

[page 1]

TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE
Kansas City, Missouri
November 6, 1939

INTELLIGENCE UNIT
KANSAS CITY
(Name of Division)

SI-16144-F
Parole Report
RCL:S

Report Examined, Approved and
Forwarded to Chief, Intelligence Unit
NOV 8 1939
Chas. O'BBerry
Special Agent in Charge
Kansas City Division

INTERNAL REVENUE
NOV 10 1939
INTELLIGENCE UNIT

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

In re: Otto P. Higgins,
3321 East 32nd Street,
Kansas City, Missouri.

This report is submitted for transmittal to the Warden of the United States Penitentiary, Leavenworth, Kansas, relative to Otto P. Higgins, now serving sentence in that institution for evasion of income taxes.

Mr. Higgins was indicted on October 26, 1939, at Kansas City, Missouri, on four counts for evasion of income taxes for the years 1935 to 1938, inclusive. He surrendered to the United States Marshal on October 27, 1939, and was released the same day by the United States Commissioner on surety bond of \$5,000.00 which was made returnable in United States Court on November 3, 1939. On the latter date he was arraigned before United States Judge John Caskie Collet, in Division Three of the District Court for the Western Judicial District of Missouri, and pleaded "guilty" to counts 3 and 4 of the indictment, covering the taxable years 1937 and

1938. Counts 1 and 2 of the indictment, covering the taxable years 1935 and 1936 were nolle prossed. On the same date, November 3, 1939, the Court sentenced him to two years in the penitentiary on count 3 and to five years with probation on count 4, the probationary period to begin on completion of the two year sentence on count 3. No fine was assessed.

Mr. Higgins was Director of Police for the City of Kansas City, Missouri, from April 15, 1934, to April 15, 1939, on which latter date he resigned at the request of the mayor. Although Mr. Higgins served in a prominent public position during the reputed domination of the city by the so-called "Pendergast political machine", the evidence is that he was appointed to the position as a result of efforts of certain members of the city council over the objections of Mr. T. J. Pendergast and the late Mr. H. F. McElroy, former

[page 2]
SI-16144-F
Parole Report

City Manager; and that Mr. Pendergast "tolerated" him for the five years he held the position on account of the regard which Mr. McElroy developed for him.

During the period Mr. Higgins held the office of Director of Police such forms of vice and law violations as public operation of gambling establishments, houses of prostitution, and the sales of intoxicating liquors on Sundays, were allowed to continue in open violation of the statutes of the State of Missouri and the ordinances of the City of Kansas City. A summation of the testimony of the former police lieutenants in charge of the police vice raiding squads, purportedly charged with the suppression of gambling, prostitution and sales of intoxicants on Sundays, is that they were instructed to close such places in only a few instances; that it is their opinion Mr. Higgins personally disliked the system which allowed for such flagrant violations of existing laws; but that he was a part of a vicious system over which he had no absolute control.

The investigation covered the years 1934 to 1938, inclusive, the years during which Mr. Higgins was in the police office, and it produced a thorough analysis of his economic condition during those years as well as an analysis of his economic history for many years prior thereto. Although he was not indicted for attempted evasion of income tax for the year 1934 since the amount of tax which he attempted to evade for that year was found to be small, the entire five year period should be mentioned in a brief of the case and the attendant circumstances.

Mr. Higgins filed timely income tax returns for the years 1934, 1936 and 1937, on which he reported no incane tax liability. In March 1939, when there was considerable local publicity to one or more income tax investigations, particularly that involving Mr. T. J. Pendergast, Mr. Higgins learned his income tax returns for prior years were probably under investigation, although he was not then notified officially of such circumstance. He obtained an extension to May 15, 1939, within which to file his income tax return for the year 1938, and on May 1, 1939, he not only filed his return for 1938, reporting a tax liability thereon of \$119.29, but he also filed taxable amended returns for the above mentioned three years and a delinquent taxable

return for the year 1935, and paid a total tax for those four years amounting to \$195.01. Thus by his own act he admitted his original non-taxable returns for the years 1934, 1936 and 1937 were fraudulent; and that he should have

-2-

[page 3]
SI-16144-F
Parole Report

filed a taxable timely return for the year 1935. For the five year period 1934 to 1938, inclusive, the additional income and additional tax liability over that reported on the five returns filed May 1, 1939, as determined by the investigation, is as follows:

Five year period	Gross income	Deductions	Net income	Total tax
Determined by investigation	\$84,494.47	\$3,157.56	\$81,336.91	\$6,100.74
Reported May 1, 1939	24,351.57	1,975.75	22,357.82	314.30
Additional as result of investigation	\$60,162.90	\$1,183.81	\$58,979.09	\$5,786.44
		Ad valorem civil penalties		3,208.61
		Total additional tax and penalties		\$8,995.05

As Police Director, Mr. Higgins received salary amounting to a total of \$25,133.28 during the calendar years 1934 to 1938, inclusive. Such income paid by the City of Kansas City was not subject to Federal income taxes. He also had income from such legitimate sources as rental properties, bond interest, interest on savings accounts, interest on a mortgage, directors fees, and a limited amount of legal fees received as a result of the law business in which he was engaged prior to accepting the public position. The analysis of his economic condition for the five year period discloses he deposited all but \$1,454.57 of such known legitimate income in his bank accounts. Only minor adjustments were found necessary for such items of legitimate income as were reported in the five returns filed May 1, 1939.

Mr. Higgins maintained no personal books of account or records covering Ms income either while he was Police Director or prior thereto when engaged as a practicing lawyer. The above mentioned five returns filed May 1, 1939, were prepared by an accountant employed by Mr. Higgins. For lack of books of account or sufficient records, the accountant prepared the five returns on the basis of a comparative net worth spread between the beginning and the end of the five year period, with adjustments for his non-taxable police salary as well as for estimated inadequate cash expenditures for living and incidental expenses which were not disclosed by the taxpayer's cancelled checks. Investigation disclosed the above mentioned

-3-

basis for the five returns to be in error on account of padding the net worth statement for the beginning of the period and omitting assets owned at the end of the period.

The evidence is direct and conclusive as to all of the above mentioned errors in the net worth spread except relative to an item of \$21,000.00 which was claimed to have been on hand in cash in a safety deposit box when he became Police Director and which he claims was all expended while in public office for a portion of the various investments and properties acquired during that period and which produced his remarkable increase in net worth while in public office. The circumstantial evidence that he could not have had such an amount of cash on hand in a box when he took the public office is reasonable, conclusive and voluminous.

The largest portion of additional income assessed to the taxpayer as a result of the investigation is based on unexplained cash, that is, currency and coin, which he appeared with during the five year period and which is charged to him as income in the year when he expended it. The total amount of such cash with which he appeared, in excess of his known legitimate income, amounts to \$67,520.02, of which \$39,524.91 was expended for capital investments, including a considerable amount of real estate, some bank stock and investment bonds. This cash is covered in the various counts of the indictment as "Cash received from sources in part known but in the greater part unknown to the members of this grand jury, for purposes in part known but in the greater part unknown to the members of this grand jury, which said cash is not a return of capital or a gift."

Also included in the unexplained cash is a total amount of \$7,403.83 covered by direct evidence disclosed by the records of thirty-nine mercantile firms where Mr. Higgins made purchases for his family and for building materials used in the improvement of his real properties, all of the amount named having been expended in cash, that is, currency, and not out of his bank account, into which his items of known legitimate income were deposited.

Investigation disclosed Mr. Higgins indulged in many luxuries for himself and his family after he became Police Director which they had not enjoyed theretofore; that such were usually paid for in currency; that he appeared to enjoy making a display of his pocket currency, usually in bills of large denominations; that where he had usually paid family living expenses from his bank account

-4-

theretofore, he started a practice after becoming Police Director of handing his police chauffeur statements from mercantile firms monthly with the amount of currency to pay the accounts; that he took numerous extensive personal pleasure trips including ones to Canada, Mexico and Cuba, not accompanied by Mrs. Higgins, and paid the expenses of such trips with currency; and that the expenses of the trips mentioned were not for himself alone but almost always included establishment owned by the taxpayer, but whom he has supported for several years, and for whom he arranged the financing of the purchase of a new home on which he has since expended considerable amounts of money in cash for improvements.

The source of the large amount of cash which Mr. Higgins was able to expend during the period he was in public office over and above his known legitimate income has not been explained in full and he has refused to assist in making a definite determination other than to state, "I had it someplace." Of the known sources of such cash found in his possession, two are particularly significant. Those sources are the late Mr. E. L. several so-called Pendergast companies dealing in construction materials, and Mr. Charles V. Carrollo, late of Kansas City, Missouri, and now confined in the United States Penitentiary at Leavenworth, Kansas, on sentences for three separate violations of the statutes, one of them being for attempted evasion of income taxes. Mr. Carrollo was reputedly the "vice overlord" of the city, and the evidence in the cases against him discloses he was in charge of the collection of the "lug" or protection money levied against the gambling establishments which were allowed to operate in the city.

During the income tax investigation of Mr. T. J. Pendergast, late of Kansas City, Missouri, and also now confined in the United States Penitentiary at Leavenworth, Kansas, for attempted evasion of income taxes, the late E. L. Schneider eventually gave testimony during the last week in April 1939, which resulted in a final indictment of Pendergast at that time for attempted evasion of income taxes, and the Schneider testimony particularly dealt with the disposition of profits and certain disbursements of the so-called Pendergast companies. On the morning of May 1, 1939, within approximately two hours before the time Mr. Higgins appeared at the office of the Collector of Internal Revenue at Kansas City, Missouri,

-5-

[page 6]

SI-16144-F

Parole Report

and then filed the above mentioned five income tax returns and remained in that office visiting for over an hour, the late E. L. Schneider was visited by Mr. Higgins at the former's home, but the visit took place outside the Schneider home and not in the presence of any members of Mr. Schneider's household. The evidence discloses Mr. Schneider evidently drove immediately to a bridge crossing the Missouri River where his automobile was discovered. When Schneider's body was subsequently found in the river it was determined his watch had stopped at about the same time Mr. Higgins had appeared at the Internal Revenue offices.

When Mr. Higgins was questioned at length under oath in this office in May 1939, he denied having ever had any financial transactions with Schneider other than to obtain a few hundred dollars from him as donations for various activities which were sponsored by the police department. Later the proceeds of various checks aggregating more than \$6,200.00, written by the late E. L. Schneider on the various so-called Pendergast companies, were traced into the taxpayer's possession. All of the checks were made payable to third persons, were supported by fictitious invoices against the companies, which invoices were prepared by Mr. Higgins or under his direction, and were so made with the obvious purpose and intention of completely disguising and covering up the payments made to him.

When confronted with the facts relative to the Schneider checks Mr. Higgins admitted that he received all of the proceeds of those checks for his own personal benefit; that he also received additional payments in currency from Schneider during 1936 amounting to from \$1,300.00 to \$1,500.00; and that in two instances, where the evidence was conclusive in that regard, he had forged the endorsements of the names of third persons named as payees on the checks. One of the checks, small in amount, was payable to the Police Horse Show and Sportsmen's Exposition, an activity of the Police Benefit Association, an organization instituted for the relief of widows and orphans of policemen who have either died or been killed in the service. When confronted with the evidence Mr. Higgins admitted cashing the check and diverting the proceeds thereof to his own personal use. Some of the checks, all supported by fictitious invoices, were payable direct to mercantile firms which gave credit for the checks on the personal charge account of Mr. Higgins.

When confronted with the facts relative to the checks issued by or at the direction of the late Mr. Schneider, Mr. Higgins explained that arrangement was instituted soon after he became

-6-

[page 7]
SI-16144-F
Parole Report

Police Director, at the instance of Mr. Pendergast, in order that he might be reimbursed for amounts expended by him in the entertainment of distinguished visitors to the City of Kansas City, although he was never asked for any accounting of such expenditures. When questioned regarding the arrangement, Mr. Pendergast, heretofore mentioned as a penitentiary prisoner, refused to give a formal statement, but he stated flatly and emphatically that he had never directed Mr. Schneider to pay any money to Mr. Higgins, and that he did not know prior to the revelations of this investigation that Mr. Higgins was obtaining money from Mr. Schneider. Mr. Pendergast also stated that if confronted by Mr. Higgins in his room at the penitentiary hospital he would as emphatically deny the alleged arrangement; and that he would furthermore denounce Mr. Higgins with various vile terms which it is believed have no place in this report. It is not known what power Mr. Higgins may have had over Mr. Schneider to use as a means for

obtaining the above described money or, if such should have been the case, to excite a Federal grand jury witness into taking his own life.

When questioned under oath in this office in May 1939, Mr. Higgins denied having had any financial transactions with Mr. Charles V. Carrollo. After Mr. Carrollo had been indicted by the United States grand jury on various charges, Mr. Higgins volunteered the information that Mr. Carrollo had been a large contributor to several police department activities, particularly the annual Police Horse Show heretofore mentioned. The books of account for the Police Horse Show maintained by employees of the police headquarters do not disclose any contributions received from Mr. Carrollo. The latter said he left \$4,000.00 in 1937 and \$2,000.00 in 1938 at police headquarters for the horse show funds. Except for mention of amounts of such contributions for police activities, Mr. Carrollo, now a penitentiary prisoner, has consistently refused to give details of other financial transactions with Mr. Higgins until the Government reduces the income tax liability assessed against him (Carrollo). The evidence discloses Mr. Carrollo was a welcome, frequent and privileged caller at the official private office of the former Police Director, Mr. Higgins; and that attaches at police headquarters had instructions Mr. Carrollo was never to be kept waiting.

Although Mr. Higgins has not been charged in any indictment or complaint with perjury, there are instances other than those heretofore mentioned wherein he gave false testimony under oath in this

-7-

[page 8]
SI-16144-F
Parole Report

office and which further reveal the character of the man. Some such instances, in addition to original denial of personal financial transactions with the late Mr. Schneider and with Mr. Carrollo, are that when originally questioned under oath in this office he denied ever having bills of \$1,000.00 denominations in his possession, whereas the evidence discloses he frequently appeared with such denominations of currency and apparently enjoyed a display of such wealth; that he did not expend more than a few hundred dollars for personal trips, whereas the evidence discloses over \$2,000.00 in cash for such trips; and that he never expended more than between \$500.00 and \$650.00 in cash annually, whereas the evidence is that he expended cash while Police Director amounting to a total of many thousands of dollars.

Mr. Higgins is the owner of several rental properties besides his personal residence, a farm in Jackson County, Kansas, and a summer cottage and recreation place at Lake Lotawana in Jackson County, Missouri. While Police Director he diverted the services of twenty- 1 | one members of the police department who had previously worked at such trades as painting, plastering, brick laying and tile setting, to his own personal use during long periods of time, for the improvement and betterment of his personal properties. He has been charged with income

during the period covered by the investigation in the amount of \$4,589.55 for the compensation of the police employees paid by the City of Kansas City during the various periods their services were diverted for his personal enrichment without cost to him. This diversion of the services of public employees to whom he never personally gave any compensation or official privileges, and whom he caused to perform the most menial of tasks for his personal benefit, is believed to show a flagrant violation of all the traditions of free American labor, is oppression in office, is the equivalent of involuntary servitude, and appears as an arbitrary and arrogant disregard for the most fundamental of human rights.

Practically no assistance whatever was given by Mr. Higgins in the investigation of this case. He did appear at this office whenever requested to do so and submitted to lengthy questioning under oath regarding his affairs, but the transcript of the testimony given in those instances discloses lengthy and evasive answers given in answer to almost every question asked of him. The evidence also discloses he did not advise his accountant and attorney in full regarding his financial activities, and often not until he realized the investigation had determined certain facts. His accountant and

SPECIAL

[page 9]

SI-16144-F

Parole Report

attorney have displayed a willingness to cooperate with the investigation and at times have appeared to be quite surprised at revelations.

During the investigation of this case certain witnesses revealed to newspaper reporters some facts regarding the diversion by Mr. Higgins for his own use of the services of some police employees. Immediately after the appearance of a newspaper article relative thereto, the Jackson County Grand Jury called some of the witnesses mentioned and returned an indictment against Mr. Higgins on October 24, 1939, for embezzlement of city funds by falsely certifying to three pay warrants for \$70.00 each to a policeman who, during the period covered by the payroll, was engaged as a painter for the personal benefit of the Police Director. Mr. Higgins surrendered to the Jackson County Sheriff on October 25, 1939, and was released on a surety bond in the amount of \$3,000.00, on which he was at liberty when the indictment was returned which has resulted in his present incarceration in the United States Penitentiary. No record has been found of any other criminal charges preferred against Mr. Higgins.

Mr. Higgins was born at Streator, Illinois, on January 19, 1890, is now forty-nine years old, and apparently is in excellent physical condition. He is the only child of his parents, who brought him to the neighborhood of Kansas City, Kansas, when he was a small child. His late father was a boilermaker for the Missouri Pacific Railroad. He was a steady worker as a boy and has always appeared quite ambitious. As a youth he was janitor for a bank in Kansas City, Kansas, and thus assisted in paying his school expenses. After completing high school he

attended Kansas University and thereafter became a police reporter for the Kansas City Star. During the World War he was sent overseas as a reporter for the Kansas City Star, and as such he was in France for fourteen months. After his return to this country, and while yet employed as a reporter, he attended Kansas City School of Law, obtained his law degree, was admitted to the State Bar of Missouri in 1920, and thereafter was engaged in legal practice until appointed Police Director.

In January 1911, Mr. Higgins married Miss Elizabeth Loschke of Kansas City. To that union there were born three children, a son born in 1914, who died in July 1939, and two daughters. Both daughters were educated at Kansas University. One daughter, Elizabeth Higgins, born in 1913, was married in 1932 and is the wife of A. G. Carter, Jr., an officer of the Carter Pie Company, Kansas City, Missouri. The

-9-

[page 10]
SI-16144-F
Parole Report

other daughter, Carol Higgins, born in 1911, was married in 1936 and is the wife of Mr. Ed Larkin, a livestock raiser at Pierce City, Missouri, who is understood to be financially responsible. Mrs. Higgins is domiciled at the residence located at 3221 East 32nd Street, Kansas City, Missouri, where she has the care of Mr. Higgins' widowed mother, over eighty years old, who has made her home at her son's residence since early in the current year. Mr. Higgins' aged mother is the owner of two small dwelling houses in Kansas City, Kansas, which are rental properties.

Investigation discloses Mr. Higgins had a net worth as of December 31, 1938, of \$88,767.00, based on conservative estimates of values for fixed investment assets not purchased within recent years and based on cost of investments made within the last few years. Included in the assets is a total par amount of \$9,884.27, representing interest bearing bonds and mortgages. In addition thereto he owns capital stock in the Standard State Bank, Fairmount, Missouri, with a par value of \$1,600.00, which stock, however, has not recently been on a fixed dividend basis.

During 1938 Mr. Higgins had net income from his rental properties in the amount of \$2,706.37 after full allowance for allowable depreciation and expenses incident to operating the properties. The amount stated for net rental income during 1938 includes gross rental income of \$299.00 which was received only during the last two months of the year on a business property, the construction of which was completed late in the year. The gross rental from this property is now \$180.00 per month. It is believed that with proper management, Mrs. Higgins should suffer no financial hardship on account of her husband's incarceration.

In 1934, Mr. Higgins was elected a director of the Standard State Bank, Fairmount, Missouri, and at the same time he became president of the bank, which position he held until he was

indicted. He owns the entire capital stock of the Riverview Printing and Publishing Company, Fairmount, Missouri, which plant does job printing and also publishes the Inter-City News, the Jackson County Democrat, the Lotawana News, and the Sugar Creek Herald, all small newspapers.

Mr. Higgins appears to have many loyal friends among the lawyer politicians of his community who think well of him. Business men of the city credit him with instituting many improvements in the service of the police department for the city regardless of the fact that the police department disregarded certain vices and law violations which appear in a sense to have been privately licensed and

-10-

[page 11]
SI-16144-F
Parole Report

from which the former Police Director derived a substantial amount of financial benefit. He appears to have been arrogant, ruthless and domineering in his handling of subordinates on the police department and some witnesses have described him as then having been "a born bully with authority."

R. C. Lynn,
Special Agent.

SPECIAL