FIRST SET OF INTERROGATORIES

<u>Recipients</u>	<u>Present Position with the Corporation</u>	<u>Date of Response</u>
John W. Adams	Vice President - New York Office	March 6, 1975
Orin E. Atkins	Chairman of the Board; Chief Executive Officer	March 3, 1975
Bernard A. Barnett	Outside Counsel	May 5, 1975
Joseph K. Barron	Director - Purchasing	February 20, 1975
Oscar A. Blake	Executive Vice President, Ashland Oil International Limited	March 7, 1975
Paul G. Blazer, Jr.	Director and President Ashland Oil Foundation	April 3, 1975
Wilburn Caskey	Manager, Public Affairs	March 27, 1975
G. Fred Charles	Executive Vice President, Ashland (Bermuda) Limited	February 24, 1975
Wilbur E. Chellgren	Controller	March 3, 1975
Samuel B. Davis, III	Administrative Vice President	February 18, 1975
Kenneth B. Denton	Vice President	February 21, 1975
Charles H. Dougan	President and Chief Executive Officer - Ashland Oil International Limited	March 17, 1975
Edward E. Emrick, Jr.	Retired	April 12, 1975
Eugene W. Erickson	Director; President - Northwestern Refining Co.	
John C. Greene	Personnel Supervisor, Catlettsburg	March 28, 1975

SCHEDULE B (CONTINUED)

<u>Recipients</u>	<u>Present Position with the Corporation</u>	<u>Date of Response</u>
Alfred C. Hamm, Jr.	Assistant Divisional Controller - Corporate	February 18, 1975
George C. Hardin, Jr.	Senior Vice President; President - Ashland Exploration Co.	March 12, 1975
James D. Hughes	Executive Vice President, Ashland Oil International Limited	March 5, 1975
William J. Hull	Vice President - Washington Office	March 20, 1975
H. Earl Joudrie	Chairman, Chief Executive Officer - Ashland Oil Canada, Ltd.	April 7, 1975
John L. McCarty	Manager, Exploration Domestic Accounting - Ashland Exploration Co.	March 21, 1975
Sam Marrs	Manager, Air Transportation	March 21, 1975
Carloe W. Mayne	Administrative Vice President and General Counsel	March 22, 1975
Franklyn M. Moffitt	President, Ashland (Bermuda) Ltd.	February 19, 1975
Everett Reeves	Manager, Land Department	March 28, 1975
William R. Seaton	Vice Chairman of the Board	March 10, 1975
Robert L. Smith	Senior Vice President; President - Ashland Construction Co.	March 7, 1975
Edward A. Van Doersten	Senior Vice President; President - Ashland Chemical Co.	February 24, 1975

SCHEDULE B (CONTINUED)

<u>Recipients</u>	<u>Present Position with the Corporation</u>	<u>Date of Response</u>
William C. Voss	Vice President	February 25, 1975
John H. Wallace	Auditor	March 4, 1975
Robert K. Warren	Administrative Vice President	March 11, 1975
Carlton D. Weaver	Senior Vice President	March 10, 1975
Earl Weaver	Consultant	February 14, 1975
Clyde M. Webb	Vice President - External Affairs	March 20, 1975
Roland A. Whealy	Retired	March 25, 1975
W. H. Winters	Treasurer	March 12, 1975
Robert E. Yancey	President	March 10, 1975

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A second set of interrogatories was drafted to elicit certain information regarding the Corporation's accounting and fiscal controls. (See Exhibit 24: Form of Interrogatories). These interrogatories were addressed to Mayne in his capacity as General Counsel of the Corporation, with the direction that he serve such interrogatories upon those employees best able to supply the requested information. Information responsive to these interrogatories was supplied on behalf of the Corporation by Willis H. Winters, Treasurer.

A third set of interrogatories was drafted to elicit information as to what knowledge, if any, the Corporation's independent auditors might have had about the political contributions which were made by the Corporation. (See Exhibit 25: Form of Interrogatories). These interrogatories were addressed to those employees who were deemed most likely to have information about this matter, namely, Messrs. Atkins, Erickson, Seaton, Webb and Yancey. These individuals' sworn responses to the interrogatories are discussed in more detail below, at pp. 141-144.

c. Questionnaires and Inquiry Letters

In the course of their investigation, C & L prepared questionnaires which were addressed to the U. S. employees of the Corporation and letters of inquiry which were addressed to foreign based employees; both the questionnaires and the inquiry letters were designed to elicit information as to the employees'

SCHEDULE C

RECIPIENTS OF C & L QUESTIONNAIRES

<u>Recipient</u>	<u>Position with the Corporation</u>	<u>Date of Response</u>
R. J. Allen	Assistant Cash Manager Treasury Department	March 4, 1975
E. L. Anderson	Credit Manager & Data Processing Manager Northwestern Refining Company	March 7, 1975
Robert M. Anderson	Senior Project Engineer Ashland Chemical Company	March 3, 1975
John R. W. Ansdell	Controller Ashland Oil International Limited	March 5, 1975
9 0 1 1 1 0 0 0 1 0 7 7 A. L. Askew, Jr.	General Manager, Europe Ashland Chemical (France) S. I.	March 10, 1975
P. Aviotti, Jr.	District President Warren Brothers Company	March 25, 1975
J. C. Ballard	Application Engineer CS&S Department	March 6, 1975
David P. Banks, Jr.	President Southern States Asphalt Company	March 3, 1975
O. E. Blurton	Vice President Star Construction Company	March 26, 1975
John F. Boehm	Group Vice President - Valvoline Ashland Oil, Inc.	March 5, 1975
C. R. Borders	Supervisor Accounting - Branch Banks Activity Treasury Department	March 12, 1975
M. G. Boyer	Division Controller Accounting Department	March 7, 1975

SCHEDULE C (CONTINUED)

<u>Recipient</u>	<u>Position with the Corporation</u>	<u>Date of Response</u>
B. B. Brown	District President Warren Brothers Company	March 20, 1975
Bobby C. Brown	Operations Manager Direct Marketing Company	March 4, 1975
T. W. Brown	Operation Manager Ashland Oil Nigeria	April 15, 1975
Gilbert A. Bruno	Regional Vice President - Southwest Warren Brothers Company	March 12, 1975
D. H. Carmer	District President Warren Brothers Company	March 20, 1975
H. T. Cartwright	Vice President Eastern Seaboard Petroleum Company	March 5, 1975
Jo Ann Cartwright	Disbursement Clerk A Treasury Department	Not Dated
P. J. Chase	Treasurer Ashland Bermuda Limited	March 7, 1975
F. D. Cline	District President Warren Brothers Company	March 24, 1975
R. B. Colgate	District President Warren Brothers Company	March 20, 1975
S. E. Commella	Vice President Valvoline International	March 3, 1975
John W. Connolly, Jr.	President Eastern Seaboard Petroleum Company	March 5, 1975
J. C. Coogan	Vice President Domestic Production & Engineering Ashland Exploration Company	March 5, 1975

SCHEDULE C (CONTINUED)

<u>Recipient</u>	<u>Position with the Corporation</u>	<u>Date of Response</u>
Elmer A. Craiger	Vice President & Plant Manager Kyova Pipe Company	March 3, 1975
C. M. Davis	President Harrison, Inc.	March 28, 1975
S. W. Davis, Jr.	District President Warren Brothers Company	March 20, 1975
Walter H. Deakin, Jr.	Assistant Treasurer Ashland Oil International International Treasury Department	March 6, 1975
7 0 9 3 Joseph Digeronimo	Vice President & General Manager Polaris Plastics Corp.	March 5, 1975
1 1 0 1 M. J. Domingues	Materialsman Ashland Oil Nigeria	April 17, 1975
0 0 1 0 Lubbert Dost	Senior Auditor International Auditing Department London England	March 13, 1975
7 7 0 1 Harry Downs	Vice President and General Counsel Warren Brothers Company	March 4, 1975
7 R. Duckworth	District President Warren Brothers Company	May 27, 1975
Joe E. Dunfee	Senior Auditor International International Auditing Department	March 3, 1975
R. B. Durgin	District President Warren Brothers Company	March 21, 1975
David L. Eakins	International Trade Specialist International Treasury Department	March 3, 1975

SCHEDULE C (CONTINUED)

<u>Recipient</u>	<u>Position with the Corporation</u>	<u>Date of Response</u>
J. S. Farmer	Executive Vice President Ashland Exploration Company	March 4, 1975
T. A. Ferne	Staff Analyst III Corporate Planning & Analysis Department	March 5, 1975
N. R. Fisher	Accountant Valvoline Oil Limited - London	March 11, 1975
Allan R. Galpin	International Department Ashland Chemical Company	March 24, 1975
A. Garges	Supervisor Lube Oil Accounting Accounting Department	March 10, 1975
Everett E. Gerths	Resins & Plastics Dept. Ashland Chemical Company	March 28, 1975
P. E. Gilbert	Region Supervisor Direct Marketing Company	April 12, 1975
Milton M. Goldberg	Accounting Manager Polaris Plastics Corp.	March 5, 1975
Norman E. Greene	Treasury Department Ashland Exploration Company	March 11, 1975
Dwaine Gullett	President Allied Oil Company	March 4, 1975
E. E. Gutknecht	District President Warren Brothers Company	March 21, 1975
Tom M. Hadsell	Supervisor Field Staff Auditing Department	March 11, 1975
Harold J. Hale	Vice President Warren Brothers Company	March 7, 1975

SCHEDULE C (CONTINUED)

<u>Recipient</u>	<u>Position with the Corporation</u>	<u>Date of Response</u>
N. W. Hall	Senior Research Chemist R & D Department	March 3, 1975
Burt E. Hamric	Group Vice President Ashland Exploration Company	March 4, 1975
K. B. Hankin	Order Processor Valvoline Oil Limited - London	March 7, 1975
William P. Hartl	Assistant Treasurer Ashland Oil International - New York	March 4, 1975
5 9 C 1 Fritz Hasskamp	General Manager, Germany Ashland Chemical Ohio - Speyer Branch	March 17, 1975
C 1 C. L. Hatfield	Region Supervisor Service Station Accounting	March 3, 1975
1 Arnold C. Hayden	Senior Geologist Ashland Exploration Company	March 4, 1975
0 A. H. Hazenberg	Administrative Manager Valvoline Oil Nederland	March 5, 1975
0 C. M. Hedrick	Assistant Treasurer Treasury Department	March 6, 1975
7 Robert H. Hiniker	Administrative Manager Melamine Chemical, Inc.	March 4, 1975
Donald E. Hodgkins	Vice President Warren Brothers Company	March 5, 1975
R. C. Holgate	Manager Accounting Services Northwestern Refining Company	March 7, 1975
P. R. Holmes	District President Warren Brothers Company	March 24, 1975
Ross F. Horn	Manager R & W Accounting Northwestern Refining Company	March 7, 1975

SCHEDULE C (CONTINUED)

<u>Recipient</u>	<u>Position with the Corporation</u>	<u>Date of Response</u>
W. S. Horton	Manager Systems & Procedures Industrial Chemicals & Solvents Division	March 4, 1975
William J. Hull	Vice President Washington Office	March 10, 1975
Morton P. Iler	Division Controller - Accounting Ashland Exploration Company	March 5, 1975
P. G. Janssen	International Accountant Ashland Oil Petroleum Indonesia	March 10, 1975
Ervie W. Jenkins	Coordinator - Budget & Forecasting Ashland Exploration Company	March 3, 1975
G. E. Jensen	Administrative Assistant IV Accounting Department	March 3, 1975
D. W. Johnson	President Mac's, Inc.	March 3, 1975
R. A. Johnson	President Macasphalt Corporation	March 20, 1975
G. W. Jones	President MacDougald-Warren, Inc.	March 21, 1975
L. P. Jones	District President Warren Brothers Company	March 20, 1975
W. H. Jones	President Magaw Construction, Inc.	March 25, 1975
J. B. Kite	Vice President Seaboard Construction Company	March 21, 1975
Joseph B. Kittredge	President New Haven Trap Rock Company	March 7, 1975

SCHEDULE C (CONTINUED)

<u>Recipient</u>	<u>Position with the Corporation</u>	<u>Date of Response</u>
J. R. Klinkhamer	Managing Director Valvoline Oil Nederland	March 10, 1975
J. R. Kneale	President Sam Finley, Inc.	March 12, 1975
A. R. Lawson	Assistant Credit Manager Northwestern Refining Company	March 7, 1975
E. B. Lee	President Arkholo Sand & Gravel Company	March 21, 1975
J. D. Leggett	Accountant II Mac's, Inc.	March 3, 1975
T. C. Lillard	District President Warren Brothers Company	March 24, 1975
Harold J. Lincks	Division Controller Accounting Department	March 3, 1975
William H. Lonicka	Director of Special Finance Executive Department	March 6, 1975
N. W. E. Long	District President Warren Brothers Company	March 21, 1975
K. A. Ludwig	International Accountant Ashland Oil Nigeria	March 10, 1975
R. E. Lynch	Chief Geologist Ashland Exploration Company	May 13, 1975
Richard J. Lyon	Attorney III Law Department	March 3, 1975
James V. Marcum	General Tax Counsel Tax Department	April 11, 1975

SCHEDULE C (CONTINUED)

<u>Recipient</u>	<u>Position with the Corporation</u>	<u>Date of Response</u>
R. J. Maxwell	Executive Assistant Ashland Petroleum Company	March 3, 1975
Albert G. Mayer	Assistant Treasurer (Retired) Ashland Oil, Inc.	March 20, 1975
J. D. McDonald	Treasurer Sam Finley, Inc.	March 12, 1975
Charles Meadows	Manager Treasury Services Ashland Exploration Company	March 6, 1975
Richard D. Melton 8 9 0	Manager Industrial Production Division Tri-State Plastic Molding Company	March 13, 1975
B. R. Merchant 1 1 1	Manager General Accounting - Exploration Ashland Exploration Company	March 20, 1975
Paul C. Miller 0 0	Assistant Manager International Accounting Ashland Exploration Company	March 14, 1975
James C. Moody 0	Administrative Assistant Treasury Department	March 3, 1975
Joel D. Moore 7	Controller & Assistant Secretary Northwestern Refining Company	March 4, 1975
Arthur R. Morison	Controller Ashland Oil Canada, Ltd.	March 19, 1975
Charles Mullins	Disbursement Clerk A Treasury Department	March 3, 1975
I. P. Muncy	Division Controller - International Accounting Department	March 3, 1975

SCHEDULE C (CONTINUED)

<u>Recipient</u>	<u>Position with the Corporation</u>	<u>Date of Response</u>
Charles W. Newton	Supervisor Marketing Accounting I Accounting Department	March 1, 1975
Pierre Normand	International Department Paris Office	March 24, 1975
John J. O'Higgins	Materials Manager Ashland Oil Nigeria	March 10, 1975
W. W. O'Neal, Jr.	District President O'Neal Paving Company	March 25, 1975
B. O'Sullivan	General Manager Ashland Exploration Company - Bangladesh	March 15, 1975
Donald Owens	Accounting Manager Kyova Pipe Company	March 10, 1975
H. P. Phillips	Supervisor Deposit Section Credit Department	March 3, 1975
Barrie Piper	Controller Ashland Chemical Europe - France	March 5, 1975
Holmes Pooley	Assistant Treasurer Warren Brothers Company	March 4, 1975
R. C. M. Reid	Director of European Marketing Valvoline Oil Company Limited - London	March 5, 1975
G. M. Reno	President Reno Construction Company, Inc.	March 21, 1975
C. H. Richardson	President Barrus Construction Company	March 20, 1975
Robert M. Rock	Office Manager Southern States Asphalt Company	March 3, 1975

SCHEDULE C (CONTINUED)

<u>Recipient</u>	<u>Position with the Corporation</u>	<u>Date of Response</u>
A. Roest	Managing Director Valvoline Oil Company (S. A.) (Pty.) Limited	March 10, 1975
S. B. Sanford	Manager, Exploration International Accounting Ashland Exploration Company	March 4, 1975
Joseph B. Schlicht	Assistant Treasurer Treasury Department	March 4, 1975
P. W. Schuster	District President Warren Brothers Company	March 21, 1975
Edward L. Seay	Region Operations Manager Direct Marketing Company	March 3, 1975
Marshall Sher	District Manager III Ashland Chemical Company	March 3, 1975
H. D. Shockley	District President Warren Brothers Company	March 25, 1975
David L. Sisler	Accounting Manager Tri-State Plastic Molding Company	March 3, 1975
W. B. Snellgrove	District President Trotti & Thomson	March 24, 1975
R. G. Spurrier	Region Manager Southern Oil Company of New York	March 10, 1975
Robert L. Staley	Manager of Accounting Cleveland Tankers, Inc.	March 4, 1975
J. E. Stettler	Assistant Treasurer Treasury Department	March 5, 1975
W. J. Strossen	Manager, Latin America Otilub S.A. Industria Quimica - Brazil	March 19, 1975

SCHEDULE C (CONTINUED)

<u>Recipient</u>	<u>Position with the Corporation</u>	<u>Date of Response</u>
C. H. Stuber	Manager Tanker Operation Marine Services Department	March 3, 1975
Franklin Taul	Special Assistant Ashland Exploration Company	March 5, 1975
Floyd Thomason, Jr.	Vice President Ashland Petroleum Company	March 4, 1975
J. W. Thompson, Jr.	President Thompson-Arthur Paving Company	March 21, 1975
Craig Thursby	Assistant Controller Accounting Department	March 3, 1975
Angelo Tomasso, Jr.	Regional Vice President New Haven Trap Rock Company	March 6, 1975
W. J. Tomasso	Vice President New Haven Trap Rock Company	March 10, 1975
G. A. Trippa	District President Warren Brothers Company	March 25, 1975
Rodney Tucker	Exploration Manager Ashland Oil Nigeria	March 10, 1975
P. V. Turner	Managing Director Valvoline Oil Limited - London	March 6, 1975
R. L. Turner	District President Texas Bitulithic Company	March 21, 1975
G. Van Vessem	Sales Promotor Valvoline Oil Nederland	March 14, 1975
James C. VanMeter	Ashland Oil International International Treasury Department	March 5, 1975
Vernon VanSant, Jr.	President & Chief Executive Officer Ashland Oil Canada, Ltd.	March 11, 1975

SCHEDULE C (CONTINUED)

<u>Recipient</u>	<u>Position with the Corporation</u>	<u>Date of Response</u>
Leon R. Volterra	General Manager West Africa Ashland Oil Nigeria	March 10, 1975
R. D. Wade	Region Manager Direct Marketing Company	March 3, 1975
Donald Wanstrom	Manager Retail Accounting Northwestern Refining Company	March 7, 1975
J. P. Ward	Secretary Ashland Oil, Inc.	March 7, 1975
Richard A. Wasteney	Group Vice President - International Ashland Exploration Company	March 4, 1975
W. Alvin Watson	Secretary-Treasurer Eastern Seaboard Petroleum Company	March 5, 1975
Peter B. Wedgewood	Accountant Ashland Oil International	March 14, 1975
John F. Wedow	President Cleveland Tankers, Inc.	March 4, 1975
Richard M. Weir	Staff Auditor II Auditing Department	March 10, 1975
Gayle J. Wells	Vice President Ashland Chemical Co.	March 8, 1975
William J. Whelan	Vice President & Treasurer Ashland Oil Canada, Ltd.	March 10, 1975
Harry D. Williams	Administrative Assistant Washington Office	March 18, 1975
D. Van Woerkom	Management Ashland Oil (Nederland) B.V.	March 7, 1975
Arthur Q. Young	Senior Auditor Auditing Department	March 4, 1975

the documentary review focused on reports that had already been prepared concerning the Corporation's political contributions, including the Reports delivered to the Board of Directors by E & E in September, 1973, and September, 1974, and the McNelis Report and its supplements. Counsel also examined basic corporate documents, including the Corporation's Articles of Incorporation and its By-Laws and the Minutes of the Board of Directors Meetings, and various documents, including correspondence, memoranda, contracts and other materials, relating to subjects within the scope of the Committee's investigation.

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C & L reviewed certain documentary evidence which they deemed pertinent to their investigation, including books of original entry, correspondence, contracts, cash disbursement records, vouchers and invoices, expense accounts and travel and entertainment records, cancelled checks and other documents. In connection with that documentary review, C & L generally reviewed corporate accounting procedures, particularly insofar as they related to cash disbursements; that review provides the principal basis for certain recommendations contained in this Report.

e. Personal Interviews and Communications
with Corporate Personnel and Other
Individuals

Throughout the course of the Committee's investigation, interviews were conducted with members of the Board, officers and employees of the Corporation and other persons believed to

have information relevant to the subject matter of the investigation.

In the majority of cases, these interviews were conducted in person; in some cases, they were conducted by telephone. Some of these interviews were conducted by the Special Committee, some were conducted by KLJ&H and some were conducted by C & L; in certain cases, the interviews were conducted jointly by representatives of two or more of these groups. Schedule D lists the principal interviews conducted in the course of the investigation.

Initial interviews were designed to develop background information concerning the Corporation's operations and accounting procedures in general, the making of political contributions and the mechanics and uses of various overseas transactions. C & L in particular had extensive conferences with the Corporation's accounting and treasury department personnel and with its Internal Audit Manager. In addition, it had such conferences with other corporate personnel for the purpose of reviewing, and seeking clarification of, transactions for which full documentation was not initially obtainable or transactions which were recorded on the Corporation's books and adequately documented but which C & L believed warranted further review or investigation. Subsequent interviews by KLJ&H and C & L were designed to clarify or cross-check information which had been obtained from the responses to the interrogatories, the review of various corporate documents or earlier interviews and to pursue other matters of concern to the investigation.

SCHEDULE D

PRINCIPAL INTERVIEWS

<u>Interviewees</u>	<u>Date of Interview</u>	<u>Place of Interview</u>
Ernst & Ernst (Leroy E. Gardner)	February 10, 1975	Louisville, Ky.
Arloe W. Mayne	February 17, 1975	Ashland, Ky.
Robert K. Warren	February 17, 1975	Ashland, Ky.
Wilbur E. Chellgren	February 17, 1975	Ashland, Ky.
John H. Wallace	February 17, 1975	Ashland, Ky.
Walter H. Deakin, Jr.	February 17, 1975	Ashland, Ky.
Charles M. Hedrick	February 18, 1975	Ashland, Ky.
Joseph B. Schlicht	February 18, 1975	Ashland, Ky.
James C. VanMeter	February 20, 1975	Ashland, Ky.
Alfred C. Hamm, Jr.	February 20, 1975	Ashland, Ky.
Willis H. Winters	February 25, 1975	Ashland, Ky.
Kenneth B. Denton	February 25, 1975	Ashland, Ky.
Orin E. Atkins	February 25, 1975	Pittsburgh, Pa.
George C. Hardin, Jr.	March 3, 1975	Houston, Texas
Robert L. Smith	March 3, 1975	Cambridge, Mass.
Morton P. Iler	March 3, 1975	Houston, Texas
Samuel B. Sanford	March 3, 1975	Houston, Texas
John McCarty	March 3, 1975	Houston, Texas
Donald E. Hodgkins	March 3, 1975	Cambridge, Mass.
Tom M. Hadsell	March 4, 1975	Cambridge, Mass.
Robert A. Reeves	March 4, 1975	Ashland, Ky.
James V. Marcum	March 5, 1975	Ashland, Ky.

SCHEDULE D (continued)PRINCIPAL INTERVIEWS

<u>Interviewees</u>	<u>Date of Interview</u>	<u>Place of Interview</u>
Eugene W. Erickson	March 6, 1975	St. Paul Park, Minn.
Oscar A. Blake	March 6, 1975	Houston, Texas
Joel D. Moore	March 6, 1975	St. Paul Park, Minn.
Joseph B. Kittredge	March 10, 1975	New Haven, Conn.
Angelo Tomasso, Jr.	March 10, 1975	New Haven, Conn.
W. J. Tomasso	March 10, 1975	New Haven, Conn.
Orin E. Atkins	March 11, 1975	Ashland, Ky.
William R. Seaton	March 11, 1975	Ashland, Ky.
Robert E. Yancey	March 11, 1975	Ashland, Ky.
Gilbert A. Bruno	March 11, 1975	Atlanta, Ga.
Joseph D. McDonald	March 12, 1975	Atlanta, Ga.
J. R. Kneale	March 12, 1975	Atlanta, Ga.
Clyde M. Webb	March 18, 1975	Ashland, Ky.
Arlo W. Mayne	March 20, 1975	Louisville, Ky.
William R. Seaton	March 20, 1975	Louisville, Ky.
G. Fred Charles	March 25, 1975	Hamilton, Bermuda
F. M. Moffitt	March 25, 1975	Hamilton, Bermuda
Phillip J. Chase	March 25, 1975	Hamilton, Bermuda
William C. Voss	March 31, 1975	Ashland, Ky.
Orin E. Atkins	April 2, 1975	Telephonic
Craig Thursby	April 3, 1975	Ashland, Ky.
Ernst & Ernst (Messrs. Keller, Gardner and Carpenter)	April 4, 1975	Pittsburgh, Pa.

SCHEDULE D (continued)

PRINCIPAL INTERVIEWS

<u>Interviewees</u>	<u>Date of Interview</u>	<u>Place of Interview</u>
Charles H. Dougan	May 9, 1975	London, England
G. Fred Charles	May 13, 1975	Pittsburgh, Pa.
Orin E. Atkins	May 20, 1975	New York, N.Y.
Samuel B. Davis, III	May 28, 1975	Ashland, Ky.
Orin E. Atkins	June 5, 1975	New York, N.Y.
Ernst & Ernst (Messrs. Gardner and Carpenter)	June 10, 1975	Louisville, Ky.
Fred M. Vinson, Jr.	June 10, 1975	Washington, D.C.
Clyde M. Webb	June 10, 1975	Washington, D.C.

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f. The Review of E & E's Previous Services.

Because of E & E's prior services as the Corporation's independent public accountants and its role in the initial investigation of the Corporation's political contributions, the work done by E & E, and particularly the documentary evidence of that work, was reviewed to obtain any additional information pertinent to the Committee's investigation and to provide a basis for certain of the Committee's recommendations.

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Initially, C & L discussed with E & E personnel the scope of E & E's investigation of political contributions subsequent to July 18, 1973, and C & L examined E & E's work papers relating to that investigation. In addition, C & L examined selected workpapers from E & E's audit engagements for the Corporation's fiscal years ending September 30, 1969, through September 30, 1974. This review sought to identify unusual transactions which had been previously noted by E & E during its audits in those years. Certain such transactions were identified, and where they deemed it appropriate, representatives of C & L investigated these transactions in detail.

Thereafter, the three partners of E & E who had principal responsibility for E & E's examination of the Corporation's financial statements were interviewed by KLJ&H concerning their knowledge of the Corporation's political contributions, and by KLJ&H and C & L with respect to other matters pertinent

to the Committee's investigation. 'In response to certain questions raised during the course of these interviews, E & E supplied the Committee's representatives with certain further information drawn from their work papers.

g. The Analysis of Political Contributions

A central focus of this investigation has been the political contributions made by the Corporation prior to 1973. At the time the Committee was created, those contributions had already been the subject of three related investigations: that conducted by the Corporation itself; that conducted by E & E; and that conducted under the supervision of Messrs. McNelis and Leatherman in connection with the IRS investigation.

The sum of those investigations is reflected in the McNelis Report, as supplemented; that Report has been the starting point for much of this Committee's investigation. The parties principally responsible for the preparation of the McNelis Report have been questioned about the means by which it was developed, and the employees of the Corporation who had principal responsibility for its initial investigation have also been interviewed. As indicated above, the E & E work papers relating to their investigation have been examined by C & L, and their responsible partners have been questioned about their investigation. Finally, the circumstances under which the contributions were made and the means by which the contribution

fund was generated have been reviewed with those persons identified as having knowledge about these matters.

In addition to those areas previously identified as having some connection with the making of political contributions, the Committee has reviewed other categories of transactions or expenditures, including expense accounts, advances to officers, bonuses, incentive compensation arrangements, payments for consultants' fees, royalties or commissions and the use of corporate facilities, which might be the source of, or might be used to conceal, political contributions.

h. The Analysis of Overseas Transactions and Other Matters

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The funds used to make political contributions were principally derived from overseas funds transfers ostensibly made for the benefit of the Corporation's overseas operations. In view of this fact, all such transactions for the period in question were reviewed in an effort to insure that all funds so diverted and made available for political contributions had been identified. The accounting treatment of, and support for, such transactions were reviewed, and additional documentation of such transactions, including contracts, correspondence, paid checks, leases and other documents were reviewed.

In cases where these transactions involved payments to third parties which were inadequately documented or which, because of the nature of the transaction, were deemed by C & L to require further investigation, written representations were sought from the recipients of such moneys that they had received the funds in question and that none of the sums so received were returned to the Corporation, its subsidiaries, directors, employees or other representatives or used independently or at the direction of any corporate employee for political contributions in the United States. (See Exhibit 27: Form of Representation Request).²* To the extent possible, these transactions were also reviewed in an attempt to determine that all such transactions had a business justification and did not involve any illegal expenditures. In this regard, the principal corporate personnel involved in the subject transactions were interrogated by KLJ&H as were many of those individuals who had received any such payments.

In addition, analyses of charges to selected corporate accounts, such as consultants' fees, legal expenses, certain pre-paid expenses, miscellaneous expenses, receivables and advances, were obtained from the Corporation by C & L and reviewed in an effort to determine whether any such expenditures might have involved political contributions or other illegal expenditures.

* Because of the differences in the nature of the transactions with respect to which such representations were sought, the representation requests differ one from another although generally following the form attached as an Exhibit.

1. Personal Financial Analyses

After identifying the individuals with access to the funds used for political contributions, documentation was sought from each such individual as to that individual's financial affairs in an attempt to determine whether or not any corporate employee had misapplied corporate funds for his personal benefit.

In this connection, federal income tax returns, bank statements, paid checks and, in certain cases, net worth statements of the officers were analyzed to determine whether there were unusual items of income or receipts or any accumulation of assets for which there was no apparent source.

In addition, because the IRS investigation into the Corporation's possible additional tax liability embraced a similar review of these officers' financial assets, these matters were reviewed with the agents involved; this review was conducted with the full knowledge and consent of the individuals in question and pursuant to appropriate powers of attorney.

Finally, payments made to certain corporate officers for travel expenses and other reimbursements were examined for selected years to determine whether such payments were adequately accounted for or could have involved the reimbursement to such officers for expenditures made for political purposes, the diversion of such funds for the officers' personal benefit or other illegal expenditures.

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j. Comparative Analyses and Coordination
of Investigative Efforts

KLJ&H and C & L coordinated their investigation by means of frequent communication on a continuing basis with respect to problems as they arose and new areas of investigation that had been discovered. Each reviewed the others' tentative findings at periodic meetings and by other means. This Report reflects the combined efforts of both professional advisors to the Committee.

E. THE REVIEW OF OTHER COMPANIES' SITUATIONS

As a supplement to its factual investigation of the Corporation's activities, the Committee has attempted to review the posture and procedures of the other principal companies which entered pleas to violations of 18 U.S.C. §610 and which have entered into consent decrees with the Commission with respect to political contributions or related matters. That review has embraced certain filings of such companies with the Commission and other public documents setting forth the actions taken by those companies with respect to political contributions and other unaccounted for funds or unlawful payments; pleadings in civil actions brought by the Commission and other governmental bodies against such companies; pleadings in civil actions brought against such companies by their shareholders; and other pertinent materials. A summary of certain of the information derived from that review is being submitted to the Corporation's Board of Directors for their information simultaneously herewith.

This review has been helpful to the Committee in planning its investigation and in identifying areas of potential abuse which warranted review; it has been equally helpful in providing benchmarks for the exercise of the Committee's judgment in developing the recommendations which are now submitted to the Board for its consideration.

F. PERSONNEL INVOLVED IN THE INVESTIGATION

In view of the nature and scope of this investigation, specific personnel from KLJ&H and C & L were assigned to their respective engagements. The personnel having principal responsibility for the conduct of these engagements were as follows:

Kirkpatrick, Lockhart, Johnson & Hutchison

1 partner
2 associates

Coopers & Lybrand

3 partners
5 managers
1 supervisor

In addition, both KLJ&H and C & L drew substantially on their other personnel for additional assistance, including research and investigative efforts, and for an independent review of the investigation and of this Report.

As of June 26, 1975, a combined total of roughly 6,000 hours of professional time has been devoted to this investiga-

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tion, to the preparation of this Report and to related matters
by KLJ&H and by C & L.

In addition, the Committee has devoted in excess of
750 hours to this investigation and to the preparation and review
of this Report and its recommendations.

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of these contributions were delivered by Webb.

The second category of contributions consisted of those which were made indirectly through Carl F. Arnold ("Arnold"). The Corporation had retained Arnold in 1970 to act as a legislative and business consultant. In 1971 and 1972, Webb delivered cash funds to Arnold with the understanding that Arnold would redeliver those moneys to candidates for the U. S. Congress whom he deemed to be appropriate. In excess of \$100,000 of corporate funds were distributed to political candidates in this manner.

A third category of contributions involved the reimbursement of individual officers of the Corporation who had initially made political contributions out of personal funds. The only instances the Committee has identified in which such reimbursement was made involve Eugene W. Erickson ("Erickson"), a Director of the Corporation and the President of its division, the Northwestern Refining Co., and George C. Hardin, Jr. ("Hardin"), Senior Vice President, Ashland Exploration Company. Hardin's contribution was apparently made without any expectation that it would be reimbursed by the Corporation. Both Erickson and Hardin were reimbursed by Webb from moneys held at corporate headquarters sometime after their contributions were made.

In addition to these three basic patterns of corporate contributions, four additional payments of relatively small amounts

were made to political figures by wholly-owned subsidiaries of the Corporation. Finally, certain politically-related payments which are deemed to be lawful were made to political figures and parties by the Corporation and by Ashland Oil Canada Ltd., roughly 85% of the voting stock of which is owned by the Corporation; the circumstances of these payments are reviewed in more detail below, at pp. 98-99.

2. The Source and Custody of Funds Used for Political Contributions

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The funds used to make political contributions were principally obtained by the diversion of moneys which had initially been transferred overseas for the apparent benefit of the Corporation's overseas operations. As a general pattern, these moneys were transferred from a corporate bank account in the United States to a corporate account in a foreign branch of a U. S. bank or to an account in a foreign bank for which a corporate officer or employee was a signatory. Upon instruction from a senior officer of the Corporation, the funds would be withdrawn in cash from the foreign account and returned to the Corporation's headquarters in Ashland, Kentucky. Typically, these transfers to foreign accounts were reflected on the Corporation's books as advances to the Corporation's foreign subsidiaries or operating divisions, and the withdrawals from such accounts were charged to the exploration and production assets of these entities. The funds so generated were maintained in a safe in corporate headquarters. During the period prior to

August 1, 1970, the funds were in the custody of Edward E. Emrick, Jr. ("Emrick"), then Treasurer of the Corporation. After Emrick's retirement on August 1, 1970, custody of the funds was the responsibility of Seaton. Knowledge of the fund's existence, and access to the funds held by Emrick and Seaton, were limited to a few employees of the Corporation, generally certain of its senior officers.

No records, formal or informal, were kept of the funds held in the safe. The sources of the moneys used to establish and replenish this fund have been identified from ordinary corporate records with the aid of senior officers' recollection of the matters under investigation; the expenditure of the funds has been reconstructed from the joint recollection of the individuals involved. It is not possible to insure that all moneys so diverted have been identified; nor is it possible to account for all such expenditures or to attain complete certainty with respect to the identity of the recipients of the Corporation's contributions.

Schedule E summarizes the moneys which can be identified as having been returned to or deposited in the cash fund maintained at the Corporation's offices in Ashland and certain other disbursements, the purposes of which cannot now be identified; absent clear evidence to the contrary, all such moneys, totalling \$801,165, have been treated as though they were used for political contributions.

SCHEDULE E

FUNDS WHICH MAY HAVE BEEN USED FOR POLITICAL CONTRIBUTIONS

Corporate funds returned in cash to
Ashland, Ky.:

September 8, 1967	\$ 40,000	
October 11, 1968	200,000	
July 1, 1969	125,000	
June 8, 1971	104,997	
January 17, 1972	60,000	
March 24, 1972	100,000	
March 28, 1972	<u>100,000</u>	\$729,997

Funds disbursed from corporate
accounts for which no
purpose can be ascertained
and which are assumed to have
been available for political
contributions:

October 26, 1967	25,000	
November 30, 1967	7,500	
April 24, 1968	25,000	
June 26, 1968	<u>20,000</u>	77,500*
		<u>807,497</u>

Unrecorded cash receipts from
1968 through 1971 which were
maintained in Ashland, Ky.:

50,468	<u>50,468</u>
	<u>857,965</u>

Deduct, October, 1973 deposit to
corporate accounts of cash funds not
on corporate books which had been
maintained in Ashland, Ky.:

<u>56,800</u>	<u>56,800</u>
---------------	---------------

Amount presumed to have been used
for political contributions
between September, 1967 and
1972.

\$801,165

* The Corporation has fragmentary records that suggest that at least some of these moneys may have been used for corporate purposes, but the Committee has been unable to substantiate adequately such uses for any of the sums in question. The entire amount in question would not appear to have been necessary to fund the contributions which can be identified as having been made from corporate sources, but absent more conclusive proof that such moneys were devoted to ordinary corporate purposes, this entire amount has been treated as though it was available for corporate political contributions.

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books reflected the expenditure of the cash in connection with a leasehold purchase; this amount remains on the Corporation's books as a charge to the non-producing leasehold account.

b. On October 11, 1968, the Corporation borrowed \$200,000 from the Bank of Nova Scotia Trust Company (London), and that amount was transferred to the Banque de Paris, Geneva to an account in the name of Interrep, S.A. These funds were returned to Ashland, Kentucky by E. G. Winstead, then a corporate employee, and were thereafter used for political contributions.

7704001123 The loan from the Bank of Nova Scotia was initially recorded on the Corporation's books as a note payable with a corresponding note receivable account from Interrep, S.A. The Interrep receivable was subsequently reclassified and charged to the Ashland Libyan Company ("Ashland Libyan") as a charge to undeveloped leaseholds and was inadvertently deducted from the Corporation's federal income tax return for the fiscal year ending September 30, 1971.

c. On July 1, 1969, Atkins received \$125,000 in cash from an account at FNCB/Geneva in connection with a larger transaction for business purposes. Atkins divided these moneys between himself and G. Fred Charles, Esq. ("Charles"), then Assistant Secretary of the Corporation. Atkins and Charles then brought their respective portions of the \$125,000 back to

Ashland, Kentucky and delivered the funds to Emrick's custody. Upon delivery, Charles requested and received a receipt for \$60,000 from Albert Mayer, then Assistant Treasurer of the Corporation.* This money was eventually used for political contributions. Charles has indicated that he was not told of the use to which the funds would be put nor was he aware prior to July, 1973, that such funds had been used for political contributions.

When initially withdrawn from FNCB/Geneva, these funds were charged to Advances-Exploration/Production and subsequently were charged to accounts receivable inter-company - Ashland Libyan. When the Corporation's Libyan investment was written off in 1970, the charges were included in the amount written off and inadvertently deducted from the Corporation's federal income tax return for the fiscal year ending September 30, 1970.

d. On June 8, 1971, an account of Ashland Libyan at the Swiss Bank Corp., Geneva was closed, and the balance of \$104,997 was withdrawn by Seaton in cash. Seaton returned these funds to Ashland, and they were eventually used for political contributions.

In 1969, a substantially larger sum had been transferred to the Swiss Bank Corp. account, charged on the Corporation's

* This receipt was reviewed by E & E in the course of their examination of the Corporation's financial statements for the fiscal year ending September 30, 1969. For further detail, see below at pp. 141-144.

books as an advance to Ashland Libyan and thereafter charged to the Ashland Libyan undeveloped leasehold account. Most of the money so deposited was in fact expended for business purposes in 1969. When the Corporation was expelled from Libya, the entire amount expended there, including all the money which had initially been deposited in the Swiss Bank Corp. account, was written off. At that time the balance of \$104,997 was overlooked, and when the funds were withdrawn from the Swiss Bank account by Seaton in 1971, no accounting entry was made. This amount was inadvertently included in the Libyan write-off and taken as a deduction on the Corporation's federal income tax returns for the fiscal year ending September 30, 1970.

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e. On January 17, 1972, \$60,000 was wire transferred from the Corporation's account with FNCB/New York to an account with FNCB/London. That amount was picked-up in cash in London by Charles H. Dougan ("Dougan"), then Vice President, Ashland Oil International, Inc. Dougan delivered the funds to John W. Adams, Assistant to the Chairman and Manager of Investor Relations, who returned the funds to Ashland, Kentucky where they were eventually used for political contributions. Both Dougan and Adams have indicated that they did not know the use to which these funds were put.

When the money was transferred to FNCB/London, it was charged to accounts receivable - inter-company. In March, 1972, it was charged to Non-producing Leasehold Costs, Ashland Oil Nigeria,

Ltd., and it remains on the Corporation's books as such at this time.

f. On March 27, 1972, \$100,000 was wire transferred from the Corporation's account with FNCEB/New York to an account with FNCEB/Geneva. Seaton withdrew this amount in cash from the account and returned the funds to Ashland, Kentucky. Such funds were subsequently used to make the \$100,000 contribution to the Finance Committee to Re-Elect the President in March, 1972.

After initially being charged to prepaid expense, this amount was charged to undeveloped leases, Ashland Petroleum Gabon Corp. in March, 1972; upon return of the FCRP contribution, this amount was removed from the Corporation's books by debiting cash and crediting the undeveloped leasehold asset account.

g. On March 28, 1972, \$100,000 was wire transferred from the Chase Manhattan Bank/New York to the Chase Manhattan Bank/London. Seaton withdrew these funds in cash from the Chase account in London and returned them to Ashland, Kentucky. Some of these funds were used for political contributions.

When the funds were transferred to London, cash was credited and other prepaid expense debited. The prepaid expense was subsequently changed to an account receivable owing from Ashland Nigeria, Ltd. which in turn charged the same amount to undeveloped leasehold costs. In fiscal 1974, this amount, reduced by the \$56,800 cash balance of the political contribution fund which was returned to the Corporation's accounts, was written off by the Corporation for financial reporting purposes and not deducted but reflected as a Schedule M adjustment for federal income tax purposes.

3. The Corporation's Political Contributions

a. Contributions Made Directly by the Corporation

As indicated above, there are no records which establish the identity of the recipients of the contributions made directly by the Corporation. Schedule I to this Report which is being simultaneously submitted to the Corporation's Board of Directors lists the apparent recipients of the Corporation's direct contributions and the amounts of the contributions in question. Schedule I is based upon the best collective recollection of those individuals who were involved in the making of political contributions. Based upon the recollection of those individuals, the Committee believes that contributions were made by the Corporation to the candidates listed on Schedule I or to persons or committees acting on their behalf. The aggregate amounts contributed during the periods in question would appear to be as follows:

- i. September, 1967 through December 31, 1967 - \$66,500.
- ii. January 1, 1968 through December 31, 1968 - \$237,500.
- iii. January 1, 1969 through December 31, 1969 - \$45,300.
- iv. January 1, 1970 through December 31, 1970 - \$62,700.
- v. January 1, 1971 through December 31, 1971 - \$29,500.
- vi. January 1, 1972 through December 31, 1972 - \$171,500.

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Thus, the total sum of identified political contributions made directly by the Corporation in the years 1967 through 1972, inclusive, is \$612,800.

b. Contributions Made Indirectly through Arnold

In addition to contributions made directly by the Corporation, officers of the Corporation supplied \$105,000 to Carl F. Arnold for redistribution to selected candidates for the U. S. Congress. Of this amount, \$25,000 was made available in 1971, and the balance was made available in 1972.

During the course of McNelis' review of the Corporation's political contributions, Arnold supplied a list of persons to whom he had made contributions with the Corporation's funds, and those recipients were appropriately scheduled in the McNelis Report. During the course of the present investigation, counsel to the Special Committee has contacted Arnold in an attempt to verify the identity of such recipients. Although Arnold has confirmed his receipt of the moneys in question from the Corporation and has confirmed that no such funds were diverted for the benefit of any employee of the Corporation, he has declined to confirm the identity of those persons to whom, or for whose benefit, such contributions were made.

Also contained in Schedule I is a listing of those persons identified in the McNelis Report as the beneficiaries of the contributions channeled through Arnold.

c. Contributions Made by Reimbursing
Corporate Personnel

Certain additional contributions are attributable to the Corporation by virtue of the fact that the Corporation reimbursed Eugene W. Erickson and George C. Hardin, Jr. for contributions originally made by them out of personal funds.

Prior to September, 1970, Erickson was an officer of Northwestern Refining Company ("Northwestern"); in September, 1970, the Corporation acquired all outstanding stock of Northwestern. Erickson was then employed by the Corporation as Executive Vice President; in February, 1971, he was elected to the Board of Directors.

In October, 1970, Erickson was asked to purchase one or more tickets to a dinner honoring a certain individual who was then campaigning for election to the United States Senate. Erickson states that he mentioned his intention to purchase one such ticket to Webb; that Webb suggested that he (Erickson) purchase five such tickets for which Webb would reimburse Erickson; and that Webb indicated that Erickson would be reimbursed for other such contributions which he made out of personal funds.

Following that conversation, Erickson made a series of political contributions in 1970, 1972 and 1973 paying for all such contributions by personal check. With respect to each such contribution, Erickson subsequently notified corporate

contributions which are deemed to be attributable to Erickson, therefore, total \$9,764.65. Erickson has reimbursed this amount to the Corporation by letter dated June 12, 1975, which letter contains a statement by Erickson that he was not reimbursed for the \$3,000.00 contribution made in July, 1970. The recipients of the contributions made by Erickson are identified on Schedule I.

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Hardin also received reimbursement from the Corporation for a political contribution initially made with personal funds. Hardin has stated that prior to his employment with the Corporation, he had made personal contributions to the election campaigns of a certain U. S. Senator. In 1972, before making an additional contribution to that Senator, Hardin spoke with Webb to ascertain that there was no reason of corporate policy why he should not make such a personal contribution. He received assurance from Webb that there was not, and he contributed \$2,500 to that Senator on February 22, 1972. Subsequently, when he was in Ashland, Webb gave Hardin \$2,500 in cash which Hardin accepted without further question. Hardin has stated that prior to July 18, 1973, he had no knowledge of any other contributions made by the Corporation. On May 7, 1975, Hardin forwarded to the Corporation a check in the amount of \$2,500.00 in repayment for the moneys given to him by Webb. The recipient of the Hardin contribution is identified on Schedule I hereto.

d. Unaccounted for Moneys

is evidence that certain former principal officers of the Corporation may have used corporate funds to make political contributions both prior and subsequent to 1967. Each of the individuals in question is now deceased, and there are no records known to be available which would verify either the fact that such contributions were made or the nature and amount of such contributions. It is known, however, that each of the individuals in question would have had access to the moneys in the safe in Ashland, and present officers of the Corporation are of the view that some political contributions were made by, or at the direction of, one or more of these men, both before and after 1967.

As has been indicated above, the Corporation entered into a settlement with the IRS relating to its tax liability with respect to these matters for its fiscal years 1963 through 1969. That settlement was premised upon the possibility that some political contributions were made throughout that period and the impossibility of precisely determining the amount of any such contributions. Similarly, the uncertainty as to whether any such corporate contributions were made and, if so, the period during which they were made are factors which prevent a precise accounting of the funds made available for political and related purposes.

The following table summarizes the political contributions which can be identified as having been made by, or which are attributed to, the Corporation during the period September, 1967 through 1972, and those moneys assumed to have been available for contributions which cannot now be accounted for:

Amount presumed to have been used for political contributions between September, 1967 and 1972 (See Schedule E).		\$ 801,165.00
Contributions made directly by the Corporation.	\$ 612,800.00	
Contributions made through the delivery of funds to Arnold	105,000.00	
Contributions made by reimbursement of corporate officers	<u>12,264.65</u>	<u>730,064.65</u>
Unaccounted for amounts treated as if expended for political contributions.		<u>\$ 71,100.35</u>

e. Other Political Payments

In addition to the three categories of political contributions enumerated above, certain other payments to political figures were made by subsidiaries of the Corporation during the period in question, apparently in response to local situations. There is no evidence that any senior officer of the Corporation knew of or had any responsibility for these payments, and, for that reason, these payments have been categorized separately from the corporate contributions listed above.

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These contributions may be summarized as follows:

In 1970, the New Jersey division of Warren Brothers Company, now a division of Ashland Construction Company, was awarded \$208,000 by the New Jersey Department of Transportation in connection with a claim which it filed with the Department for damages arising from the cancellation of a public construction contract. Because the claim was to be paid from funds originally contributed to the project by Hudson County, N.J., the State Treasurer insisted on receiving a resolution from Hudson County officials authorizing payment of the award before the Treasurer would issue a check.

Thereafter, a Hudson County political figure demanded a payment of \$22,000 from Warren Brothers and threatened that without such a payment the necessary resolution would not be adopted. Warren Brothers originally resisted this demand. Upon becoming convinced that adoption of the resolution was being delayed because of its refusal to make the requested payment, Warren Brothers agreed to pay, and did pay, \$15,000 to the political figure. The resolution was adopted by the County, and Warren Brothers received the full amount of its award for damages from the State Treasurer.

The political figure involved was subsequently indicted and convicted on charges of extortion by the United States Govern-

A routine audit in January of 1970 revealed that political contributions totalling \$2,100 had been made from corporate funds;

made, and there is no evidence of any departure from that instruction.

f. Other Contributions and Payments Deemed to Be Legal

i. The Carey Contribution

The Committee is advised that in October, 1974, Southern Oil Company of New York, a subsidiary of the Corporation, contributed \$5,000 to the campaign of Hugh L. Carey for election to the office of Governor of the State of New York. That contribution was authorized by Atkins after he had received the advice of Mayne that such a contribution in New York was lawful and, therefore, not in contravention of the Board's resolution of July 18, 1973. In late 1974, E & E was advised by Mayne that this contribution was legal, and Mayne subsequently delivered to E & E a written opinion to this effect.

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ii. Contributions by Ashland Oil Canada Limited

Ashland Oil Canada Limited ("Ashland Canada") is a public Alberta corporation, approximately 55% of the stock of which is owned by the Corporation. The Committee has been advised by H. Earl Joudrie, Chairman of the Board and Chief Executive Officer of

Ashland Canada, and by George Dube, its General Counsel, that Ashland Canada has made contributions to political parties and candidates within Canada and the majority of its provinces.

The Committee is advised by Mr. Dube that Ashland Canada's contributions from the date of its reorganization on September 11, 1970 through September 30, 1974 totalled approximately \$125,000. Such contributions were made in conjunction with two federal elections and various provincial elections. All such contributions were written off as expenses for Ashland Canada's financial reporting purposes and, for tax purposes, were treated as nondeductible expenses; all such payments were made by check and were recorded in the books of Ashland Canada.

Mr. Dube has advised the Committee of his opinion that such contributions were not prohibited by the Canadian Election Act or by the applicable statutes of each province in question; that the disclosure of such contributions by a corporate contributor is not required; and that Ashland Canada's treatment of such contributions for tax reporting purposes was in accordance with the federal Income Tax Act and the relevant provincial tax statutes.

Mr. Joudrie and Mr. Dube have stated that to their knowledge no senior officer of the Corporation was aware that such contributions were being made by Ashland Canada, and the Committee has no information that would indicate that any officers of the Corporation did have such knowledge.

iii. Convention Brochure Advertisements

convention brochures prepared for use in connection with the 1972 Republican and Democratic National Conventions. The amounts expended for such advertisements aggregated \$20,000, and such payments were made by checks drawn to the orders of the Democratic National Committee and the Republican Arrangements Committee, respectively.

Such payments were authorized by Atkins after he had received the opinion of Mayne that such payments might lawfully be made by the Corporation.

iv. Contributions in Florida

The Special Committee has discovered three separate contributions, totalling \$700, which were made from corporate funds in 1972 and 1974 to three different candidates for local office in Florida by employees of Eastern Seaboard Petroleum Co., a subsidiary of the Corporation. These contributions appear to have been legal under Florida law.

4. The Responsibility for Corporate Political Contributions

Atkins, Seaton and Webb are the officers of the Corporation who were chiefly responsible for the making of political contributions. All substantial contributions were made with Atkins' approval, and Atkins knew of and generally approved each of the

contributions made directly by the Corporation, except for relatively minor purposes such as tickets for fund raising dinners.

means by which the moneys were accounted for on the books of the Corporation, and he authorized the several actions by which the funds were generated and returned to the Corporation's headquarters. Finally, Atkins himself delivered certain of the contributions made by the Corporation.

Seaton knew of almost all contributions made in this period, and after August 1, 1970, Seaton was responsible for the custody of the funds used to make such contributions. Of the funds made available for contributions, Seaton personally effected the return of roughly \$344,000 to the fund maintained at Ashland.

Webb personally delivered, or arranged for delivery of a significant portion of the funds contributed to political candidates. In addition, Webb received many of the requests for funds from political candidates and personally authorized some of the smaller political contributions.

Each of the three men mentioned participated in discussions about the possible recipients of contributions and the various requests for contributions received by the Corporation.

In addition to these three principally concerned individuals, Erickson and Hardin were aware of the Corporation's reimbursements to them for political contributions they had made, but there is no proof that either man had knowledge of or in-

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volvement in the other corporate political contributions in question.

Several other present or former employees of the Corporation participated in the distribution of funds to political candidates. William J. Hull, Vice President - Washington Office, and Harry D. Williams, Administrative Assistant - Washington Office, each purchased tickets for political fund raising dinners and were later reimbursed in cash by Webb for such ticket purchases. Hull and Williams each recall being reimbursed in the neighborhood of \$2,000 for such purchases over the two year period 1971 and 1972. Wilburn Caskey, Manager, Public Affairs; Everett Reeves, Manager, Land Department; and John C. Greene, Personnel Supervisor, Catlettsburg, delivered relatively small contributions to numerous candidates for state and local offices throughout the period from 1967 through 1972, in amounts aggregating \$65,000, \$7,500, and \$10,500, respectively. Each received the funds from a superior and delivered the funds in accordance with instructions received from a higher officer of the Corporation.

Messrs. Hull, Williams, Caskey, Reeves and Greene have each stated that they assumed the funds in question had been personally contributed by senior level corporate officers for distribution to political candidates, and Greene has stated that he advised those persons to whom he made contributions that the funds were contributions by individuals. The Committee is not in possession of any information which contradicts these statements,

and except for Caskey, where the aggregate amount in question might be thought to cast some doubt upon the reasonableness of his stated assumption, there is no basis upon which to question ~~any of the~~

John W. Adams, Vice President - New York Office; G. Fred Charles, Executive Vice President, Ashland (Bermuda) Limited; and Charles H. Dougan, President, Ashland Oil International Limited, each had a role with respect to the return to the United States of cash which was eventually used to make corporate political contributions. Each of these men has denied that he knew, prior to July, 1973, that the Corporation had made political contributions, and each has denied that he knew the use to which the funds in question were to be put. The Committee has no evidence that contradicts either category of denial.

Finally, as has been indicated above, there is evidence that certain former principal officers of the Corporation may have used corporate funds to make additional political contributions both prior and subsequent to 1967.

Except for the persons identified above, the Committee has no evidence which establishes that any other person who is now a director or employee of the Corporation participated in the making of political contributions or had knowledge that such contributions were being made.

5. Reimbursement Received by the Corporation

requested the return of the \$100,000 FCRP contribution by letter dated July 16, 1973, and addressed to Maurice H. Stans ("Stans"), Chairman of FCRP. The same day, a check in this amount was returned to the Corporation by Paul E. Barrick, Treasurer of FCRP.

In the course of this investigation, the Committee directed KLJ&H to write other principal recipients of the Corporation's political contributions, advising them of the corporate nature of the contributions and requesting the return of the amounts contributed. Requests for reimbursement were made to twenty-four persons or committees who had apparently received contributions from the Corporation totalling \$393,000.

In addition, Erickson has paid to the Corporation the \$9,764.65 deemed by the Committee to be attributable to him, and Hardin has reimbursed the Corporation for the \$2,500 paid to him in connection with his contribution.

In sum, the amounts identified as having been expended for political contributions or otherwise unaccounted for but treated as if so used, and the amounts reimbursed to the Corporation are as follows:

Identified political contributions	\$730,064.65	
Amounts unaccounted for but available for political contributions	\$ 71,100.35	\$801,165.00
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Refunds from recipients
of political contributions*

\$123,046.22

Net amount of funds
contributed or
unaccounted for

\$665,354.13

B. THE CRIMINAL CHARGES BROUGHT AGAINST THE CORPORATION

The Corporation's political contributions were the subject of two separate criminal proceedings: the first, in November, 1973, was concluded by a guilty plea entered by Ashland Gabon to a one count charge of violating 18 U.S.C. §610 and Atkins' plea of nolo contendere to a related charge; the second, in December, 1974, was concluded by the Corporation's entry of a guilty plea to a five count charge of violating 18 U.S.C. §610. A review of the circumstances which led to this second criminal proceeding is pertinent to an assessment of the candor and cooperativeness of the Corporation's officers and hence to a determination of the action, if any, which the Corporation should take with respect to such officers.

As has been indicated above, Vinson, acting on behalf of the Corporation, met with the Special Prosecutor in July, 1973,

* The candidates or committees from whom such refunds were received are identified in Schedule I hereto.

and disclosed the Corporation's contribution to FCRP in 1972. As a result of that disclosure, Vinson and the Special Prosecutor's office reached the terms of an agreement upon which the Corporation's violation of 18 U.S.C. §610 would be disposed of. In addition, the Special Prosecutor also agreed that the Corporation would be afforded a meaningful opportunity to argue that no individual should be charged in this connection, and Vinson agreed to make Atkins, Seaton and Webb available to the Special Prosecutor's office for informal interviews.

Prior to such interviews, Vinson and the corporate officers discussed the scope of the agreement entered into between Vinson and the Special Prosecutor and the possible scope of the Special Prosecutor's questioning. A specific point of concern was whether the officers' voluntary disclosure of contributions other than the 1972 FCRP gift would subject either the Corporation or themselves to further criminal charges. Such concerns were particularly appropriate in view of the fact that the Special Prosecutor's apparent jurisdiction extended only to matters relating to the 1972 presidential campaign.

In view of this concern, Vinson and the Corporation's officers agreed that, in the event any questions went beyond the parameters of the Special Prosecutor's apparent authority, Vinson would interrupt the questioning and seek clarification; if the matters embraced by such questions were covered by the agreement which had been reached, Vinson would permit the witnesses

to answer fully all questions; if such matters were beyond the
scope of the agreement, and disclosure of other contributions
might, therefore, raise the prospect of further criminal charges,
Vinson would direct his clients to refrain from further answers
until all such matters had been reviewed with the Special
Prosecutor.

With this understanding, Atkins agreed to an interview
with the Special Prosecutor. That interview was held on July 20,
1973. It was conducted informally, and Atkins was not under
oath.

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At the interview Atkins responded in detail to questions
concerning the 1972 FCRP contribution. Atkins was then asked if
the Corporation had made any contributions in connection with the
1968 presidential campaigns, and in response, he identified contri-
butions had been made by the Corporation in 1968 to Richard
M. Nixon and Hubert H. Humphrey.

Although the question about the 1968 presidential
campaign was beyond the apparent jurisdiction of the Special
Prosecutor, Vinson did not object to the question nor did he
seek clarification of the implications of this line of inquiry
for the Corporation or for Atkins personally. Atkins has stated
that he expected Vinson to object to this question and that he
responded to the question only when Vinson failed to do so.

Vinson has stated that Atkins responded to the question before

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further that, given Atkins' response, he concluded that it was best to allow the interview to run its course without objection and to seek clarification with the Special Prosecutor at its close rather than to interrupt the interview at that point and review with the Special Prosecutor the scope of the inquiry and of the previously reached agreement. Vinson could not communicate this change in strategy to Atkins without interrupting the interview, and Atkins was, therefore, unaware of any determination Vinson may have made to let the interview proceed without objection.

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Atkins was then asked whether the Corporation had made any contributions in connection with federal senatorial and congressional elections. Acting in accordance with his determination to let the interview go forward without objection, Vinson neither objected to nor sought clarification with respect to this further line of inquiry. When Vinson failed to assert any objection, Atkins stated that no such contributions had been made. Both Atkins and Vinson were aware that this statement was inaccurate, although neither man, at that time, knew of all such contributions which had been made. After some few additional questions, Atkins' interview was concluded.

Atkins has stated that his response to the question about senatorial and congressional contributions was made with the realization that Seaton and Webb were to be interviewed at

a later date and in the belief that it would be possible to

Special Prosecutor was proceeding had been established.

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Following this interview, Atkins consulted with Vinson and others as to how best to clarify and correct the record. To effect such clarification, it was agreed that in the course of Webb's interview, Vinson would intervene and clarify the situation, if the questioning went beyond the 1972 FCRP contribution. To that end, Vinson drafted a letter to be delivered to the Special Prosecutor which was apparently intended to alert the Special Prosecutor to the fact that erroneous information had been provided to it and to allow an opportunity for clarification.*

That letter was delivered to the Special Prosecutor in connection with Webb's interview on August 1, 1973. Webb recalls that, toward the end of his interview, he was asked if the Corporation had made contributions in connection with the 1968 presidential campaigns; that Vinson intervened as agreed and delivered to the Special Prosecutor the letter previously drafted; that the interviewer from the Special Prosecutor's office reviewed the letter and did not thereafter pursue any inquiry into matters beyond the 1972 presidential campaign. Vinson recalls that the

* Vinson's letter of August 1, 1973 addressed to Thomas McBride is a part of the Appendix to Henry S. Ruth's letter of December 22, 1974. See Exhibit 13.

Special Prosecutor failed to ask Webb any questions beyond the 1972 presidential campaign that Vinson delivered the letter at the close of Webb's interview and not in response to any particular question; that one or more persons from the Special Prosecutor's office reviewed the letter and indicated that they had no disagreement with it.

Whatever the details of the particular interviews, both the officers of the Corporation and Vinson proceeded thereafter on the assumption that any problem presented by Atkins' inaccurate statement had been satisfactorily resolved. The members of the Special Prosecutor's office, however, had not read the letter as it was intended: the letter did not alert the Special Prosecutor to the existence of undisclosed contributions nor did it alert the Prosecutor to the fact that Atkins' statement with respect to senatorial and congressional contributions was incorrect. A review of the letter in question, with the benefit of hindsight, suggests that this misunderstanding between the Corporation and the Special Prosecutor can be largely traced to the inadequacy of the letter itself.

The full scope of the Corporation's contributions to federal candidates first became clear to the Special Prosecutor in mid - 1974 through discussions with McNelis and when it subsequently obtained access to the McNelis report which had been delivered to the IRS by the Corporation.

In light of this additional information, the Special Prosecutor reopened its investigation into the Corporation's political contributions. That inquiry embraced a review of the circumstances of the non-disclosure of the Corporation's contributions to congressional candidates. As a result of that investigation, the Special Prosecutor sought the permission of the Attorney General to prosecute additional possible violations of federal statutes. Such permission was granted by Attorney General Saxbe, acting pursuant to Department of Justice Order No. 551-73 dated November 2, 1973, by letter dated December 12, 1974. (See Exhibit 11).*

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Acting under the authority so granted, the Special Prosecutor decided to charge the Corporation with a five count information for violations of 18 U.S.C. §610 and to bring no charges against Atkins or any other corporate officer. The determination not to proceed against Atkins represented a departure from the Special Prosecutor's policy of charging the primarily responsible corporate officer in all situations involving §610 violations. That determination reflects an apparent conclusion by the Special Prosecutor that Atkins was not materially

* The Attorney General's letter states that "[a]lthough campaign contributions and related violations occurring other than in connection with the 1972 Presidential election would not normally fall within your [the Special Prosecutor's] jurisdiction, I agree with you that it is both prudent and necessary for you to pursue investigation and to prosecute all possible violations in this particular area." Thus, the Attorney General's letter confirms that the question to which Atkins had failed to respond accurately was in fact beyond the ordinary purview of the Special Prosecutor's authority.

culpable for the confusion surrounding the Corporation's initial disclosure of its political contributions; the Special Prosecutor's understanding of the circumstances reviewed above in the Appendix to Mr. Ruth's letter of December 27, 1974. (See Exhibit 13).

In retrospect, it is clear that Atkins should have declined to answer the questions posed by the Special Prosecutor on jurisdictional grounds, answered the questions accurately, or sought an adjournment during which counsel might have clarified the situation. Atkins' error was, however, understandable in view of his prior arrangements with his counsel as to the procedures which would apply; Vinson's failure to act in accordance with that understanding; the jurisdictional objection to such further questions; Atkins' uncertainty as to the possible further jeopardy of the Corporation and of Atkins himself; and the apparent availability of opportunities to correct any false or misleading statements.

C. THE REVIEW OF CORPORATE OFFICERS' FINANCIAL POSITIONS

The Corporation's contributions were made from a cash fund which was maintained without any significant documentation of receipts or disbursements. Several officers of the Corporation had access to the fund. Under those circumstances, the Committee sought to determine whether there was any evidence that any portion of the available fund had been diverted for the personal benefit of corporate officers. This inquiry was conducted by reviewing in detail the personal financial positions of certain

officers of the Corporation.

Seaton and Webb, the officers whose involvement in the political contributions, and consequent access to the funds, were most significant. In addition, the review embraced Erickson, because of his involvement in the making of political contributions, and Robert E. Yancey ("Yancey"), President of the Corporation, because of his position in the Corporation. This review, which was not an audit, was principally conducted by C & L, and the scope of the review was determined by the availability of documents and other data and by the exercise of C & L's professional judgment, subject to consultation with KLJ&H and review by the Committee

In the case of each individual in question, personal federal income tax returns for the years 1967 through 1973, and in the case of Atkins, Seaton and Yancey for the year 1974, were reviewed.*

In the case of Atkins, net worth statements as of various dates throughout the period October, 1967 through December, 1974 were received, including at least one statement in each year within that period except for 1969. All bank statements for Atkins' personal checking account, for his joint checking account, and for his wife's custodian account were reviewed for the years 1967 through 1970. Bank statements for the same accounts for the year

* Erickson first became associated with the Corporation in October, 1970; consequently, his tax returns for the years 1967 - 1969 were not reviewed. The 1974 tax returns for Webb and Erickson had not been completed at the time this review was made.

1971 through 1973 are in the possession of the Internal Revenue Service. C & L, acting pursuant to an authorizing power of attorney, that their review of these records has disclosed no evidence of any diversion of corporate assets for Atkins' personal benefit.

In the case of Seaton, a net worth statement as of December 21, 1974, was examined. A record kept by Mr. Seaton's secretary of all deposits made and checks written by him during the period 1970 through 1974 was also examined, and agents of the Internal Revenue Service have confirmed to C & L, acting pursuant to a power of attorney, that their examination of Seaton's financial records for the period 1971 through 1973 has provided no evidence of any diversion of corporate assets for Seaton's personal benefit.

In the case of Webb, a net worth statement as of December 31, 1974, was examined as were Webb's bank statements for the years 1967 through 1970. Webb's bank statements for the years 1971 through 1973 are presently in the possession of the Internal Revenue Service. Agents of the IRS have confirmed to C & L, acting pursuant to a power of attorney, that their review of these records has revealed no evidence of any diversion of corporate assets for Webb's personal benefit. C & L's review of the schedule of Webb's deposits prepared by the IRS for the years 1971 through 1973 further supports that position.

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In the case of Yancey, a net worth statement as of December 31, 1974 was reviewed by C & L as were Yancey's savings account records for 1967 through 1971 and some portion of 1974 and statements for his checking account for the period 1968 through 1970. Yancey's checking account records for 1967 had been discarded by him prior to the commencement of this investigation. His checking account records for 1971 through 1973 were in the possession of the Internal Revenue Service; IRS agents confirmed to C & L, acting pursuant to a power of attorney, that their review of such statements provided no evidence of any diversion of corporate assets for Yancey's personal benefit.

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In the case of Erickson, bank statements were reviewed for the period 1970 through 1974. In addition, C & L reviewed certain other personal and corporate financial data supplied by Erickson and sufficiently satisfied themselves that there was no evidence of any diversion of corporate assets for Erickson's personal benefit.

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All financial materials supplied by these officers were reviewed for any increase in net worth or any infusion of assets which was unusual or unexplained. In addition to these materials, additional supportive documentation was reviewed where appropriate. None of the materials reviewed provided any evidence that any of the officers in question had diverted any

of the Corporation's assets to their own personal use or benefit.

made to numerous officers or employees selected by them for travel expenses and other reimbursements during selected years for sizeable payments that were not supported and that could have been used for reimbursement of expenditures made for political purposes; no such payments were found.

Finally, members of the Corporation's Incentive Compensation Committee were interviewed to determine whether any compensation paid to officers or employees of the Corporation was adjusted to allow such officers or employees to make political contributions out of personal funds. No evidence of any such adjustment was found.

CD. OTHER CORPORATE TRANSACTIONS

Throughout the course of its inquiry, the Committee sought to determine whether funds, in addition to those previously identified, had been diverted to political contributions, expended for unrecorded or illegal purposes, or were otherwise improperly or inadequately accounted for. To that end, the Committee initiated a variety of review procedures.

A substantial portion of the Corporation's political contributions were made with funds which were originally wire transferred to overseas bank accounts and then returned to the United States in cash. In addition, certain payments to third

parties and certain advances to corporate officers and employees were made or facilitated by the use of wire transfers of funds. For both

1967 through 1974 were reviewed by C & L. In addition, where deemed appropriate by C & L, supporting documentation and other corporate records explanatory of such transactions were examined and, in certain cases, independent representations were sought from third party recipients of such transfers that they had received such moneys and not returned such moneys to the Corporation or its employees and had not expended any such moneys for U.S. political contributions. In its determination as to which disbursements should be corroborated by written representations, C & L considered the apparent purpose of each payment, the name of the recipient, the nature and adequacy of the supporting documentation, the size of the payment, and the method of payment.

In addition, C & L obtained from corporate employees analyses of charges to selected corporate accounts including accounts used to accumulate such charges as consultants' fees, legal expenses, certain prepaid expenses and miscellaneous expenses, receivables and advances. These analyses were thoroughly reviewed and, where appropriate, supporting documentation was sought and analyzed.

Advances to corporate officers and employees for travel or other purposes were reviewed on a test basis to determine whether all such moneys were properly accounted for and whether any such moneys appeared to be available or to have been used to make political contributions or other improper expenditures.

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and advise that bank to credit an account on its books in the name of an operating unit of the Corporation with a specified sum or to debit corporate deposits on hand and establish a credit in the name of the overseas bank. The overseas bank would then establish or add to the operating unit's account and establish a receivable from the domestic bank. Designated officials of the operating unit were authorized to effect withdrawals from the account. In some instances, the overseas bank, at the prior direction of the operating unit, either delivered the funds to the operating unit or transferred the money to a third party recipient without establishing a credit to the operating unit's account. In such instances, the Corporation's records would show an advance to the specific operating unit and an account receivable from that unit.

The second basic pattern was for a domestic transferor bank to wire credit an amount to a foreign transferee bank which was a depository for corporate funds overseas. In these instances, the credit was attributed to the Corporation rather than to a particular operating unit. Certain senior level officials of the Corporation were authorized to effect withdrawals from these accounts, customarily through the presentation of passport identification. At the time of the transfer, the Corporation's books would show a reduction in the Corporation's account with the domestic bank and a corresponding increase in its account with the overseas bank. After the funds were withdrawn and

expended, the use of the moneys would be accounted for and, where appropriate, the expenditure would be charged to an overseas expenditures were effected in this manner.

A third pattern consisted of wire credits from corporate accounts to the account of third parties. Such wire transfers to third parties were effected either by senior level corporate officials or by designated operating unit officials depending on the type of account involved. Such direct transfers to third parties lack the normal control procedures relating to the identification of payee and prompt recording on the books which are inherent in disbursements by check made out to third party recipients.

In accounting for all categories of funds transfers, separate functions were performed by the Corporation's Treasury, Accounting and Internal Audit Departments.

The Treasury Department's function was to make cash or credit available for the purposes of the Corporation pursuant to the direction of its operating officers. In effecting overseas funds transfers, the Treasury Department would determine that the official requesting the availability of funds or a credit had the authority to authorize the transfer in question. If the official had such authority, the transfer would be effected by the Treasury Department. During the period in question, requests for overseas transfers were handled informally, and a substantial portion of such transfers were initially authorized verbally.

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The Treasury Department also was responsible for notifying the Accounting Department of each transfer effected in books of the Corporation. During much of the period in question, the Treasury Department, discharging this duty, prepared monthly summaries of all such wire transfers, including available details as to the eventual use of the funds transferred. This summary schedule was used by the Accounting Department as the basis for its preparation of entries referred to as Journal Entry 80 or JE 80.* After these monthly summaries were prepared, the Accounting Department determined the appropriate accounting entries to be made to reflect the expenditures. In some instances, the information reflected on the summary schedules was sufficient to enable the Accounting Department to verify the authorization of the disbursements and appropriately record the transactions on the Corporation's books. Frequently, however, the Accounting Department determined appropriate entries by obtaining information as to the use of the funds from the official who had initially authorized the transfer. Such information was frequently sought and obtained informally, and it was not unusual for the information as to the use of the funds to be given orally.

* This designation was used beginning in February, 1970. Other designations were used prior thereto, but the term JE 80 is used herein to refer to the entries for the entire period in question.

The Internal Audit Department was responsible for the Corporation's internal audit, and its major area of concern with respect to the Corporation's overseas operations was the review of inventories and disbursements, areas in which defalcations by corporate employees were believed to present the greatest hazard. Characteristically, wire transfers associated with exploration and production activities which involved authorization by senior level officers were less thoroughly reviewed.

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2. The Review of Overseas Funds Transfers

Prior to the middle 1960's, the Corporation was an independent refiner and marketer of petroleum products which had little or no direct involvement in overseas petroleum exploration or production. In an attempt to secure increased supplies of crude oil, the Corporation made substantial investments throughout the latter portion of the 1960's and the 1970's in the overseas area. During the fiscal years 1967 through 1972 inclusive, the Corporation made capital expenditures in the overseas area (excluding those expenditures made through Ashland Canada) amounting to \$70,900,000. In the same period, excluding those expenditures made through Ashland Canada, the operating expenses of the Corporation's exploration division amounted to \$31,700,000, and the operating expenses, capital expenditures and changes in investment in the Corporation's foreign operations, either

consolidated or accounted for on an equity basis, amounted to \$242,500,000.

During the period 1967-74 the Corporation relied heavily upon overseas wire transfers of funds to facilitate the availability of funds for these overseas expenditures. During that period, the total volume of funds made available for expenditures overseas by means of wire transfers was measured in hundreds of millions of dollars, and the total volume of funds transmitted directly to third parties (and not to other bank accounts of the Corporation) was roughly \$70,000,000.

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As has been indicated above, those overseas funds transfers were summarized on a monthly basis by the Corporation's Treasury Department in a schedule which was the basis for the Accounting Department's Journal Entry 80. Because of the wide-spread use of overseas funds transfers, the use of certain of the funds so transferred for the Corporation's political contributions and the lack of certain controls over disbursements to third parties effected through such transfers, all JE 80's or their equivalent for the entire eight year period under investigation were reviewed by C & L in detail. During the course of this review, detailed information in support of the JE 80's was reviewed and examined; included in the information reviewed was the supporting documentation filed with the journal entry for each transfer that appeared to be other than a routine transfer

of funds between various corporate bank accounts. C & L also reviewed other documentary materials, including contracts, agreements, leases and minutes of the Board of Directors which appeared to pertain to such transfers.

Based upon the Corporation's ordinary records and upon supporting documentation and other information available from the Corporation, C & L was satisfied as to the legitimacy of the vast portion of the transfers which were made during this period of time.

Certain transfers and certain transactions for which funds were wire transferred in connection with the overseas operations of the Corporation were, however, identified as appropriate subjects for further review and independent validation. In addition, certain transactions, not involving wire transfers but having a connection with transactions which did involve such transfers, were also identified as appropriate subjects for further review and validation. This identification was based on a variety of factors, including the apparent purpose of the transactions, the nature and adequacy of the internal documentation with respect to the transactions, the name of the recipient of payments, the size of the disbursements involved, and the method of payment.

The identification of these transfers and transactions for further review and validation did not necessarily or even

principally reflect any inaccuracy or inadequacy in the Corporation's records or accounting procedures, and in many cases was based only upon an exercise of special care and judgment in decision by C & L personnel.

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Of the numerous overseas transfers and transactions reviewed, C & L identified for further corroboration payments to seventeen persons or entities for services rendered to the Corporation in connection with its overseas operations; the payments to such persons or entities aggregated roughly \$11,450,000. Similarly identified for further corroboration were payments to eight individuals or entities for value received other than services rendered; the payments to such persons or entities aggregated roughly \$4,250,000. Finally, payments made to two individuals in connection with the Corporation's domestic operations were identified for further corroboration; such payments totalled roughly \$200,000. Thus, the Committee sought independent corroboration of payments totalling roughly \$15,900,000 made to twenty-seven persons or entities.*

In connection with the review of each of these transactions, and except as herein noted, independent corroboration was sought

* Of this amount, approximately \$1,030,000 was paid by corporate check, \$2,190,000 was paid by wire transfer and subsequent bank cashier's check, and \$12,680,000 was paid by wire transfer directly to the recipient's bank.

from the recipients of corporate funds with respect to their receipt and use of the funds in question. To that end, C & L addressed to such individuals and entities, representation letters which asked each identified recipient of funds to verify independently to C & L that he or it had received moneys in the amount reflected on the Corporation's books; that he or it had not returned any such moneys or any portion thereof to the Corporation, its subsidiaries, directors, officers, employees or representatives; and that he or it had made no political contributions in the United States at the direction or request of any employee of the Corporation. As a result of these inquiries, the Committee has received satisfactory corroboration that the funds in question were received and that they were not used for any of the purposes reflected in the C & L representation letter from all but four of the individuals or entities identified for such further review and corroboration.

An identification of the individuals and transactions as to which no independent corroboration has been obtained by the Committee is contained in Schedule II to this Report which is being simultaneously submitted to the Corporation's Board of Directors.

Certain of the details with respect to these transactions are as follows:

a. Nigeria

to explore possible business opportunities in Nigeria. Because of the Corporation's lack of familiarity with the Nigerian business and commercial climate and because of the various dislocations resulting from the Biafran War, it was deemed advisable to obtain counsel from someone familiar with both the political and economic situation in Nigeria with respect to the possibilities of doing business in Nigeria at that time.

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A certain individual was recommended to the Corporation by various business contacts with some knowledge of Nigeria. That individual met with and was interviewed by certain officers and employees of the Corporation and was engaged by them to provide general business consulting services. Pursuant to that engagement, the Corporation made three separate payments, each in the amount of \$10,000 to such person. Thereafter, business relations with the individual were terminated, and the Corporation has had no dealings with him since 1968. No business ventures were effected as a result of this individual's services.

Initially, the Corporation was unable to supply C & L with a current address for the individual, and, therefore, no request for verification was addressed to him by C & L. During the course of the Committee's investigation, however, contact was made with this person, and he agreed to confirm in writing that

no portion of the moneys paid to him was used for any political or other illegal purpose either in the United States or overseas.

The Committee is advised that pursuant to that agreement, the individual delivered a hand-written letter to the London office of Ashland Oil International, Inc. That letter confirms the individual's receipt of moneys from the Corporation, although dates and amounts of the payments are said to be uncertain, and certifies that all moneys paid to him were solely in respect of services rendered by him and for no other purposes or end.

b. Republic of Gabon

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By Stock Purchase Agreement (the "Agreement") dated August 25, 1971, between the Corporation and Union Carbide Petroleum Corporation and the closing held pursuant thereto, the Corporation acquired the Union Carbide Petroleum Division ("UC Petroleum"). The assets of UC Petroleum included certain petroleum rights to properties located in the Republic of Gabon; the Corporation allocated \$4,305,000 of its total investment in UC Petroleum to these Gabonese properties. The Agreement contained representations by the seller that all unsatisfied obligations relating to the assets acquired thereunder had been fully disclosed.

In December, 1971, and January, 1972, and after the closing of the Agreement with UC Petroleum, corporate personnel

visited Gabon to begin preparations for the Corporation's
initial operations there. Oscar A. Blake ("Blake"), then
Vice President, Ashland Chemical and Exploration, was in charge
of these initial efforts. An initial point of concern was the
transfer to the Corporation of exploration permits relating to the
concessions formerly owned by UC Petroleum.

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During the course of initial discussions with the
appropriate officials of the Government of Gabon, Blake was ad-
vised that UC Petroleum or persons acting on its behalf had failed
to honor what were stated by certain high Gabonese officials to
be obligations to them; Blake was further advised that the ex-
ploration permits in question would not be transferred to the Cor-
poration and that the Corporation would not be able to commence
its operations unless it satisfied these apparent obligations to
the officials in question.

As a consequence of these discussions, responsible of-
ficials of the Corporation concluded that the failure to make
these payments good would result in the loss of the Corporation's
rights to develop the UC Petroleum properties in Gabon which the
Corporation had acquired for substantial consideration. Accord-
ingly, funds were wire transferred to the Corporation's account
with FNCB (Paris) and cashiers' checks were then written to two
high government officials in the amounts of \$150,000 and \$10,000,
respectively. Copies of such checks, as endorsed, have been
examined by C & L.

Blake has stated that the payments to such officials were made solely to protect the Corporation's rights in Gabon and that to his knowledge and belief no portion of these funds was recipients for political purposes in the United States. Blake has further stated that, prior to making the payments, he was advised by one of the officials that the money was to be used by both recipients for social welfare and public purposes in Gabon and that he has no information that the money was not so used.*

The Corporation has made claim against Union Carbide under the terms of the Agreement for the amount of these payments; counsel for Union Carbide has confirmed to KLJ&H that such a claim has been made.

c. Dominican Republic

Satisfactory independent corroboration was not obtained as to certain transfers of funds in connection with the Corporation's activities in the Dominican Republic. This matter is discussed below at pp. 126-128.

* * *

In addition to the foregoing procedures relating to the review of corporate transactions and as a supplement to the corroboration requests addressed by C & L to selected recipients of payments from the Corporation, KLJ&H interrogated present and former corporate personnel about the transfers, payments and transactions in question in an attempt to determine in each case the use,

* In connection with this same matter, the Corporation apparently paid \$12,000 to a third official of the Gabonese government as an advance rental for certain housing facilities leased by such individual to the Corporation.

business purpose and propriety of the payments which were made to individuals and entities. With the two exceptions noted below, the Committee has developed no indication that payments did not have some reasonable relationship to the corporate purposes of the Corporation and that such payments were not, to the knowledge of the Corporation's officers and employees, illegal or were not used by the recipients to make unlawful payments to government officials.

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Finally, KLJ&H has attempted to interview or otherwise establish contact with all recipients of the subject payments in an attempt to determine whether any officer or employee requested or directed such recipients to pay any of the amounts received by them to any foreign government official and further whether any of the amounts received were, in fact, paid by the initial recipients to any government official. Because many of the recipients of these payments are beyond the jurisdiction of the United States and because the present whereabouts of some such persons are unknown, it was not possible to contact all such recipients of payments by the Corporation.

Of the previously identified payments totalling approximately \$15,900,000, contact was made with recipients of roughly \$15,100,000. With two possible exceptions, each such person so contacted represented to KLJ&H that he had made no unlawful or improper payments to any foreign government officials

either at the direction of the Corporation or of its employees or at his own instance.

The two transactions which are an exception to the foregoing statement are certain payments made to a certain individual and others in the Dominican Republic and certain payments made to or at the instance of a certain individual in connection with Libya. These individuals are identified in Schedule II hereto. Certain of the details with respect to those transactions are as follows:

a. The Dominican Republic

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In late 1967 and early 1968, the Corporation explored the feasibility of developing a petrochemical and refinery project in the Dominican Republic. To assist it in that regard, the Corporation engaged Vensearch, a Houston engineering firm, to make an engineering study and to prepare a description of a petroleum refining and petrochemical complex for submission with the Corporation's proposal to the government of the Dominican Republic; the Corporation also engaged Dr. Robert T. Brinsmade ("Brinsmade") to provide consulting services.

By handwritten letter dated November 21, 1967, Brinsmade advised Roland A. Whealy ("Whealy"), then the Corporation's Vice President-New York Office of his initial discussion with Dominican Republic officials about the refinery project. Brinsmade also recommended that the Corporation engage the services of

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a certain lawyer in the Dominican Republic, a certain engineer in the Dominican Republic, and an unidentified "high Government man" to work in connection with the refinery project for a monthly fee of \$3,000 plus \$500 for monthly expenses. Brinsmade also proposed the retention of a fourth individual, identified by Brinsmade as the Ambassador at Large of the Dominican Republic in Europe, to render assistance to the Corporation at the rate of \$1,800 per month. Both the original group and fourth individual were subsequently retained for a period of several months through September, 1968, although the latter's fee was apparently adjusted downward to \$800 per month. Total payments to such individuals for services and expenses appear to have aggregated approximately \$50,000.

In the course of the Committee's investigation, Whealy was interrogated about these matters by KLJ&H. Whealy confirmed that these payments were made, and he stated further that he had no information that any moneys paid to the Dominican lawyer were in fact paid to any government official and that he has no information as to the identity of the "Government man" referred to in Brinsmade's letter. Whealy further stated that, to his knowledge and belief, no portion of the moneys paid to such lawyer were returned to any employee of the Corporation or directed in any other way to domestic political purposes. No other officer or employee of the Corporation has been able to supply the Committee with any additional information as to these matters.

In addition, the Dominican lawyer delivered to John W. Adams, a corporate Vice President, a letter stating that in 1967 and 1968 he had received certain fees at the rate of \$1,000 per month for work done in connection with a feasibility study for construction of a refinery in Santo Domingo. His letter further states that no part of the moneys paid to him were returned to the Corporation or any of its personnel; that none of the funds were contributed by him to any political party in Santo Domingo as the result of any direction given to him by the Corporation; and that no part of the funds were given to any official of the Dominican Republic at the direction of the Corporation.

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b. Libya

During the course of its operations in Libya, the Corporation engaged a certain individual as a consultant with respect to its dealings in that country. It appears that one payment of \$100,000 which was made to him on or about November 25, 1970 may, in whole or in part, have been paid by him to two Libyan nationals who were not government officials at that time but who had been employed by the Libyan National Petroleum Corporation prior to the September 1, 1969 revolution. It cannot now be determined what amount, if any, was paid to either such individual nor can the reason that he might have made any such payments be determined. By letter addressed to KLJ&H, the individual in question has stated that these payments were for future advice and consultation which these men might be able to provide and were not for

any services or benefits rendered by them prior thereto.

Dougan ("Dougan"), a Corporation employee, delivered to Atkins \$5,000 which had been wire transferred from the Corporation's accounts with FNCB (New York) to FNCB (London) for delivery to Dougan. This amount was either delivered by Atkins, at the instance of the individual in question, to a Libyan national who was a minor employee of the Libyan Government stationed overseas or by Atkins to such individual for delivery to such employee. The circumstances and purpose of this payment cannot now be recalled by those persons with whom KLJ&H have communicated.

3. Advances to Corporate Officers Which
Are Inadequately Documented

The review of the Corporation's records of overseas funds transfers identified ten instances, which the Committee deems material, in which case was transferred to an officer or an employee of the Corporation for which the Corporation has no written documentation supporting the eventual disposition of the moneys.* Four of these transfers involved Atkins, who was then President of the Corporation. Six of the transfers involved

* These instances are in addition to those reviewed above in which funds were withdrawn by officers or employees of the Corporation and subsequently used for political contributions.

Charles H. Dougan, then manager of the Corporation's operations in Libya and now President and Chief Executive Officer of

transfers are as follows:

Orin E. Atkins

November 30, 1967	\$ 3,500
November 30, 1967	1,500
January 14, 1969	10,000
September 26, 1969	<u>15,000</u>
Total	\$30,000

Charles H. Dougan

November 30, 1967	\$ 5,000
September 12, 1969	20,000
May 19, 1970	15,000
June 10, 1970	5,000
August 4, 1970	10,000
November 23, 1970	<u>10,000</u>
Total	\$65,000.

Both Atkins and Dougan have been interviewed by representatives of the Committee in an attempt to determine the uses to which these funds were put. Based upon these interviews and all information available to the Committee, it would appear

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matter involving the Corporation which was then pending before this official or any governmental decision which was influenced by this payment. The remainder of the money was expended in connection with the wedding of another Libyan national. Information available to the Committee indicates that such Libyan national was an informal advisor to King Idris of Libya but was not a member of the Libyan government. Both of the individuals in question are identified on Schedule II hereto.

iv. September 26, 1969 - \$15,000

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On September 26, 1969, \$15,000 was withdrawn from a Corporation account at FNCB (New York); the FNCB debit advice does not show the recipient of the funds and the Committee has not been able to determine the person who made the withdrawal.

Atkins has stated that he believes he received the funds and delivered them to Dougan or J. D. Hughes, then Vice President of Ashland Oil International, Inc., for their use in Libya in the period immediately after the September, 1969 Revolution. Hughes and Dougan apparently met in Paris in late September, 1969, with Atkins to discuss the Corporation's posture in Libya, and thereafter returned to Libya. In the period after the Revolution, normal credit arrangements were apparently unreliable, and the Committee has been advised by corporate employees familiar with prevailing conditions that it was frequently necessary to have cash to fund the operations of the Corporation.

b. Transfer to Dougan

The available information with respect to the cash

i. November 30, 1967 - \$5,000

Shortly after the closing on the Circle Oil acquisition, Dougan was requested by Atkins to travel to Libya to begin the preparations for the Corporation's operations under the Circle concessions. At that time, the Corporation had no office or other facilities in Libya, and it had no bank accounts or other financial accommodations. For that reason, Atkins supplied Dougan with \$5,000 drawn from the above mentioned credit facility established for the Corporation's benefit at FNCB (London) for use for the expenses which he incurred in connection with this initial trip to Libya. Dougan has advised the Committee that all such funds were used as intended for legitimate business purposes.

ii. September 12, 1969 - \$20,000

On September 1, 1969, the Revolutionary Command Council (the "RCC") headed by Col. Muammar el-Qaddafi overthrew the government of King Idris and announced the formation of the Arab Republic of Libya. Following the revolution, there was a period of substantial uncertainty for the Corporation's Libyan operations; during that period, normal banking and credit arrangements were disrupted and operating conditions for overseas companies were in many respects unstable.

Recognizing these problems, the Corporation wire transferred \$20,000 from its account with Chase Manhattan

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funds were intended to be available to Dougan for ordinary corporate expenses in the event other assets were frozen. In fact, the funds were impounded, and Dougan was unable to withdraw the funds from the Bank of Libya because of restrictions imposed by the RCC. In February, 1970, the funds were released and transferred to a Circle Oil account in the Bank of North Africa; it is believed by corporate officials that the funds were thereafter expended by Circle Oil for ordinary business expenses. When the Corporation terminated its operations in Libya, the books of Circle Oil were left in Libya; there are no known documents now available to the Committee which would permit more precise reconstruction of the uses for which these funds were actually expended.

iii. May 19, 1970 - \$15,000

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In May, 1970, \$15,000 was transferred from the Corporation's accounts at FNCB (New York) to FNCB (London) for delivery to Dougan. Dougan withdrew these funds and took them to Libya where they were expended for corporate purposes. This form of transfer was resorted to because of the continuing disruption of normal commercial conditions and credit arrangements in the period after the September Revolution.

iv. June 10, 1970 - \$5,000

On June 10, 1975, \$5,000 was transferred from the Corporation's accounts with FNCB (New York) to FNCB (London) for delivery to Dougan. Dougan believes that he picked up these funds and delivered them to Atkins; as indicated above, it is believed that these funds were thereafter paid by Atkins to a consultant with respect to Libya or, at the instance of such consultant, to a Libyan national who was a minor employee of the Libyan Government stationed overseas. Neither Atkins nor Dougan now recalls the reason or purpose of this payment.

v. August 4, 1970 - \$10,000

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On August 4, 1970, the Corporation transferred \$10,000 from its accounts with FNCB (New York) to FNCB (Paris) for delivery to Dougan. Dougan has stated that this sum was expended by him for miscellaneous expenses related to the operations of Circle Oil and of Ashland Libyan Company.

vi. November 23, 1970 - \$10,000

On November 23, 1970, the Corporation transferred \$10,000 from its accounts with FNCB (New York) to FNCB (Geneva)

for delivery to Dougan. Dougan has stated that this sum was expended by him for miscellaneous expenses related to the Corporation.

4. Other Transactions for which there is Inadequate Accounting Documentation

The review of the Corporation's overseas transfers and other accounts by E & E and by C & L has identified four transactions for which there is no significant documentation or support. No corporate employee can now identify with any degree of certainty the purposes for which these funds were disbursed.

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The dates and amounts of these transactions are as follows:

October 26, 1967	\$25,000.
November 30, 1967	7,500.
April 24, 1968	25,000.
June 26, 1968	<u>20,000.</u>
Total	\$77,500.

The known details with respect to these transactions are as follows:

- a. October 26, 1967 - \$25,000

On October 26, 1967, \$25,000 was withdrawn in cash from the Corporation's account with FNCB (New York) by Roland A. Whealy,

then a Vice President of the Corporation. Whealy, who is now retired, reports that to the best of his recollection he gave the

Ashland, Kentucky. Whealy does not now recall to whom he gave the money or the purpose for which the funds were being returned to Ashland. An undated note in the Corporation's files written by Edward E. Emrick states that Seaton had said that the disbursement was made in connection with the refinery concession in the Dominican Republic; Seaton now has no recollection of the expenditure. The Committee has found no one else who recalls the transfer or the use which was made of the funds.

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Under these circumstances and given Whealy's recollection that the money was returned to Ashland in cash, it seems quite likely that the \$25,000 was made available for political purposes and the amount in question has been added to the sums treated as if they were used for that purpose.

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b. November 30, 1967 - \$7,500.

On November 30, 1967, \$7,500 was withdrawn from FNCE (New York) by an unidentified party. The Committee has not been able to find any person who has any information about the purposes to which these funds were put, and they have been deemed to have been made available for political contributions.

certain corporate officers; interviews of E & E personnel who had responsibility for the audits in question; and C & L's review of certain of E & E's work papers.

1. E & E's Knowledge of Political Contributions

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Certain corporate officers were asked by way of special interrogatories whether E & E knew of the Corporation's political contributions prior to the public disclosure of such contributions in July, 1973. Such interrogatories were directed to Messrs. Atkins, Seaton, Yancey, Erickson and Webb. Seaton, Yancey, Erickson and Webb each responded, under oath, that to their knowledge E & E was not aware of the political contributions prior to the public disclosure. Atkins stated under oath his belief that E & E had such knowledge.

The pertinent facts, as drawn principally from Atkins' response to these interrogatories, from interviews with Atkins, and from interviews with Joseph H. Keller ("Keller"), Leroy E. Gardner ("Gardner") and Albert K. Carpenter ("Carpenter"), the E & E partners having principal responsibility for the Corporation's audit, are as follows:

As reported above, a portion of the fund used to make political contributions was generated in July, 1969, when Atkins withdrew \$125,000 from a bank account in Switzerland, divided that amount between himself and G. Fred Charles and instructed Charles to return his portion (\$60,000) to the Corporation's headquarters in Ashland, Kentucky. Charles did so, and upon delivering that

portion to Albert G. Mayer, the Assistant Treasurer of the

agreed by all parties that this receipt was reviewed by E & E during the course of its audit of the Corporation's financial statements for the fiscal year ending September 30, 1969.

Gardner has stated that his primary interest in pursuing this matter was in insuring that the funds were not diverted to non-corporate purposes and that he did not have any sense at that time that political contributions might be involved. Accordingly, upon reviewing the Charles receipt, Gardner interviewed Charles to determine the nature of the transaction. Charles responded that \$125,000 had been returned to the Corporation's headquarters, partly by him and partly by either Atkins or Edwin G. Winstead, then Executive Assistant to Atkins. Charles further stated that he did not know the purpose for which the funds were intended or the use to which such funds had been put. Thereafter, Gardner asked Emrick if he had received the funds, and Emrick confirmed that he had.

Subsequently, as part of the closing interview with Atkins during which E & E, represented by Keller and Gardner, reviewed with Atkins a number of open items resulting from the audit, this matter was specifically discussed with Atkins. Recollections of the content of that interview differ.

Gardner states that his recollection is that Atkins

had been returned to Ashland and deposited with Emrick - and that Atkins stated that the moneys were needed for incidental expenses involving overseas consultants and foreign dignitaries. Gardner does not recall any reference to possible political contributions.

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Keller states that his recollection is that Atkins indicated that the money was to be used to facilitate the re-entry of corporate personnel into Libya which was in a state of some turmoil following the September, 1969 revolution and to have funds for foreign persons when in this country.* He states that he recommended that Atkins confer with an attorney about this matter because of his concern that the moneys in question might be attributed to Atkins for federal income tax purposes absent an appropriate accounting for the funds. Keller further states that he does not recall Atkins mentioning political contributions in connection with the use of the funds.

Atkins' recollection is that he stated to Keller and Gardner that some portion of the \$125,000 was to be used for

* While the use of funds to facilitate re-entry might have been a reasonable explanation for the use of the funds in late 1969, it could not of course explain why such funds were returned to this country in July, 1969, two months before the revolution.

political contributions; that he did not review the details of

money; and that he explained that the moneys had been recorded on the books as undeveloped leasehold costs in order to avoid any deduction of such sums for federal income tax purposes.

Atkins also recalls that Keller advised him to seek legal advice on this matter because of his concern that such sums might be attributed to Atkins personally and that Atkins might therefore face personal income tax problems as a result of the maintenance of this cash fund.

The recollections of the persons having knowledge about this matter are thus in conflict at the crucial point. C-L's review of the E & E work papers relating to this matter indicates that there is no written evidence that would contradict or support any of the parties' recollections, and the Committee is aware of no other documentary evidence which would be dispositive on this issue. Therefore, although there is a substantial question as to whether E & E did have actual knowledge of the fact that the Corporation was making political contributions, the Committee does not have clear or unrefuted evidence of such knowledge.

2. E & E's Services as Auditor

Questions as to the care exercised by E & E in the course of its services as the independent public accountant for the Corporation focus on four areas: the cash fund maintained at the Corporation's headquarters; the confirmation of the account receivable from Interrep, S.A.; the 1971 write-off of the Corporation's Libyan investment; and the Corporation's use of overseas funds transfers.

a. The Undisclosed Cash Fund

7704001189 It is undisputed that, in the course of the audit for the Corporation's fiscal year ending September 30, 1969, E & E became aware that a cash fund was maintained at the Corporation's headquarters and that that fund was not appropriately reflected on the Corporation's books or subject to ordinary accounting controls. It was known to E & E that the fund was under the control of the principal officers of the Corporation and that it had initially totalled at least \$125,000. On these points, Atkins, Keller and Gardner are in agreement.

E & E's audit procedures with respect to this fund consisted of an attempt to ascertain the purposes for which the fund was intended and to ascertain what internal controls existed with respect to the fund. With respect to the first aspect, the conversation with Atkins, referred to above, was the means ex-

ployed. With respect to the second, E & E was apparently satisfied that adequate control was inherent in the fact that both Atkins and Emrick, each of whom was a senior officer of the Corporation, had knowledge of the fund. E & E did not interrogate any officer, except those personally involved in the cash transfer, about this matter nor did it determine whether any other officer knew of the fund or of its intended uses.

E & E did not go into the safe to count the cash then on hand; Gardner has indicated that this decision was a function of E & E's conclusion that the control inherent in knowledge by Atkins and Emrick was deemed satisfactory to him and of the fact that the sum in question was not deemed material given the size of the Corporation's operations. More particularly, E & E did not ask Atkins or seek to determine independently whether there had been other similar diversions of the Corporation's assets to unrecorded funds prior to the return of the \$125,000 to the Corporation's headquarters. Similarly, in the subsequent years' audits, E & E did not review the disposition of the cash fund; nor did it attempt to determine whether the return of cash to Ashland was a recurring practice. Whether or not E & E was aware that the Corporation was making political contributions, some further procedures, particularly in subsequent audit years, with respect to unusual transactions of this sort would appear to have been appropriate.

b. The Interrep, S.A. Receivable

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Certain of the funds made available for political contributions derived from a \$200,000 loan to the Corporation from the Bank of Nova Scotia Trust Company (London). These borrowed funds were transferred to Geneva where they were credited to the account of Interrep, S.A. ("Interrep"), and a note receivable from Interrep was established on the Corporation's books. Interrep was apparently a foreign corporation which had an account at the Banque de Paris/ Geneva the use of which was made available to the Corporation for its purposes as an accomodation.

In the course of its audit of the Corporation's receivables for the fiscal years 1969 and 1970, E & E forwarded requests for confirmation to Interrep; audit work with respect to accounts receivable was handled by E & E's Columbus office while the Louisville office was responsible for the audit as a whole.

In 1969, the request was addressed to "Interrep, S.A., Paris, France." Based upon information provided to the Committee by E & E, it appears that this confirmation request was mailed as addressed, and not returned. The E & E personnel responsible for the confirmation process recall that since the confirmation was not returned the matter was taken up with certain corporate officers who informed the E & E personnel that the account was

in fact an inter-company account and that E & E thereafter forwarded the request to the Corporation's headquarters, most probably to the Treasury Department. The confirmation request was returned to E & E after having been signed, without exception, by Seaton who was then the Administrative Vice President of the Corporation.

In 1970, the confirmation request was addressed to "Interrep, S.A., c/o Mr. Al Mayer, Ashland Oil, Inc., P. O. Box 391, Ashland, Kentucky 41101"; at that time, Mayer was an employee of the Corporation. Again the request was returned with a confirmation of the amount of the receivable, after having been signed by Seaton. It is not clear what information E & E had which led them to address the 1970 confirmation in this fashion.

E & E has further advised the Committee that the Corporation did have a number of inter-company accounts, frequently involving subsidiaries which were not consolidated with the Corporation for financial reporting or tax purposes, and that their personnel did not find the explanation that Interrep was an inter-company account troublesome. Typically, inter-company receivables would be referred to the Louisville office of E & E for further review and, where deemed appropriate, direct confirmation from the books of the subsidiary. In this case, the Interrep item was not referred to the Louisville office for further review; apparently because the E & E personnel deemed the item immaterial and did not believe that further inquiry was mandated.

Had this item been referred to E & E's Louisville office and subjected to further review or had there been an attempt to verify the status of Interrep as an inter-company account, the nature of the underlying transaction might have been identified. E & E's decision not to pursue this matter further would appear to be subject to some question.

c. The Libyan Write-Off

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The principal portion of the Corporation's investment in Libya was written off in its 1970 fiscal year. A portion of that investment was, however, not written off until the 1971 fiscal year. Included in the amount so written off was the \$200,000 which had been borrowed from the Bank of Nova Scotia Trust Company, transferred to the account of Interrep, S.A., withdrawn in cash and returned to the United States and expended for political contributions.

As indicated above, this amount was initially reflected on the Corporation's books as a note receivable. In early 1971, while reviewing the prior year's audit work papers in connection with the coming year's audit, Carpenter noticed the executed Interrep confirmation and recognized Seaton's signature. Realizing that the item needed further explanation, he thereafter asked Seaton what the item was; Seaton explained that it represented a

payment to a consultant in connection with the Corporation's Libyan operations.

During the prior fiscal year, the major portion of the Corporation's Libyan investment had been written off. Carpenter was therefore naturally concerned that this item had not been included in the write-off, and its omission was the focus of his concern. He did not attempt to determine why the item had been carried on the Corporation's books as a note receivable if it had, as Seaton indicated, actually been expended for consultant fees nor did he seek any back up information or documentary support for Seaton's statement that that amount had been expended for Libyan consultant fees.

Thereafter, the item was reclassified and recorded as an inter-company account/receivable chargeable to Ashland Libyan Co. and at year-end it was written off and inadvertently and improperly deducted on the Corporation's 1971 federal income tax return.

In the course of its audit for the year ending September 30, 1971, E & E reviewed the constituents of the Libyan write-off. In satisfying themselves that this \$200,000 amount was a proper constituent of that write-off, E & E apparently relied upon Seaton's oral representation to Carpenter that the moneys had been expended in connection with Libya and upon their own conclusion that the amount in question was immaterial. On balance,

it would appear that some further investigation of this item, on the Corporation's books and Seaton's statement as to its actual use, might have been appropriate.

d. The Controls Over Overseas Funds Transfers

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Certain of the moneys used by the Corporation for political contributions were obtained through overseas funds transfers. The procedures governing such transfers have been reviewed above. Such transfers were a common means of effecting inter-company transfers, were frequently used, and were not in their nature irregular or deserving of special scrutiny. Prior to public disclosure of the political contributions, E & E examined such transfers on a test basis, a procedure which would appear to be a normal auditing procedure. None of the cash transfers that were used to fund political contributions were in fact selected for detailed review, but E & E would not appear to have been at fault in evaluating the results of these procedures.

In its management letter with respect to the 1970 audit, E & E noted certain problems in the controls over overseas fund transfers. The Committee does not have any evidence that E & E subsequently revised its audit procedures in the light of the weaknesses in controls nor that its original audit program

with respect to overseas transfer took such weaknesses into
of its audit procedures would appear to have been adequate,
there is some question with respect to the 1971 and 1972 audits
whether the procedures themselves were adequate in light
of the weaknesses in controls identified in 1970 and the
Corporation's increasing use of such transfers in the years in
question.

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In sum, there is conflicting evidence which suggests,
but does not establish, that E & E obtained knowledge during the
course of its 1969 audit engagement that the Corporation was
making political contributions.

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With respect to other matters reviewed, it must be re-
membered that the transactions considered above, and the specific
audit procedures applicable to them, formed a small part of the
overall audit services performed by E & E from 1967 through 1973.
The Committee has not reviewed the audit services provided by E & E
in their entirety, and it has therefore no sufficient basis for a
judgment with respect to the professional adequacy of such audits.
With respect to the four specific areas in question, however,
there is some basis for suggesting that greater care might have
been exercised by E & E, even taking into account the benefit which
hindsight review of the transactions provides.

Corporation's outside auditor during the period in which the contributions were made. (Sections B and C). An additional

will govern the Corporation's involvement in the political process and the use of corporate assets for political contributions or other purposes not directly or obviously related to the Corporation's legitimate business purposes. (Section D). Finally, the Committee has made certain recommendations with respect to the Corporation's operating procedures, accounting practices and basic governance which the Committee believes will render practices such as the making of unlawful political contributions less likely and will, in addition, improve the accounting for the assets of the Corporation and enhance the general operation of the Corporation and the accountability of its officers to the Board of Directors and ultimately to its shareholders. (Section E and F). In the judgment of the Committee, all such recommendations are mutually interdependent and are meant to be acted upon as a whole.

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A. BOARD MEMBERS WHO SHOULD ACT UPON THE
RECOMMENDATIONS OF THE SPECIAL COMMITTEE

The Committee has been charged with recommending to the Board of Directors the further action, if any, to be taken with respect to the making of political contributions. An initial question is which members of the Board should act upon the Committee's recommendations. Considerations pertinent to this

question are the obvious need to assure that the Board's actions upon the Committee's recommendations are based upon objective, unbiased and informed consideration of the issues raised; the avoidance of any conflict of interest or the appearance of a conflict of interest by those acting on behalf of the Corporation and its shareholders; the character of the specific recommendations and the nature of the impact of those recommendations upon particular directors; and the utility of obtaining an appropriate range of opinion on the important matters raised by this Report and its recommendations. We believe that these considerations dictate that two different standards be applied to two different categories of recommendations.

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The Committee's recommendations relating to the incumbency of certain members of the present Board of Directors, the employment status of certain officers and employees of the Corporation, and the disposition of the claims the Corporation may have against such officers and employees obviously have a direct and immediate impact upon all such persons. In view of that impact and of the other pertinent considerations cited above, we believe that action should be taken on those recommendations only by Board members who prior to July, 1973, had neither knowledge of nor involvement in the political contributions made by the Corporation.

Twelve members of the Board (Messrs. Butler, Downward, Fisher, Gammon, Gordon, Hall, McCowan, McDonald, Ross and the

that they had no such prior knowledge or involvement. In the judgment of the Committee, the ability and willingness to have executed such an Affidavit is the essential precondition to participation in the consideration of and the decisions relating to the category of recommendations in question. Moreover, nothing which the Committee has uncovered in the course of its investigation has cast any doubt upon the legitimacy of those affidavits or has provided any basis for contesting the truth of the representations contained therein.

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Accordingly, the Committee recommends that the members of the Board of Directors so identified, and those members only, should act upon recommendations set forth in Section B.

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The remaining recommendations presented by the Committee relate to matters of corporate policy, procedure and structure. These recommendations are appropriate and necessary responses to the set of issues raised by the making of political contributions or the other matters under review, but their impact upon the officers who authorized or participated in all such matters is neither personal nor pecuniary. Moreover, they involve matters fundamental to the ongoing operation and structure of the Corporation, matters upon which the broadest range of Board opinion is useful. Application of the initial standard stated above would

exclude from the Board's deliberations on these matters five of its incumbent directors including its three principal officers. Fundamental changes in the procedure and structure of the Corporation should, in our judgment, be made with the benefit of the advice and, where possible, with the consent of those persons who are expected to implement those policies and operate within that structure.

Accordingly, the Committee recommends that all incumbent members of the Board should be free to consider and act upon the recommendations set forth in Sections C & D, E and F.

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B. RECOMMENDATIONS WITH RESPECT TO THOSE DIRECTORS, OFFICERS AND EMPLOYEES WHO HAD PRIOR KNOWLEDGE OF OR INVOLVEMENT IN THE MAKING OF POLITICAL CONTRIBUTIONS.

1. The incumbent status of directors having prior knowledge of or involvement in the making of political contributions.

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Certain members of the Board had prior knowledge of or some involvement in the making of political contributions; each of the directors having such knowledge or involvement is also an officer or employee of the Corporation. The Committee has considered whether it should recommend that the Board request the resignation of such persons from the Board or recommend that they not be renominated for election to the Board at the next shareholders' meeting.

In considering this issue with respect to each director, the Committee has reviewed a range of factors, including question; his past contributions to the Corporation; the degree of his cooperation with this Committee and with governmental authorities who have investigated these matters; and the context in which the political contributions were made. These factors, considered in the context of the employment status of each such director, have led the Committee to recommend against the termination of any such officers or employees from their positions with the Corporation. See below, at pp. 159-167. A recommendation against the enforced retirement of any director also seems warranted, particularly because the Committee has found no basis for holding that any director, considered apart from any actions taken in his capacity as an officer of the Corporation, was negligent in the performance of his duties as a director. Any such conclusion, however, presupposes the director's satisfaction of any of the recommendations addressed to the disposition of claims the Corporation might have against him by virtue of actions taken in his capacity as an officer or employee.

The conclusion that no action need be taken with respect to any director in his capacity as such is particularly appropriate in view of the responsibility which rests with the shareholders of the Corporation for electing directors and continuing them in office and the prospect that the shareholders will have an

early opportunity at the resumed shareholders meeting to exercise their prerogative.

Accordingly, in the light of all factors, the Committee recommends that no action be taken with respect to any director, provided that any such individual responds affirmatively to such other recommendations of the Committee as are adopted by the Board.

2. The employment status of officers and employees having prior knowledge of or involvement in the making of political contributions.

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The responsibility for and involvement in political contributions of the Corporation's officers and employees has been reviewed above at pp. 94 - 97. At issue is a series of illegal acts involving assets of the Corporation, acts which were recognized to be illegal by those who engaged in them. Principal responsibility for those acts must be placed upon Mr. Atkins, and he has forthrightly accepted full responsibility for such acts. Accordingly, we believe that any analysis of the actions to be taken with respect to corporate officers having some degree of responsibility for the political contributions must properly begin with Atkins. Similarly, any inadequacies in the Corporation's accounting procedures or any improprieties in the use of its funds must ultimately be laid to the account of its chief executive officer.

The specific wrongful acts which have precipitated this Committee's investigation can neither be condoned nor can

In considering the action to be taken with respect to officers who were responsible for or participated in such conduct, we believe it necessary to consider the context in which those individuals acted and their overall relationship with and contributions to the Corporation. In addition, any decision with respect to the continued employment of the individuals involved must take into account the adequacy of other remedial measures which may be taken by the Corporation.

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The making of political contributions extended over a period of years reaching back into the 1960's. During the same period the Corporation has greatly expanded the scope of its operations and diversified the nature of its business; the growth of its revenues and profits during that period has been impressive.

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Prior to the period in question, the Corporation's activities were concentrated primarily in the areas of petroleum refining, marketing and transporting. During the period in question, the Corporation developed substantial chemical processing and sales capacities; diversified into highway construction, associated paving operations and construction materials supply; initiated substantial coal mining and marketing operations; and continued to develop new sources of crude oil through purchase and exploration and production activities. These greatly expanded

exploration and production activities involved the Company to a significantly greater extent in overseas operations. To some

transactions were accounted for are attributable to the initial failure of the Corporation's procedures to keep pace with the Corporation's growing involvement overseas. It would also appear that significant improvements in these areas have been made in recent years, and that the Corporation's principal failures of accounting and expenditure controls occurred some years ago.

In the thirteen year period from 1962 through 1974 the Corporation's revenues grew at an average annual rate of 22% from \$318,100,000 in fiscal 1962 to \$3,451,200,000 in fiscal 1974. Net income increased during the same period at an average annual rate of 18% from \$15,300,000 in fiscal 1962 to \$113,004,000 in fiscal 1974, and net income per share advanced from \$1.03 in 1962 to \$4.45 in 1974. This favorable performance has continued to the present; that continued performance is particularly impressive in view of the unfavorable factors currently affecting the oil industry as a whole.

Much of this performance is properly attributable to the effective and forceful leadership which Atkins and his principal executives have supplied to the Corporation. Since Atkins assumed the role of Chief Executive Officer in 1965, operating revenues have increased from \$447,743,776 in fiscal 1965 to \$3,451,200,000 in fiscal 1974 and net income has increased

in the same period from \$31,594,004 to \$113,004,000.

rests in the final analysis with Atkins, so too must principal credit for the Corporation's performance be given to Atkins.

The Committee believes that the services of Atkins and other personnel of the Corporation have been of substantial benefit to the Corporation and its shareholders in the past. Because Atkins and the other principal corporate officers are still young, vigorous and effective executives, the Committee believes these men are likely to be of continuing benefit to the Corporation if they are retained in office.

A second area of consideration is the degree of candor and cooperation exhibited by Atkins since the initial disclosure of the political contributions in July, 1973. Atkins has from the first openly and squarely accepted full responsibility for the matters relating to political contributions, both with respect to matters he directly participated in and matters chargeable to him as the Corporation's chief executive officer.

Moreover, Atkins has, we believe, been cooperative with the office of the Watergate Special Prosecutor, the staff of the Securities and Exchange Commission and other governmental agencies which have had an interest in the Corporation's political contributions. While there were errors of judgment and communication involved in the initial voluntary disclosures to

the Special Prosecutor (matters which are reviewed in more detail
matters for which Atkins should be held principally responsible.
The decision of the Special Prosecutor not to bring charges against
any individual officer of the Corporation at the time of the
second criminal proceeding in December, 1974, supports this
conclusion. In addition, Atkins and many other officers of the
Corporation have cooperated fully with this Committee and its
professional advisors in the conduct of this investigation.

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A third area of relevance is the context in which the
Corporation's officers were operating during the period in which
political contributions were made. On the one hand, the officers
clearly believed that political contributions by corporations
were a common fact of life. The number of companies which have
entered pleas to violations of the federal prohibitions on
corporate political contributions supports the reasonableness of
that belief as do the comments of Judge Hermansdorfer at the
entry of the pleas by Ashland Gabon and Atkins: "It would appear
that...this type of conduct has been a fact of political life for
a great many years." (See U.S. v. Ashland Petroleum Gabon
Corporation, U.S.D.C., E.D. Ky., Reporter's Official Transcript of
Proceedings at Arraignment and Sentencing, November 13, 1973, p.21.)

Correlatively, although the principal officers are
deemed to be aware that the making of contributions was prohibited

by law, they were also apparently aware of the fact that as a forced. This official pattern of non-enforcement provides no excuse for actions which were in violation of the law. To some extent, however, this pattern of official tolerance renders more understandable the series of violations of federal statutes by the Corporation's officers.

Fourthly, the Committee is satisfied that the political contributions were made in what the officers of the Corporation believed to be the best interests of the Corporation and in some instances were made in response to real or apparent pressure from public officials or their close political associates. As is the case with most large corporations, the Corporation operates in a business environment which is materially shaped by existing or proposed statutes and governmental regulations and by the actions of the executive and legislative branches of the federal, state and local governments. Governmental actions having a material effect on the Corporation may be taken based upon incomplete or faulty perceptions of facts; in that context, the desire of corporate officials to have access to governmental decision makers and to plead the Corporation's case is understandable. That political contributions were chosen as a means of obtaining such access is regrettable, but the Committee is persuaded that, in making political contributions, the Corporation's officers were on the whole attempting to advance what they believed to be

the legitimate interests of the Corporation and were not serving frolic of their own.

Similarly, those payments which the Committee has identified which were or which may have been made to overseas government officials were apparently made in what was believed to be the best interests of the Corporation and may have been made in response to apparent pressures or in a context in which the impropriety or illegality of such payments was not fully recognized. Moreover, given the overall operations of the Corporation during the years at issue, these questionable payments were relatively modest in amount.

Finally, as has been noted above, the problems of accountability for funds and inadequate accounting and documentation for and controls over corporate transactions are most prevalent in the early years of the Corporation's overseas activities and there has been substantial improvement in the Corporation's performance in these areas in recent years.

Notwithstanding the several contexts in which the Corporation's officers' actions should be measured and in particular those officers' past contributions to the Corporation, the retention of such officers in their present capacities would be difficult to justify in the absence of appropriate procedures and structures which would sufficiently insure that no further political

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contributions will be made by the Corporation and that the other
satisfactory settlement with the officers with respect to the
direct costs incurred by the Corporation as a result of the
political contributions is equally a precondition of the continued
employment of such officers. We believe that the policies,
operating procedures and structural changes recommended in this
Report provide such safeguards and that the monetary settlement
recommended herein provides a reasonable recovery for the
Corporation. Accordingly, our recommendation with respect to the
continued employment of the involved officers presupposes the
Board's acceptance of such further recommendations and full
compliance with such recommendations by the concerned officers.

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Considering all factors, the Committee has concluded
that termination of Atkins as Chairman and Chief Executive
Officer of the Corporation would be a punishment out of
proportion to the acts chargeable to him and would not be in the
best interests of the Corporation or of its shareholders. Our
conclusion with respect to Atkins is dispositive of the situation
of other officers and employees who had some role in the making
of political contributions or the other matters under review. In
view of his assumption of full responsibility for these matters
and the propriety of that assumption, it would be inappropriate to
impose any greater penalty upon any less senior officer than that
imposed upon Atkins.

Accordingly, the Committee recommends that Atkins be

Corporation and that all other corporate personnel be similarly continued in their present positions, provided that each such individual responds affirmatively to such other recommendations of the Committee as are accepted by the Board.

3. Reimbursement to the Corporation by those officers responsible for the making of political contributions.

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The Corporation's resolution of December 3, 1974, was a necessary response to certain problems. The broad range of problems suggested by the Corporation's political contributions and the means by which they were funded and accounted for has been for some months the subject of this Committee's independent investigation. Among the areas of this Committee's concern from the beginning of its investigation has been the resolution of those claims which the Corporation may have against those persons responsible for the actions under review.

Long after this Committee's investigation had been initiated, certain such claims were purportedly asserted on behalf of the Corporation in the action styled Levin v. Atkins which was filed on April 4, 1975 in the United States District Court for the Western District of Kentucky. (See Exhibit 28: Complaint and Amended Complaint, Levin v. Atkins, et al.) The claims there asserted have been considered by this Committee in developing the recommendations set forth in this Report.

In determining the appropriate level of reimbursement

of the Corporation's arguable claims, the Committee has taken into account the amount of loss to the Corporation occasioned by the political contributions, the extent of the individual's personal resources and his practical ability to respond to any judgment which the Corporation might obtain against him, and the individual's role in the matters under review and his potential for future service to the Corporation.

The direct cost to the Corporation of political contributions and of those moneys which cannot be adequately accounted for and which for present purposes are treated as if they were available for or expended as political contributions is \$857,965.* Of this amount, a balance of \$56,800 was redeposited to the Corporation's account in October, 1973, following public disclosure of the political contributions. In addition, \$135,310.87 has been recovered by the Corporation from the recipients of the contributions or other sources. Finally, \$71,100.35 of that sum represents moneys which cannot be accounted for, an amount believed to represent, in substantial part, contributions made or authorized by deceased former senior officers of the Corporation as part of a pattern of contributions which

* Those political payments deemed to be legal and those payments which were made without senior officers' knowledge or involvement have not been included in this calculation.

began before the period which has been the principal focus of this inquiry; we do not believe that amount can or should properly be charged against the present officers of the Corporation; nor do we believe it appropriate to attempt to assert a claim against the estates of the deceased individuals. These three sums, deducted from the total amount presumed to have been expended for political contributions, leaves a balance of roughly \$595,000.00 for which the present officers of the Corporation can be said to be responsible.

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In addition to these direct costs, the Corporation has incurred certain indirect expenses as a result of its political contributions. Those expenses aggregate in excess of \$600,000, and include, among other matters, the costs of E & E's investigation of overseas cash transfers; legal expenses related to study of the implications of the political contributions and to the disposition of the various governmental proceedings which have been occasioned by the Corporation's voluntary disclosure of such contributions; loss of interest on the amounts expended for political contributions and the loss of employees' time during the course of the investigation into the contributions; costs incurred in connection with the adjournment of the January, 1975, meeting of the Corporation's shareholders; and the expense of the Special Committee, its counsel and accountants in conducting its investigation and preparing this Report. In some instances,

those expenses cannot be readily calculated. They are also matters, questionable overseas transactions, and matters relating to the general improvement of the Corporation's accounting procedures, operation, structure and performance.

For example, the recommendations with respect to accounting procedures which were made by E & E as a result of their investigation into political contributions are of general benefit to the Corporation, and the expenses attributable to such recommendations cannot be clearly segregated from the cost of investigating political contributions and ought not be taxed solely against the officers responsible for political contributions.

Similarly, many of the Special Committee's recommendations relating to corporate policies and structure were precipitated by matters within the scope of its investigation but would, we believe, be appropriate even if no political contributions had ever been made. Under such circumstances, we believe it difficult to justify the allocation of all costs related to the investigation to the officers of the Corporation. Our conclusion in this respect gains a measure of support from the actions taken by other companies confronted with political contributions. Based upon our review of the public record of actions taken by other corporations faced with §610 violations, it would appear that no other company has yet required its present or former officers to reimburse the costs of investigating the matters of concern.

In addition to the direct costs and indirect costs

fiscal years 1970 and 1971 is presently under discussion with the IRS. While it might be contended that the officers should be responsible for all or some portion of the additional tax or penalty, we have concluded that no such assessment should be made. As has been indicated above, the representatives of the IRS in charge of this tax investigation have indicated their present intention to seek a 5% negligence penalty with respect to the years in question. The IRS agents have also indicated that they would seek to collect such a penalty even if the Corporation had made no political contributions at all because of certain other problems in the preparation of and support for the Corporation's tax returns; this position is in accord with the Service's recent policy of assessing the negligence penalty against public corporations in an effort to force them to keep better tax records. Under these circumstances, the precise allocation of such portion of any penalty as may finally be asserted and collected to the political contributions is difficult; a decision to hold these officers responsible for the amount of that contingent liability would unfairly impose upon them a liability for many acts which were unknown to them, in which they had no direct involvement, and for which they were not directly responsible.

To require the present officers of the Corporation to

contingent tax liability would moreover be impractical in view of the assets of the concerned employees. To attempt to recover such amounts from the officers would cripple them financially and in practical effect terminate their potential for future service to the Corporation. In the judgment of the Committee that result would not be properly commensurate with their misconduct nor would it be in the best interest of the shareholders.

In considering the appropriate claims which might be made against officers of the Corporation, the Committee has considered the demand contained in the action styled Levin v. Atkins, et al., that Atkins and Seaton restore, return and pay over to the Corporation all shares of Ashland stock and all options to purchase such stock which were "received in violation of Federal and state securities laws" together with the dividends received thereon. Atkins and Seaton were granted certain options in 1965 prior to their apparent responsibility for the Corporation's political contributions; those options were exercised in 1969 at a price approximating the present market value of such shares and the great bulk of such shares of stock are still held by the two officers.

Additional options granted to Atkins and Seaton on December 4, 1969, at an exercise price of \$34 per share are the

only unexercised options outstanding; absent some considerable
options are "under water" and without substantial value.

Given these facts, the relief requested in the
Levin action is without substantial merit or potential benefit
to the Corporation, and the Committee does not believe that a
request for the return of these officers' holdings of Ashland
stock or for a cancellation of their options would serve any
useful purpose. The Committee does, however, believe that the
terms of any outstanding options should not hereafter be revised
or be made more favorable to the option holders, and its recom-
mendation with respect to the settlement of the claims against
these officers presupposes a commitment by the Board that no such
amendment will be hereafter adopted.

After consideration of all facts and apparent
alternative remedies, therefore, we believe that the responsibility
of the present corporate officers to reimburse the Corporation
for its losses related to the making of political contributions
should be measured against \$595,000.00, the approximate sum of the
net political expenditures attributable to officers presently
employed by the Corporation.

The further question is then presented as to the persons
properly responsible and the amount to be reimbursed by them
collectively and individually. We believe that three officers

(Messrs. Atkins, Seaton and Webb) must bear principal responsibility

Erickson and Hardin) made contributions for political purposes, but the balance of evidence suggests that they were neither involved in nor did they have knowledge of the principal corporate contributions. Erickson has been deemed by the Committee to be responsible for several political contributions totalling \$9,764.65 in 1970, 1972 and 1973. Hardin was responsible for a \$2,500 contribution made to a senatorial campaign in 1972. Both Erickson and Hardin have subsequently reimbursed the Corporation for the amounts attributed to them. Finally, certain other present or former officers or employees, notably Messrs. Caskey, Reeves, Greene, Hult, Williams and Emrick had some involvement in and knowledge of the making of political contributions, while other officers or employees, notably Messrs. Adams, Charles and Dougan, had a role with respect to the return of funds to the United States which, without their knowledge, were subsequently used for political contributions.

The role of the individuals in the last two categories mentioned was either so marginal or so thoroughly responsive to the direction of a superior officer that we do not believe that a

request that they reimburse the Corporation would be appropriate. With respect to Erickson and Hardin, we believe their prior reimbursement of the amounts which the Committee has attributed to them is sufficient satisfaction of any claim which the Corporation might have against them.

Thus, there is a balance of roughly \$595,000 against which the responsibility of Messrs. Atkins, Seaton and Webb is to be measured.

In view of their relative responsibilities and the degree of their participation, we believe their relative obligations to reimburse the Corporation should be in the following ratios: Atkins - 50%; Seaton - 35%; and Webb - 15%.

The final question, then, is the percentage of the amount in question which these officers should be required to return to the Corporation. In reaching a decision on that question we have reviewed all factors suggested above. In addition, we have taken into account the amount of those indirect or contingent costs which we have not strictly allocated to these individuals and the various claims asserted in Levin v. Atkins, et al. We have particularly considered the financial resources of the individuals in question. And we have considered that any claim asserted against these individuals in a formal court suit would involve substantial costs to the Corporation, entail the diversion of the attentions of the officers in question and be

otherwise disruptive to the operation of the Corporation, and pertinent considerations, we believe it appropriate to hold these three officers responsible for roughly 50% of the net balance of political contributions or \$300,000. Payment of the officers' respective shares of that sum would, therefore, necessitate the payment by Mr. Atkins of \$150,000, the payment by Mr. Seaton of \$105,000 and the payment by Mr. Webb of \$45,000. In addition, pursuant to McNelis' representation in open court at the time of the Corporation's guilty plea, Atkins would also be responsible for reimbursing the Corporation for its \$25,000 fine, making his total reimbursement \$175,000.

Any additional reimbursements received hereafter by the Corporation from recipients of political contributions shall not alter the amount of these required payments but shall rather redound to the benefit of the Corporation and increase the percentage of its recovery of funds expended for political purposes.

In view of the substantial sums involved and our review of the personal resources of the individuals in question, we believe it appropriate to allow such payments to be made to the Corporation over a five year period. A proposed schedule of repayments is as follows: Atkins - an initial payment of \$35,000 and subsequent annual payments for five years of \$28,000; Seaton

an initial payment of \$20,000 and subsequent annual payments for five years of \$17,000; and Webb - an initial payment of \$10,000 and subsequent annual payments for five years of \$7,000.

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The initial payment by each officer in question should be made to the Corporation within thirty days from the Board's action on the Special Committee's recommendations. The remaining payments should be made by January 31 of the calendar years 1976, 1977, 1978, 1979 and 1980. In addition, we believe that any release which the Corporation executes with each of the officers in question should make clear that the obligation to make such payments is a continuing one from which the officer will be relieved only in the event of death or permanent disability as determined by the Board of Directors.

Accordingly, the Committee recommends that the officers most directly responsible for the making of political contributions reimburse the Corporation for a portion of the direct costs of such contributions in accordance with the following schedule: Mr. Atkins an initial payment of \$35,000 and subsequent annual payments of \$28,000 for five years; for Mr. Seaton an initial payment of \$20,000 and subsequent annual payments of \$17,000 for five years; and for Mr. Webb an initial payment of \$10,000 and subsequent annual payments of \$7,000 over a period of five years.

4. The Corporation's release of the officers

As indicated above, the Corporation has arguable claims against those persons responsible for the making of political contributions and for all other matters within the embrace of this investigation. In order to effect a total settlement of all such matters, we believe it appropriate for the Corporation to release all such claims in consideration of the individual employees' compliance with those recommendations of the Special Committee which are adopted by the Board and with any additional requirements which may be imposed by the Board. We believe it most appropriate that such a release be a full and complete release of all claims which the Corporation might have against any such officer based upon all matters embraced by the investigation which the Special Committee has conducted. A form of release which we believe to be appropriate has been attached hereto as Exhibit R-1. That release sets forth the continuing nature of the employees' reimbursement obligation and the schedule of their projected repayments to the Corporation.

Accordingly, the Committee recommends that the Corporation release all claims which it might have against Messrs. Atkins, Seaton, Webb, Erickson and Hardin contingent upon their satisfaction of such requirements as the Board may impose in accordance herewith.

C. RECOMMENDATIONS WITH RESPECT TO THE CORPORATION'S
OUTSIDE AUDITORS.

Throughout the period during which political contributions were made with corporate funds, E & E served as the outside accountants for the Corporation. The Committee has, therefore, reviewed the professional performance of E & E, particularly with a view to determining whether E & E knew, or had reason to know, of the political contributions which were being made with corporate funds.

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The facts concerning E & E's knowledge and its performance as the Corporation's auditor with respect to certain transactions have been reviewed in more detail above, at pp. 140-152. The available facts do not establish with certainty that E & E had actual knowledge of the fact that the Corporation was making political contributions. In the judgment of the Committee, such evidence is necessary to justify a recommendation that E & E be discharged as the Corporation's auditor.

In certain of the instances reviewed above, however, even when the benefits of hindsight are discounted, it appears that E & E might have exercised a greater degree of care or pursued certain investigations somewhat further than they did.

Because the scope of this Committee's investigation has not entailed an overall review of E & E's audit services, no opinion professional services considered as a whole. Accordingly, the Committee believes it appropriate for the Corporation, and particularly the Audit Committee of the Board, to review with E & E the areas of concern identified above.

Accordingly, the Committee does not recommend that Ernst & Ernst be discharged as the Corporation's outside accountants but it believes that the Corporation and its Audit Committee should review with E & E the areas of concern identified in this Report.

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D. RECOMMENDATIONS WITH RESPECT TO ISSUES OF CORPORATE POLICY

1. The Corporation's policy with respect to future political contributions.

At its meeting of July 18, 1973, the Board of Directors of the Corporation determined that no further political contributions should be made by the Corporation unless authorized by law. Subsequently, at its meeting on November 8, 1973, the Board granted authority to the officers of the Corporation to institute a plan to establish a voluntary program for receiving personal contributions from corporate employees and directing such contributions to candidates for political office or their campaign committees. Such a separate voluntary fund is expressly sanctioned by provisos contained in 18 U.S.C. §§610 and 611.

The Committee is advised by E & E that no unlawful political contributions have been made since July, 1971 through

have corroborated the findings of E & E through calendar 1974 and to the date of this Report. In addition, apparently lawful contributions have been made during the period in question by three subsidiaries of the Corporation: Southern Oil Company of New York, Ashland Oil Canada, Ltd., and Eastern Seaboard Petroleum Co. (See pp. 92-94 above). The Committee is also advised that the Corporation has not in fact established a voluntary separate segregated fund pursuant to the Board's authorization of November 8, 1973.

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The Committee has considered the role, if any, which the Corporation should have with respect to office holders, political candidates and their campaigns and the expression of views on matters of public concern.

Pertinent to that consideration are the manifest importance of public issues to the welfare of the Corporation; the extent of government regulation and the impact of such regulation on the Corporation and its activities; the legal structures against corporate contributions; the practical

difficulties of measuring requests for contributions on an appropriate and lawful and which are illegal; and the problem inherent in the use of shareholder assets to further political goals which some stockholders may not share and which are removed from the purposes for which the assets have originally been made available to the Corporation.

We believe these factors, reviewed in perspective, counsel against the Corporation's involvement in the political arena either through political contributions or the establishment of voluntary contribution vehicles. Clearly the Corporation may not and should not make contributions to candidates which are prohibited by law. In addition, we believe that the Corporation should make no further contributions whether lawful or unlawful to any political candidate or office-holder. Finally, although the establishment and administration of separate segregated funds for the receipt of employee contributions is specifically provided for in 18 U.S.C. §§610 and 611, we believe that, in view of the possible abuse of such a fund, no such fund should be established by the Corporation and that the authorization to institute such a fund which was given to the officers of the Corporation by the Board at the meeting of November 8, 1973, should now be rescinded.

In addition, we believe that the Corporation's policies incentive compensation should be calculated or adjusted in any way to reflect political contributions or expenditures which the employee has made or anticipates making. Appropriate procedures should be developed to implement this policy, particularly with respect to the Incentive Compensation Committee of the Board.

A Board resolution which we believe is appropriate and which reflects these recommendations is attached hereto as Exhibit R-2.

The Committee recommends that the Corporation make no contributions to or expenditures on behalf of political candidates, public officials or office holders, whether directly or indirectly, legally or illegally or from corporate funds or by means of a separate segregated fund generated from voluntary employee contributions, and the Committee further recommends that no employee's compensation should in any way reflect political expenditures which he has made or may make.

2. The Corporation's policy with respect to future payments of an illegal nature.

The political contributions made by the Corporation using corporate funds were illegal. In view of our recommended prohibition against any future illegal political payments, we believe it appropriate to place the Corporation clearly on record as opposing any future illegal payments for political or any other purposes.

In view of the impropriety of using the assets of the shareholders for any illegal purpose, we believe that the Corporation should adopt a policy making clear its opposition to future illegal payments and any use of corporate assets which is illegal by the law of the jurisdiction in which the transactions occur. To implement that policy, we recommend the following set of procedures to govern those types of payments most susceptible of abuse.

a. Payments to Consultants

Because payments to consultants are peculiarly susceptible to abuse, the Special Committee recommends that the following procedures apply to all future payments to consultants.*

* By the term "consultants" the Committee here means all individuals not employees of the Corporation who render services to the Corporation which services are in the nature of business, professional or technical advice of any sort or for the purpose of improving or facilitating relationships between the Corporation and others.

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First, the Committee recommends that levels of approval required on contracts, agreements or arrangements with consultants appear to be appropriate: If the total annual payments, including expense reimbursements, are not expected to exceed \$50,000 or, if the term of the agreement is longer than one year and total payments under the contract, agreement or arrangement will not exceed \$100,000, then the approval of any operating unit official whose approval is sufficient for expenditures of the size in question shall be sufficient for the contract, agreement or arrangement with the consultant in question. If the total annual payments, including expense reimbursements, are expected to exceed \$50,000 or, if the term of any such arrangement is longer than one year and total payments under the contract or agreement will exceed \$100,000 and the consultant is not rendering services to a foreign-based operating unit, approval of two of the following shall be required: a) the chief executive officer, b) the senior financial officer and c) the general counsel; and in the event the consultant is rendering services to a foreign-based operating unit, the approval of three of the following officers shall be required: a) the chief executive officer, b) the senior financial officer, c) the general counsel and d) the vice president in charge of international operations. If the total payments under the contract or agreement are expected to exceed \$300,000 either on an annual or an accumulated basis, approval of the agreement by the Board of Directors or by a designated committee thereof shall be required.

Second, the Committee recommends that all consultant agreements, contracts or arrangements for which total payments \$50,000 shall require an attestation by the consultant, at the time the agreement, contract or arrangement is formalized and on a yearly basis thereafter if the term of such arrangement exceeds one year, that the consultant has not and will not return any moneys paid to him to any director, officer, employee or representative of the Corporation and that the consultant has not and will not make payments to third parties which the consultant knows or has reason to know are illegal in the jurisdiction in which the transaction takes place. A copy of each such affidavit shall be kept with the file containing the agreement with the consultant, and the original affidavit shall be filed with a designated committee of the Board of Directors.

Third, the Committee recommends that the chief executive officer, the senior financial officer, the general counsel and the vice president in charge of international operations be required to file with a designated committee of the Board of Directors on an annual basis an affidavit listing each agreement and contract reviewed that year by the affiant and stating that the affiant has no reason to believe that the consultant has paid any rebate to any director, officer, employee or representative of the Corporation or that the consultant has made any illegal payment to any third party.

b. Other Procedures

made for political contributions and other illegal payments will be greatly reduced if the above described procedures with respect to consultants are adopted. There are, however, numerous ways, other than payments to consultants, that can be used to effect political or other illegal payments. Because it is impossible to adopt specific controls to monitor each such possibility, the Committee recommends that the Corporation require annual attestations from certain officers to the effect that the officer does not know or have reason to believe that political or other improper expenditures were made from corporate funds by any means.*

* * *

We believe this set of procedures stands on its own merits. It is also appropriate in view of the form of Final Judgment entered into between the Commission and the Corporation which prohibits the use of corporate funds for unlawful political contributions or similar unlawful purposes and requires the disclosure of any expenditure of corporate assets for unlawful political contributions or other unlawful purposes.

* The Special Committee recommends that yearly affidavits to the effect described be required of each of the officers of the Corporation designated as Executive Officers in Article V, Section 1, of the By-Laws of the Corporation.

A Board resolution which we believe is appropriate and which reflects this recommendation is attached hereto as Exhibit 175, and we believe that the procedures contained therein are functionally equivalent procedures as the Board may adopt, should be reflected in the established policies or other operating procedures of the Corporation.

In sum, the Committee recommends that the Corporation adopt a policy against any future illegal payments of whatever nature and adopt an appropriate set of procedures to implement that policy.

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3. The Corporation's policy with respect to undisclosed funds and unaccounted for expenditures.

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The Corporation's payments to political candidates and campaign funds were made from undisclosed cash funds which were maintained at the Corporation's headquarters; transfers to and disbursements from that fund were not accounted for or properly reflected on the books and records of the Corporation.

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We believe that the creation and maintenance of such a fund is inappropriate in a publicly held corporation and that the assets of the shareholders must not be used in a way which leaves them unaccountable. Accordingly, we believe that the Corporation should adopt a policy prohibiting the maintenance of, or any disbursement from, funds created or maintained for purposes which are undisclosed or not appropriately reflected upon the books and

implementation of the policies set forth in the Policy Manual within each department should rest with each department head.

The development of such a Manual, and its periodic re-evaluation and updating, is beyond the scope of this Committee's mandate. We believe that the Executive Committee of the Corporation, reconstituted in accordance with the recommendations set forth herein, is the appropriate vehicle to perform or to oversee the performance of both such functions, and that such an effort should be given high priority by the Executive Committee.

Initial implementation of the Corporation's policies will, of course, rest heavily upon the good faith and diligence of the concerned executives. As an additional mechanism of monitoring the implementation of these policies, however, we recommend that the Corporation's outside auditors, working in collaboration with the Audit Committee, reconstituted in accordance with the recommendations set forth herein, should on an annual basis require the execution of certificates of compliance by all officers of the Corporation. Such certificates should verify the officer's adherence to the policies of the Corporation and should particularly embrace a representation by each officer that he has not made or directed anyone to make political contributions from corporate funds; that he has not made or directed any third person to make any payments from corporate funds which he knows to have been illegal; and that he has not established or made use of and has no knowledge of any fund of corporate assets which was created

or maintained or from which expenditures were made for purposes other than those reflected on the books and records of the Corporation.

E. RECOMMENDATIONS WITH RESPECT TO CORPORATE PROCEDURES.

As is indicated above, the funds diverted from normal corporate purposes and used or deemed to have been made available for political purposes exceeded \$800,000 in the six year period from 1967 through 1972. These funds were not properly reflected on the books of the Corporation; they were generated or disbursed outside of normal disbursement channels; and their actual use was not detected by the Internal Audit Department or the Controller's Office. Moreover, particularly in the early years of the period under review, there were a series of transactions involving disbursements which are not properly documented or are not accounted for.

While the sums in question were relatively small in any year compared with the size of the Corporation's total operations, the fact that such a series of transactions could have taken place without being detected strongly suggests the need for improvement in certain of the Corporation's procedures. While no set of procedures are fool-proof and none can be relied upon where executives in different areas of the Corporation cooperate in circumventing normal procedures, proper procedures can do much to limit the possibility that such conduct could take place in the future and,

by increasing the internal checks which operate with respect to any given transaction, can minimize the possibility that such

tion of the following procedures:

1. Recommendations for improving controls over disbursements.

Although the Corporation has a written and well-defined policy delineating approval authority with respect to the expenditure and the disbursement of funds, that policy in some circumstances has been circumvented by management on the ground that flexibility in handling of funds was a necessary condition of doing business.

With respect to domestic operations, we believe that the present disbursement system of the Corporation, to the extent that it has been reviewed by the Committee or its professional advisors, is adequate and provides proper insurance for the assets of the Corporation. Continual improvement of the internal audit function and the maintenance of adequate fidelity insurance coverage, together with existing corporate disbursement procedures, should provide adequate protection for the Corporation's assets.

The Committee recommends, however, that certain additional controls be instituted with respect to cash disbursement pro-

cedures and overseas transfers. Specifically, we recommend that the following steps should be taken:

(a) Wire transfers of funds should be limited to transfers between the several bank accounts of the Corporation and of its subsidiaries, and all such transfers should be recorded on the books of the Corporation. Exception to this procedure should be made only for specific disbursement categories which have been approved by the Executive Committee; illustrative categories might be short-term investments of surplus cash and bid deposits.

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(b) All disbursements from the Corporation's accounts (other than nominal petty cash disbursements) should be made only by check drawn to the name of the ultimate payee. No checks should be drawn to "bearer" or to "cash".

(c) All advances to employees of the Corporation, whether for travel or for other business purposes, should initially be charged to a personal travel or special advance account, and the charges should be relieved from that account only by approved expense reports or other documentation processed in a normal manner and subjected to normal disbursement controls.

(d) Payments to consultants should be made only in accordance with the procedures reviewed above. Certain additional recommendations with respect to the controls over and review of certain categories of expenditures are set forth in the report of C & B to this Committee; those recommendations are commended to

the Corporation for its view and consideration, the Executive Committee, reconstituted in accordance with the recommendations contained herein, or another appropriate Committee of the Board should review those recommendations for such action and implementation as it deems appropriate.

2. The relationship with the Corporation's independent public accountant

Appointment of the Corporation's independent public accountant is currently based upon the recommendation of the chief executive officer. In recent years, numerous companies have adopted the procedure of seeking shareholder approval or ratification of their outside accountants and of delegating to the Audit Committee of the Board principal responsibility for recommending to the Board of Directors, after consultation with the chief executive officer and the senior financial officer of the Corporation, a particular accounting firm for appointment. We believe both such practices are salutary and reflect the fact that a corporation's accountants serve and are most properly accountable to the Board as a whole rather than to its management and that they are ultimately responsible to the corporation's shareholders.

A proposed amendment to the Corporation's By-Laws which reflects this recommendation is attached hereto as Exhibit R-5.

In addition, it should be made clear that the auditor's ultimately report to the Board of Directors, and the Audit Committee should review on an annual basis the Corporation's financial statements before the presentation of such statements to the Board.

Accordingly, the Committee recommends that the Audit

on an annual basis the public ac-
countants who they believe should be engaged as the Corporation's
independent public accountant and that the Corporation seek share-
holder approval on an annual basis of the engagement of such ac-
countants.

As an additional step to insure the independence of the Corporation's auditors, we recommend adoption of a policy requiring the auditor, regardless of the accounting firm which may be performing the Corporation's audit, to rotate the partner in charge of the audit on a periodic basis and in any event no less frequently than every six years. Such a procedure of rotation, properly implemented, will permit familiarity with the requirements of the audit while preventing that subtle erosion of independent judgment by virtue of familiarity and extended ties which may prevent an auditor from fulfilling his responsibility to the Corporation and its shareholders.

3. Additional recommendations with respect to corporate procedures.

In addition to the foregoing recommendations, the Committee has reviewed certain additional recommendations with respect to the improvement of corporate procedures which are set forth in C & L's report to this Committee dated June 18, 1975. These recommendations relate to the strengthening of the Corporation's Internal Audit Department; to improvements in the docu-

mentation relating to the use of corporate aircraft; to revisions in the controls over corporate borrowings and bank accounts; to business interests of corporate employees; and to the evaluation of the Corporation's program for the development of a formal accounting systems and procedures manual.

While the evaluation of each of these recommendations is beyond the purview of this Committee, the Committee believes that these recommendations should be carefully reviewed and considered by the Executive Committee, reconstituted in accordance with the recommendations contained herein, or another appropriate Committee of the Board, and that such committee should as soon as is practicable report to the Board on the actions being taken in response to such recommendations.

F. RECOMMENDATIONS WITH RESPECT TO CORPORATE GOVERNANCE STRUCTURE.

Much of the operation of a corporation is governed or influenced by the basic organization through which it does business, and the Committee believes that certain of the problems which the Corporation has encountered and which are the subject of this Report, may reflect certain weaknesses in the governing structure of the Corporation.

Under the circumstances as reflected in this report, the Committee believes it appropriate and necessary for the Corporation

greater accountability on the part of its officers, a more independent view of its officers' functioning and more effective safeguards for the interests of its shareholders.

1. The size and composition of the Board of Directors.

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At present, the Board of Directors consists of seventeen members of whom ten are either officers or employees of the Corporation. This body of "insiders" presents the potential of a Board more responsive to the needs or desires of the chief officers of the Corporation than to the legitimate interests of the shareholders. The Committee believes it appropriate to require that a majority of the members of the Board be persons who are neither officers nor employees of the Corporation. In addition, the Committee believes that the Board should be comprised of no more than fifteen members.

The Committee recommends that these proposed changes in the size and composition of the Board should be accomplished no later than the annual shareholders meeting which will take place in January, 1976.

An amendment to the By-Laws of the Corporation which we believe is appropriate and which reflects this recommendation is

3. The composition and powers of the Audit Committee.

The Committee recommends that the Audit Committee of the Board of Directors be restructured and that its duties be substantially expanded. Specifically, the Committee recommends that the Audit Committee be comprised of three to five board members and that to insure the independence which is critical to the proper functioning of the Audit Committee, no member of the Audit Committee should be either an officer or an employee of the Corporation.

The duties of the Audit Committee should comprise at least the following:

(1) The annual responsibility for recommending to the Board of Directors, after consultation with the chief executive officer and senior financial officer of the Corporation, the firm of independent public accountants who will be engaged to examine the financial statements of the Corporation for the coming fiscal year.

(2) The review and approval of the scope of the audit to be performed by the public accountants, and the review and

approval of the accountant's estimation of the cost of the audit as so defined.

(3) The detailed review of the annual financial statements of the Corporation with the senior financial officer of the Corporation and with the Corporation's public accountants and the recommendation of those statements to the Board of Directors for action.

(4) The review with the internal audit manager, no less than semi-annually, of the activities of the Internal Audit Department to obtain an appraisal of the performance of the financial departments of the Corporation.

(5) Receipt of a periodic appraisal by both the internal auditors and the Corporation's public accountants of the internal control systems of the Corporation.

(6) Determination that the recommendations of both the internal auditors and public accountants are being implemented or if management has declined to implement any such recommendations, the determination of the propriety and basis of their actions.

An amendment to the By-Laws of the Corporation which we believe is appropriate and which reflects this set of recommendations is attached hereto as Exhibit R-8.

approval of the accountant's estimation of the cost of the audit as so defined.

(3) The detailed review of the annual financial statements of the Corporation with the senior financial officer of the Corporation and with the Corporation's public accountants and the recommendation of those statements to the Board of Directors for action.

(4) The review with the internal audit manager, no less than semi-annually, of the activities of the Internal Audit Department to obtain an appraisal of the performance of the financial departments of the Corporation.

(5) Receipt of a periodic appraisal by both the internal auditors and the Corporation's public accountants of the internal control systems of the Corporation.

(6) Determination that the recommendations of both the internal auditors and public accountants are being implemented or if management has declined to implement any such recommendations, the determination of the propriety and basis of their actions.

An amendment to the By-Laws of the Corporation which we believe is appropriate and which reflects this set of recommendations is attached hereto as Exhibit R-8.

4. The composition and powers of the Nominating Committee.

The Committee recommends the establishment of a Nominating Committee to be appointed by the Board for the purpose of recommending a slate of nominees to the Board of Directors for review by the Board and for recommendation by the Board to the shareholders. This Nominating Committee should consist of the chief executive officer of the Corporation together with two outside directors to be appointed by the Board as a whole.

An amendment to the By-Laws of the Corporation which we believe is appropriate and which reflects this recommendation is attached hereto as Exhibit R-9.

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VI. CONCLUSION

Volume II hereof and the Schedules delivered simultaneously herewith to the Corporation's Board of Directors are the fruits of an extensive review of all aspects of the Corporation's making of political contributions, of matters deemed pertinent thereto and of the matters alleged in the Complaint of the Securities and Exchange Commission filed on May 16, 1975.

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The Recommendations set forth in this Report and the related submissions are presented to the Board with the unanimous support of the members of the Committee; they are intended to be considered and acted upon by the Board as an integrated set of remedial actions. The Committee believes it appropriate for the Board to act upon such recommendations at the earliest opportunity consistent with a careful review and study of the entire Report, the Exhibits and Schedules.

Respectfully submitted,

James W. [unclear]
Walter [unclear]
Robert S. [unclear]

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FEDERAL ELECTION COMMISSION

1. Staff Report, 2-9-76
2. Memo from Spiegel to Schachman, 1-7-76
3. ~~Termination Report (not accepted), 2-3-76~~
4. Termination Report, 2-2-76
5. Memo from Schachman to the File, 8-20-75
6. ~~Memo from Schachman to the File, 8-27-75~~
7. Letter to the SEC, 10-16-75
8. Memo from Potter to Murphy/Roman, 8-11-75
9. ~~Final Judgment and Order of Permanent Injunction Against Ashland Oil, Inc., (NO DATE)~~
10. SEC Report, for the month of June, 1975.

The above-described material was removed from this file pursuant to the following exemption provided in the Freedom of Information Act, 5 U.S.C. Section 552(b):

- | | | | |
|----------|---|-------|--|
| <u>X</u> | (1) Classified Information | _____ | (6) Personal privacy |
| _____ | (2) Internal rules and practices | _____ | (7) Investigatory files |
| _____ | (3) Exempted by other statute | _____ | (8) Banking Information |
| _____ | (4) Trade secrets and commercial or financial information | _____ | (9) Well Information (geographic or geophysical) |
| <u>X</u> | (5) Internal Documents | | |

Signed Kurt Burkhardt
date 10/3/77

FEC 9-21-77

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